

# Supply and demand chain in music industries marketing essay



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Since the inception of humankind, music has been significant to civilization of human race providing various advantages physically and mentally to every person involved in making or listening of music and tasting pleasure in doing so.

Prior to 19th century, musical pursuit suggests attending live performances and playing of music instruments by people on their own at home. A soaring percentage of people involved in playing and singing by themselves and rest went to see the live performances in concert halls, taverns and music halls. During this era, the only way of recording music was on paper with support of some pre-programmed mechanical devices to play notes. This clearly shows that there was demand for devices which will help in developing and recording the music and can be easily distributed at listeners place.

Before moving towards the process of recording and distribution of music let see how music-making is being categorised by society. Society has differentiated music – making in two types i. e. classical music and popular/pop music. The classical music consists of well trained musician and pop music consists of untrained populace. The classical music suggest three large periods of music i. e. (Baroque, classical and romantic) where as popular music can be any modern day contemporary music. The basic difference between the classical music and pop music is classical music is also known as art providing entertainment whereas later only provides entertainment. Classical music has greater musical complexity and it is appreciated by older generation while pop music lacks the structural complexity for multiple structural layers but have universal appeal.

## **Factor governing buyer behaviour**

Information on consumers' potential behaviour becomes a strategic resource enabling promoters to anticipate competitors, improving the fit between supply and demand of music in the digital environment

## **Quality Uncertainty**

Cultural goods are experiential goods in the sense that their quality may not be learned or measured even after consumption. There are no suitable parameters to make a claim regarding an unsatisfactory music album. When the quality is uncertain, people prefer what other people prefer. This represents the second feature of consumption in the cultural industries – the presence of socio-network effects.

## **Cultural-dependence**

Represents a way of fulfilling desires identified with highly valued life styles – by consuming cultural goods, people express who they are and the social groups they belong.

## **Demand Reversal Phenomenon**

Once too many people participate in a particular fashion, it ceases to be attractive, and the trend reverses. In this sense, the consumption process is cyclical, and the consumer segments may be influenced by the dynamics of fashion. This reversal process may also be repeated, such as when an anthology of Beatles songs, after being first fashionable, and then less attractive, may once again become valued as “ classics”, experiencing repeated streams of consumption.

## **Demographic factors**

### **Classical Music**

Willing to pay more for

Interested in better sound quality

Buy records as a package: not just music but notes, lyrics and cover art.

Enjoy live concerts

Prefer subscriptions than daily tickets

### **Popular Music**

More interested in convenience

Need flexible medium to listen

Comparatively more fascinated discovering new music and artists

Curious about the new phenomenon

Consumer use music in two ways i. e. they own the product in the form of a CD/ DVD or use as a service, and listen to radio station or online. The listening of songs through radio station also used as promotional channel where the awareness is created and consumer is tempted to be the owner of the product. The market can be largely grouped into two segments: music owner and casual listener. It is possible for a consumer to be a part of both the segments i. e. customer being casual listener for some music and music owner for other kinds of music. When the casual listener is converted into music owner the profit starts coming in. Internet being a two-way interactive

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tool gives benefit to sales channel for downloading music as it is also used as a promotional channel. Consumer analysis suggests that adolescents and college going student perceived buying of CDs/DVDs as expensive. This perception exists due to mass piracy and copying, devaluing the commercial value of music and other reason being there is only one or two good value songs on the CDs/DVDs. The easy accessibility of technologies (MP3 player), digital downloading and CD/DVD writing has given power to consumer in-turn changing their buying behaviour.

The music industry has drastically transformed in the last couple of decades, all credit goes to the increasing penetration of strong broadband connection, which provides convenient service to music lovers to download or buy the MP3 tracks or any music via internet. This technological change in music industry has adversely affected the traditional chain of high street music specialists. But in turn has resulted into heavy selling of physical music and DVD music online. This activity also lays the foundation for promoting digital downloads as well as the stealing of music illegally from the web.

The illegal downloading of music is the current major problem faced by the members dealing in music industry and the owners of the music.

Downloading music illegally has not only started devaluing the value of music for entire generation of youth but also affecting the content owners in terms of their financial returns which is decreasing day-by-day. A huge challenges also faced by the retailers as there is a rapid ranges of price deflation due to free downloading of music by the new generation of consumers.

While essential modifications are taking place in the music and video retailing as well as major upsetting among the specialist players, they are being provoked by the swift escalation of technology set up in the consumer's place. With the influx of broadband connection there is a mass increase in the ownership for iPods' and MP3 players. Other reasons for growth in online sales are due to the moving of supermarkets from food to non-food categories creating and continuing the huge impact. Thus, in this environment the challenges for retailers are to find different ways to cater their consumers for retaining their expected profitability which will help them to survive in this tough competition.

On the whole, the music industry is facing an enormous challenge. A few of the most popular artists have an undersized product life cycle as the temperament of the industry has changed. Then alongside is the modern technology and broadband letting consumers to obtain classical and popular music at superior quality for free or diminutive cost during exchange of the MP3 tracks or file sharing. According to music recording companies and their representatives the massive and regular use of this method for obtaining classical and popular music has been a major setback for recording companies as this being the reason to their declining sales and profitability. Members and followers of the file sharing partly blames the commercial desire of the recording companies and indicate towards the comparatively great prices of DVDs, CDs and recorded music as the most important reason of consumers looking out for new and other choices.

When we talk about technology it is clear that modern technology is here and will be upgraded time to time will become even more sophisticated in <https://assignbuster.com/supply-and-demand-chain-in-music-industries-marketing-essay/>

future. Numerous artists have problems and fail to get their music heard because of the governance of the 'quick buck' super marketing of the present trim of top acts. Internet is the useful tool for the performers and artists and may offer useful resources for delivering their music to their follower all over the world. No matter what the point is? The music industry will counter the challenge of encountering the changed market place and how they act in response to such difficulties is going to be critical in their success and prolong development of music industry.

#### Implications to Supply chain, Publisher and Demand chain

The Music industry consist of performers/artists, labels/publisher, producers, manufacturer, engineers, marketing agencies. To realize all the arguments affecting each members of the supply chain, recording companies and demand chain it is important to know how music industry operates. It is huge and complex industry. In real meaning, a performer or an artist, is undersigned in a contract by the record companies to create an album or tracks. Then recording company pay or may pay for the produced albums to market it or manufacture the CDs which will be distributed all over the world. In return, the revenue is generated by the sale of the albums which covers all the cost incurred on producing the CDs and thus the income is passed to each member involved in the process.

The music company are therefore smashing their business in search of providing a variety of music to meet the various range of tang of the consumer. For doing this, it is very important to manage the product portfolio sensitively as any action taken will have an adverse effect on cash

flow. The music company has to ensure that there is a sufficient cash flow in the business to manage its liabilities. Almost every main record company will highlight the fact that they have dozens of other company that has set up under it or they have bought them. For example,

The Universal Music Group owns:

Jazz recording company

Verve

Classical recording company

Deutsche Gramophone

Apart from this the labels also has different companies under them which distribute conventional pop and rock material.

Therefore, the market is dominated by five major companies sharing 75% of the total sales of recorded music all across the world. But to the fact, there are dozens of other labels and companies which are reputed as a individual entity but may have been under taken or set up by their parents company over the years.

(Source: IFPI, Market Share of the Music Industry, 2008)

## **The Problem**

The problem centres on several issues:



Increase in piracy has affected the record labels severely as they experience a worst in declining sales.

If sales are not official the artists are not bound to receive any royalty income from the sale of the music.

The complexity of modern technology is also responsible in making of fake CDs which is again affecting the market of the music industry.

Some artists struggle to get into mainstream as they are not signed by the major labels; they opt for the internet as it is potential source of getting their music to mass audience.

Due to decline of CD sales physically, retailers of all size are facing the heat. Some smaller size retailers are complaining the difficulty they face in competing the larger stores as they have the advantage of providing the songs through downloaded music.

The effects of music piracy has created the dispute for the record industry as it claims that piracy generates further sales but recording company wants to protect their monopoly powers by keeping the artificial prices high, and thus affecting the customer base.

## **Other Problems**

The other aspects of music industries are also affected by the changing market in the music world. The method used by music lovers to purchase music is also going under drastic change as there is development in new forms of media entertainment i. e. DVDs and videos. Companies selling

music have also come to provisions with the impact of changes taking place in the market. Amazon coming in on-line retailing made other companies like HMV, Virgin and Tower Records, which are the three major retailers to face the competition. Amazon also created the impact by providing the features like speedy delivery times and extensive range of stocks through global access.

### **‘ Digital distribution’ saviour of supply and demand chain in music industries**

The RIAA (Recording Industry Association America) forced Napster and other peer-to-peer companies to closed music sharing business with the help of severe legal process. The commotion was temporarily stopped but it clearly suggested that there is a need of such crucial products and services which will help in understanding the customer’s tastes and will meet their actual requirement. The basic objective was to re-organize the traditional supply chain for the survival and this was only possible by inculcating various digital distribution strategies. The content creators, content developers and marketers and retailers/ distributors are the three major players for the current supply chain in the music industry. Composers, lyricists, and artists are the part of content creators. The music publishing and record companies are included in content developers which are central to the industry. s are the They not only procure the musical rights, recognise and develop performing artists, record music in studios but also produce and distribute the music, advertise and promote music through various channels. The distributors consist of large national retail chains and recording company. 85% of sales come from record companies and larger national retail chains

which are owned by retail outlets and are also high compared to record clubs and mail orders and online retailers which only account for 12% and 1 % respectively. In recent years, there has been a significant shift in the market share from unaccounted music to P2P music sites as the record companies have had a significant influence on the demand as well as the supply chain.

## **Cost Breakdown of digital distribution**

(Source: Alternate digital distribution, G. Premkumar, 2003)

The above cost structure proposes latent opportunities to develop the efficiency of current supply chain. The above table provides the breakdown of the costs involved using averages from various published sources. From this the royalty to composers/artists account to 12% as manufacturing cost is only 5% of total cost and costs such as labour, rent, and local inventory of retail outlet account for 35%. Meantime, the costs involved in retail outlets also account for 35% of selling price. The operating profits ranges from 4%-6% of sales in relation of price markdown and after writing off the inventory. An additional cost of 20% is absorbed in promotion and advertisement. The breakdown of these cost facts disclosed 25% of variable cost is comparatively small to fixed cost which is 75%. This is important because 60%-80% of music labels are meant to be flopped and they fail to cover the fixed cost. Most of the consumers do not realize that there is natural risk in this business and the successful labels do only compensate the losses.

## **Alternate strategies for Digital Distribution**

Distributing music digitally through supply chain can have a variety of strategies. The three major members of the supply chain are content

creators/artists, recording companies and retailers. In order to ensure the success of digital distribution, multiple marketing and social issues must be solved instead of technological issues. Due to other restraint, concentrating only on supply chain will may or may not give the solution which can be implemented. Six different strategies given below are the suggestion for distributing music digitally.

### **Recording company-retailer-customer**

Some consumer support this strategy as it suggests flexibility to produce modified CDs without altering the packaging CDs.

This strategy introduce consumer to new artists also gives quality experience of music.

This strategy is categorized into three stages as per changes taking place in the market. The primary stage consists of developing customized CDs and it advances to second stage where the assembling of CDs is done overcoming the in-store inventory problems. In the third stage, this strategy provides inventory less in-store and help consumer to recognize types of music they want, different artists, and can also create CDs.

Due to inherent cost efficiency in this strategy, it provides benefits to Retail store operations.

This strategy also helps recording companies to protect their copyrights.

## **Record company-customer**

This strategy of direct distribution take advantage of eliminated retailers as it reduces the cost of retail operations for distributing music. Thus creating potential market for digital distribution between recording company and customer.

## **Record company-intermediary-customer**

This strategy is also called “ one-stop shop”. The consumer can get their music by visiting multiple sites at one place. Music from multiple recording companies is consolidated at one place by intermediary and this gives consumer to buy their favourite music at one place. Online retailers like Amazon. com can generate extra sales revenue by providing quick search facility and good system network to download music.

## **Artist-customer**

This strategy creates the most efficient supply chain by eliminating the intermediaries and save cost in every aspect for music industries for distributing music. Although this strategy suggest expenses for artists in terms of direct advertising and maintaining the cost of the web site. It is also important to address other issues for the success of this chain.

## **Artist-intermediary-customer**

In this strategy, an intermediary combines the artists and offers them services to minimise their search and information problems related to consumers also does expand the market reach for the artist. The intermediaries creates online communities with similar music interest also

offers services like online reviews and provides email alerts to consumer for new releases and concerts. Thus they add value to this strategy.

### **Audio-on-demand (AOD)**

This option helps consumer to create their own playlist of their favourite songs and can listen as per their convenience through internet radio stations. This strategy uses simple subscription model for delivering the music to consumer. A consumer can change their playlist as per their choices during the subscription period this will help consumer to get rid of old and few songs considering the ownership model.

(Source: Alternate digital distribution strategies, G. Premkumar, 2003)

### **Comparison of distribution strategies**

**(Source: Alternate digital distribution strategies, G. Premkumar, 2003)**

It is thus necessary to educate the people about negative effects of piracy and protecting the copyrights. This is also critical for keeping the music industry healthy and flow of income and royalty to artists will encourage them to create new music portable devices. Internet radio stations require two-way connection with each consumer compared to broadcasting radio which will creates load on server and system infrastructure. These problems will be solved in future with the help of surplus bandwidth.

### **Future of Music Distribution**

The above table provide the summary of merit and demerits of each distribution channels for stakeholder, artists, labels and publishers, retailers and consumers. Although it will be enticed to say which strategy is going to <https://assignbuster.com/supply-and-demand-chain-in-music-industries-marketing-essay/>

succeed in future, it is obvious that quite of them will survive in their own niche markets. The absolute victory of every channel depends on their relative features. A single feature that will induce the reformation of the industry is the dominance between the artists, publisher, retailers and consumers. As formerly stated, some of the big labels and publisher not only have control of creation, marketing, and distribution of MP3, CDs, DVDs dominating the market but also have substantial control on the artists. Boost in consumer power to copy the music files from P2P file sharing sites, which was abandoned because of legal actions taken by recording companies followed the closure of P2P music sites. But the impact of action taken by RIAA's did not stop launching of many new P2P music sites. Due to the risk of breaching copyrights, artists have started supporting the point of labels and publishers related to digital distribution of music. The above table suggest that the situation for retailers is on risk in future, they need to diversify their services to on-line retailing. E. g. ARKIV. com, NAXOS. Looking at the future of music industry the recording companies will influence the most to each distribution strategy as they will have proper control on incentives and disincentives for consumer to operate one strategy or the other.

Various business models can work all together to give absolute supple to consumer when music is accessible digitally. As a matter of fact, the business model adapted by Naxos, MuispNet is the mixture of strategies recording company-intermediary-customer and audio on demand which gives ownership and listening features to consumers.

## **Conclusion**

The information given above provides opportunities for re-engineering the traditional supply chain by digitizing the music. The negative impact on members of supply chain, publisher and demand chain due to the illegal copying and downloading of music can be solved with the use of six digital distribution strategies. These six distribution strategies were investigated in terms of cost structure and the relative roles of stakeholders for the music industry. The major problems linked to the successful implementation of each strategies were discovered and explicated.

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