

# [Music recording industry](https://assignbuster.com/music-recording-industry/)

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Music Recording INTRODUCTION For centuries man had dreamed of capturing the sounds and music of his environment by means of music recordings.

The road to successful music recording had not been smooth until the derivation of the music recording industry. Since the inception of the music recording industry, the way in which music is produced, distributed, sold and consumed have greatly changed so also has popular music changed over time. These changes resulted from new technology which was invented between 1890 and 1900 and paved way for entry, which in turn has caused significant structural shocks within the industry. The Sound Recording Technology invention has not only changed the way we listen, but has also substantially reduced the cost of production, reproduction and distribution of the industry’s product to the very minimum especially within the past 5 years. Although technology seems to pose an obstacle to entry into the industry, recently, the main barrier to entry over the past years has been radio airplay because of the cost associated with informing consumers about the existence and the nature of products in the industry. Between 1900 and 1910, there was an integration of three large firms (Victor, Columbia and Edison) who controlled most audio-related products including playback devices and the audio products themselves and this served as a substantial barrier to entry. But it is possible for another technology of supply, high speed internet, might eventually offset this important barrier to new entrants into the industry. After 1910, the music recording industry became the center of controversy involving (1) alleged price fixing by the major firms in the industry and (2) massive alleged copyright infringement by consumers, in what amount to a free-for-all over economic rents.

The clash between the firm and their consumers has erupted in legal open warfare, with the Federal Trade Commission and courts finding the major firms guilty of overcharging consumers by nearly half a billion dollars in a scheme that maintain artificially high prices, and the industry suing hundreds of consumers for copy right infringement according to Prof Peter J. Alexander in “ Market Structure of the Domestic Music Recording Industry”. In 2003, The Business Week Online posted that, The Recording Association of America (RIAA), the trade association for the music recording industry, issued hundreds of subpoenas aimed at individual consumers whom they alleged to be copyright violators. MARKET STRUCTURE Number of Firms The market structure of the music recording industry is made of five large international and integrated firms. These firms are Vivendi Universal, Sony Corporation, Time warner, Emi Group and Bertelsmann AG. These firms exhibit number of characteristics including dating back as far as the twentieth century. Also, with the exception of Time Warner, all the firms have been sold and bought many times. Additionally, each firm except EMI is part of a larger media with particular interest in motion pictures, television, cable and book publishing, music publishing, production, manufacturing and distribution.

The largest among these firms is the Vivendi Universal Music which was created in 1998 from two major French firms, Polygram and MCA. According to the Various Company Reports, represented by the table below, the Vivendi Universal Music is currently the largest music company in terms of market share and recorded music revenues. It owns the largest recorded music in the world, with over one million catalog of recorded music. Its operational activities include production, distribution and publishing of music as well as licensing of music copyrights. According to Prof Peter J. Alexander, in 2002, one out of every four compact disks sold worldwide was a Universal Music Group Product. Some of the Vivendi’s other media holdings include Universal studios (motion picture), USA Networks (television) and Houghton Mifflin (book publishing). Table 1.

1 Worldwide Conglomerate Revenues of the Major Firms, 2002 Firm Total Worldwide Revenue (In billions) | Vivendi Universal $60 Sony $57 Time Warner $41 Bertelsmann $18 EMI $0. 36 Source: Various Company Reports, 2002| Sony Corporation is a subsidiary of Japanese conglomerate and its operational activities include production of Sony compact disks, distribution of recorded music and also publishing music. Sony Corporation is a leading manufacturer of audio, video, communications, and information technology products for the consumer and professional markets. Its motion picture, television, computer entertainment, music and online businesses make Sony one of the most comprehensive entertainment and technology companies in the world.

Other media of the Sony Corporation are the motion picture houses Columbia pictures and Tri-Star pictures. According to Andrew Herman, Sony Corporation became presence in the music record when it bought CBS in 1988. Bertelsmann is a German multi media corporation founded in 1835, based in Gutersloh Germany. It is the second largest global media conglomerate measured in terms of total revenue. Bertelsmann media holdings include books and magazine publishing, producing, manufacturing, and distribution of recorded music.

It is also a major European television and radio broadcaster and content producer. Bertelsmann bought RCA in 1985, and that increased their interest in becoming a major presence in the music industry. Time warner is a US based conglomerate and it is the second largest cable provider in the USA.

It produces, manufactures, publishes and distributes recorded music. Time Warner also controls the publishing rights of over one million music titles. Other media holding include Warner Brother (motion pictures), WB Network (television), HBO (television), Time Life (magazine) and Warner Books.

EMI is a British conglomerate which also produces, manufactures, distributes and publishes recorded music. It is the second largest music publisher and comprises more than one hundred music label. The EMI Group also has a major publishing arm, EMI Music Publishing – also based in London with offices globally. It is the least diversified among the other firms. According to Pro J Peterson, recently, four of these giant firms have been in negotiation to merge their recording operations (Sony with Bertelsmann and EMI to acquire Time Warner recording business). In early 2004 Time Warner sold its Warner Music subsidiary to a new set of owners led by the Canadian Bronfman interests.

Combinations between any of these firms would have led to more concentration in that field. Barriers of Entry Barriers to entry in the record industry are generally regarded as low. A number of independents have entered the market successfully over the last ten years.

A number of artists signed to independent labels have featured in the singles and album charts. The Top 40 singles charts gained 540 new entrants in the year ending September 1993, 84 of which were from independents. The Top 40 album charts gained 272 new entries over the same period, 42 of which were from independents according to the British report on recorded music. A small independent record company has few sunk costs since recording, manufacturing, distribution and marketing can all be contracted out to independent third parties.

Many costs have come down in recent years. For example, recording equipment of reasonable quality can be purchased for a few hundred pounds, allowing initial recording to be done away from the studio. At the smallest end of the market a recording can be made in a home studio.

The combination of rapidly changing consumer tastes and a pool of artistic talent in the UK provides opportunities for independents. Independents can compete against the majors in the signing of new artists in a number of ways. An independent may concentrate on a particular type of music and be better placed than a major to spot new talent and make contact with an artist. Artists may be more attracted to an independent that has a good reputation in their type of music than to a major (that is, they might be perceived as having more `street cred’). There appears to be a pool of people with experience of the record business that is willing to set up record companies, for example ex-artists, producers, artists’ managers or ex-employees of the majors. The reputation of these people may be sufficient to attract new artists.

The independents often develop links with the majors. For example, if a new artist is successful but the independent cannot market the artist overseas, the independent may come to an arrangement with a major under which the artist’s recordings are licensed to the major, the artist is signed by the major, or the major takes some financial interest in the independent. Whatever the particular arrangements, there are likely to be benefits for both parties. The majors are interested in sharing in the A&R successes of the independents, while for their part the independents gain funds for further A&R. The risks to the artist of signing with an independent are reduced if this exit route is available. The option of outright sale to a major is also open to an independent. The major may be attracted by the existing artist roster, the back catalogue, the personnel or the name of the label.

The possibility of a profitable exit from the market is an incentive for a new entrant The table below shows entrance of new firms to the music industry since 1983 Source: British 1994 report on recorded music Shares of the Market According to the BBC worldservice. om up to 90% of the global music market is accounted for by just five corporations: EMI Records, Sony, Vivendi Universal, Time Warner and BMG. Collectively, these corporations are known as ‘ the Big Five’, and operate in all of the major music markets in the world. Each of the corporations maintains their headquarters in the US, the largest of the world’s markets.

Of the Big Five, Vivendi Universal is the largest, with 29% of the market share and wholly owned record operations or licensees in 63 countries. Its nearest rival is AOL Time Warner, with 15. 9% of the market share. Each of the corporations operates in a variety of fields beyond recorded music, incorporating publishing, electronics and telecommunications, thus extending their influence to cover more markets within the global entertainment industry. In achieving their dominance in music sales, the Big Five each own a large portfolio of labels, from formerly independent labels to large regional operators in different territories. The biggest exception to their domination of the market is in India, where the large film music market has so far defied these corporations. Africa has also proved to be a difficult market for the American-owned corporations, largely because the economic situation outside South Africa means a lack of profitable markets.

In South Africa, Gallo Records is one of the biggest record labels, not only because of its representation of African music, but also from being exclusive licensee for Warner Music International. The Big Five are not always in competition with each other, and it is in their best interests to act together at times. EMI is the sole licensee of BMG material in Greece. A press material in May 2002 stressed that the deal would work well for both companies, with EMI licensing some important international artists, and BMG’s Greek artists being looked after by a company with a much bigger local presence.

Co-operation and partnerships, then, can yield not only greater profits, but maintain their status as corporate giants. Many well-known smaller labels are in fact owned by one of the Big Five companies. While labels are often started by entrepreneurs, the dominance of the major labels makes large scale success difficult for these firms. And should they achieve a high degree of success, they excite to the predatory instincts of the large corporations.

This gives the major labels a wider ranging repertoire in different geographical markets and musical genres. –ju While small labels will continue to exist, they become increasingly unable to grow without becoming part of one of the Big Five companies. This pattern looks set to continue into the future as the larger companies continue their strategy of acquisition, and potentially merge amongst themselves in an attempt to dominate the market even further.