

Economics of the music industry economics essay



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The Industry has reacted very badly to the consumption of CD sales. Many people blame the decline of CD sales on illegal file sharing and downloads but also to be considered is the way that CD's have been distributed and marketed over the last few years. Some of the reasons could include ' non competitive pricing of CD's, reduced number of shops stocking them and some of the major labels unwillingness to experiment with other form of entertainment industry such as video games and DVD's which hold a considerable force on the industry.'[1]The competition from other media such as the gaming industry has also affected CD sales. EA (Electronic Arts) ' is incorporating music and cinema experiences into the games themselves'[2].

Piracy through CD burning has affected the sales badly unlike other industries such as the software and gaming industry which is forever updating itself. The CD has been around for over 20 years now and the music industry has not been so fast to keep reinventing itself and has fallen behind in the technology race.

Whilst Physical sales are falling there has been an increase of ticket sales at concerts and festivals and revenues have grown. In 2009 a report was released by the Performing Rights Society showing the ' retail value of recorded music fell 6% whilst live revenues grew 13%.'[3]David Kusek describes this as a good thing for the industry as ' only 4 percent of records ever sold enough copies to break even.'[4]The result in the increase of demand for live music could be down to the "" record industries obsession with marketing and huge profit margins and has gradually become detached

from its artists and consumers". Where as generally live music promoters and agents have always " been closer to the artists and their audiences"[5]

The relationship between artist, consumer and label is changing due to technology and the internet and this has affected the way in which music can be distributed. The relationship between the artist and label can be difficult. Music labels sometimes edit the artwork or the title of a song, much to the frustration of the artist. ' The artists have turned to the Internet and the role of labels is becoming increasingly diminished, as artists are able to freely distribute their own material through file sharing, web radio, and other peer to peer services, for little or no cost.'[6]Bigger artists have ended their contracts. ' Radiohead's' problems with their label in 2007 ended with them releasing their album on their own and subsequently released as a " pay what you want" sales model as an online download.'[7]

The relationship has also changed between artists and consumers. Through the internet fans are now a lot closer to the favourite artists. For example, Tom DeLonge, an American Rock musician created a website called ' Modlife.com' which allows users to connect to ' bands, artists and personalities using live video broadcasts, text messaging, video blogs, mobile updating and twitter feeds.'[8]

The digital transformation has had a huge impact in the way artist merchandise is sold. The internet can now be use to sell merchandise directly marketed towards the fans. Before the internet, merchandising was selling hats and shirts to a long queue of fans at a venue, but now products are directly related to current fashions and culture.

For example Grindstore. com specifically directs its merchandise towards fans of rock music and states it is 'able to offer the most comprehensive range of male and female music merchandise from all over the world'[9]Grindstore features clothing from bands such as Greenday, Metalica, Slipknot and Motorhead all in one place. Other similar companies such as the American based 'Hottopic. com' are a multi million dollar company showing revenue over 'twelve months ending July 31, 2009 was \$768, 200, 000, a 4. 52% increase from the previous year.'[10]This just proves the power of music merchandising and direct marketing using the internet.

For the music industry it is a hard task safeguarding existing sources of income and finding ways of developing new ways of income. One solution to safeguarding the future of music industry's income is through a change in the way which music is licensed. One way might be through a small fee that allows users to freely download all music. This could be through a tax which is payable on media products such as mp3 players, Ipods etc or through a blanket licence similar to that of the British Broadcasting Cooperation which is charged to all United Kingdom households, companies and organisations using any type of equipment that can receive and play music. These possibilities could be created by the record companies or part government intervention. I think this will be one of the best ways to create a source of income as it is becoming increasingly harder to police the web for illegal downloads.

Another possibility in creating a new source of income is to become more precise in which the PRS collects royalties through the advances of the internet by creating a framework. Currently royalties collected from

restaurants for example rely upon human estimations and averages and no consideration is made for the diversity of music played in different types of venues. The use of digital technology could help this to be more accurate.

To conclude, I have discussed how the UK music industry has reacted to current changes in consumption and distribution with specific analysis to how the industry has reacted badly to the decline in CD sales but the consumption of live music has increased. I have shown how direct marketing and merchandising by companies like grindstore. com is creating big profits for the music industry through the use of the internet. Through the changing relationships between artist, label and consumer I have shown how music distribution is changing and how due websites such as modlife. com fans are ever closer to their artists.

Finally I have demonstrated ways in which the music industry can safeguard their revenues such as a blanket licence or by creating new ways in which royalties are collected.