

# Polyphonic hmi marketing strategy



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Recommendation: Target the record labels for promotion of HSS reports. Start with the initial enthusiasts like Ken Bunt of Hollywood Records and use their testimonials to win other record labels. Make use of the business connections of the advisory board at Polyphonic to get better reach to decision makers at record labels. Offer free trial reports to convince record labels and an initial lower cost for buyers along with discounts for high volumes ordered over a fiscal year. In the long run, promote Human Music Interface as a complement for Hit Song Science to maximize the revenue earning capability of a song (by ensuring better listener penetration) that is marked as a winner by HSS. Rationale:

Target segment rationalization: The record labels constitute the segment with the biggest budget (deepest pocket and hence least price sensitive), highest influence in the music industry and positioned to obtain the greatest benefit out of HSS's accuracy in music selection suggestions. There are initial enthusiasts in this segment who are already impressed with HSS's capabilities. The market pie can be restricted to the USA (Exhibit 1) Value for the segment: The HSS program will enable record labels to select only those songs for promotion and advertising that has 80% chances of being successful compared to the 10% success rate offered by the tradition ways of selecting a song. Thus, the labels will considerably reduce the amount spent on marketing (Exhibit 2) and as a result will increase profit margins (Exhibit 3).

Thus tremendous cost savings and considerable improvement of profit margins are the primary aspects that should be promoted to the record labels. Pricing: Initially price the reports at \$7000 per song or 60, 000 per

album of 10 songs for the first one year of the contract and then go for a \$10, 000 per song or \$80, 000 per album. The discounting on album cost over single cost is to encourage buyers to buy in bulk. Also, offer discounts on high volume of orders - price beyond the 100th single is \$6000 and price beyond the 10th album is \$55, 000. (Exhibit 4 describes the break-even with initial pricing and exhibit 5 describes the profit margin with the post-one year pricing strategies)

Promotion or selling approach: The advisory board at Polyphonic comprises of big names in the music industry such as Thomas D. Mottola and Ric Wake along with the initial enthusiasts like Ken Bunt (executive of Hollywood Records). While Thomas is one of the most highly regarded and influential executives in the music business and has obvious strong connections with Sony Music Entertainment (a major record label), Rick is a highly successful producer and strong influence on a musical empire that has top successes and recognitions under its belt. Polyphonic should use these strong industry connections to target Sony, Universal and Warner for their initial promotion.

Additional inclusion in the long run: Polyphonic should promote the Human Music Interface as a complement to its Hit Song Science. The science that forms the back bone of music selection for the record labels will also recommend songs for the listeners thus increasing the reach or penetration of a song to the listener market. It is the record labels who will find the maximum value out of the availability of the complement. Hence, they can partner with Polyphonic to find a suitable hardware partner and get the machines in the retail music outlets.

Why the alternate market segments are less preferred? The producers and unsigned artists are not considered as the primary target segment because these groups are going to show the maximum resistant against adoption of the new technology. Members of these groups consider themselves as artists and hence are mostly not open to the idea of scientific analysis making a musical judgment on their behalf. Artists have soft skills that are supposedly not quantifiable and hence the idea of a software application being capable of judging an artist's efforts might be less welcome in these segments. Exhibit 6 describes how these groups will have lesser value out of HMI than the record labels. In addition, the software doesn't produce enough value for the artist segment.

Suppose, HMI promotes specifically to this group and the members show enough enthusiasm resulting in satisfactory initial penetration. Once, the initial curiosity about the quality of her own performance is satisfied the artist won't find any alternative use of the report. If the report says their song has enough potential to be a great hit, that conclusion does little for them because the record labels are not likely to acknowledge the credibility of the HMI report.

All exhibits are restricted to the US Market. Exhibit 1: Why USA is the best choice of geography? The rationale behind the choice is obvious when we consider that it has the highest music market in the world and is  $[(12609 - 5001) / 12609] \sim 60\%$  more in dollar values than the second highest, Japan. Graphically, when compared to the top 5 music markets, USA looks significantly higher (for 2002):

Exhibit 2: Cost savings to record labels The HSS software will identify potential top 40 singles at an 80% success rate (based on trial run) as compared to the industry average of 10% success rate. However, assuming a conservative approach let us assume that the actual success rate for HSS will be 50%. Now let's run our analysis based on Sony where Polyphonic has the highest chances of making a good penetration. There are about 3000 singles released per year; of which 10% make the Billboard Top 40. Roughly 300 singles make the Top 40 per year. For Sony, with 13% market share, 390 singles will be released of which (10% of 390) = 39 will make the Top 40. If Sony embraces the HSS system the success rate in correctly identifying those successful 39 singles will move from 10% to 50% (assuming the conservative rate).

Reduction in number of required single releases to maintain the market share: If 50% is the success rate then it means that for every successful Top 40 hit by Sony, the company needs to release 2 songs. Hence to have 39 hit singles, Sony would need  $(39 * 2) = 78$  single releases. That's a reduction of  $(390-78) = 312$  songs or a percentage decrease of 80% in the number of singles required to maintain the same market share (given only successful songs make money). Sony, thus, will have huge cost and effort savings in both production and marketing. Polyphonic can simply highlight the cost savings in marketing, mentioned below, to make a strong point about the cost saving potential. Savings in marketing cost:

The marketing expenses for singles range from \$300, 000 to \$1, 000, 000. For Sony, the required 390 singles (based on 13% market share and without use of HSS) at a conservative cost of \$300, 000 the budget will be \$117, 000, <https://assignbuster.com/polyphonic-hmi-marketing-strategy/>

000. If Sony uses the HSS software then instead of 390 singles the company will need to promote and market only 78 singles.

Cost of promoting 78 singles =  $\$ (300,000 * 78) = \$ 2,340,000$  Hence, cost savings in marketing while maintaining the same market share =  $\$ (117,000,000 - 2,340,000) = \$ 93,600,000 = \$ 93.6$  million.

Marketing and promotion cost is the remaining part of \$10.5 which is not included in the table above. Hence, marketing cost per album =  $\$ (10.5 - 7.35) = \$3.15$  per album and comprises of 30% of the album's retailer's price.

Hence, for Sony the total marketing cost =  $\$ (3.15 * 742,142,436) = \$303,907,328 \sim 303.9$  million Now, Sony has a revenue of \$1.013 billion. Hence, the total marketing cost for Sony is 30% of \$1.013 B or \$303.91 million.

Considering that the sales remains the same due to more number of hits with greater accuracy of selection offered through HSS, the number of releases will be reduced to  $(78/390)*100 = 20\%$  of the numbers they have before using HSS. Hence, the estimated number of releases for Sony after using HSS is 20% of 96478517 = 19295703. The total cost of marketing 19295703 releases =  $19295703 * \$3.15 = \$60781465.71 \sim \$60.78$  million Hence marketing cost savings =  $\$ (303.9 - 60.78)$  million = \$243.12 million.

Thus total profit margin =  $\$ (303.9 + 243.12)$  million = 547.02 million which means a 80% increase in profit margin. Exhibit 4: Break-Even for HMI with the promotional price in effect Costs for Hit Song Science:

Marketing -> \$150,000 Annual Fixed Cost of Operation at Polyphonic -> \$500,000 (we assume this entire cost as the cost for HSS as that is the only product that the company is offering at present) The \$600,000 cost of

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developing HSS is development or RnD cost and should be expensed because it is an one-time investment and is not periodic. Hence, Total Fixed Cost:  $\$ (150,000 + 500,000) = \$650,000$

Variable cost = \$300 per album with 10 songs in it or \$30 per song. The initial price for the customer is \$7000 per song or \$60,000 per album of 10 songs. If we take a conservative approach we should take the possible minimum earning which is \$60,000 per 10 songs or \$6,000 per song. Based on this assumption, the number of reports that Polyphonic needs to sell to break-even on their costs:  $= 650,000 / 6000 \sim 109$  reports.

Thus, Polyphonic will need to sell only 109 reports to earn their break-even. Exhibit 5: Profit margin for Polyphonic with the steady-state pricing After one year of relationship with Polyphonic the customer will surely realize the huge benefit it brings in and will agree to pay a higher price for continuing their relationship with Polyphonic. Keeping that in mind, the price after one year goes up to \$10,000 per song and \$80,000 per album.

As before, we continue to take a conservative approach and consider \$8000 as our price for one song while calculating the profit. For our analysis I assume that after 1 year Polyphonic has not extended beyond the initial customers, i. e. Sony. Since, Polyphonic has strong connections in Sony (through Tom Mottola) it is fair to assume that they make the highest penetration in Sony and the same penetration in both Universal and Warner. Let's assume 50% of total songs released from Sony is being subjected to HSS. Total number of singles/albums released by Sony every year = 96478517 Then the total revenue of Polyphonic from Sony = (50% of

96478517) \* \$8, 000 = \$ 38. 5 billion Total Cost = \$30 \* 96478517 =  
\$2894355510 = \$ 2. 89 billion Gross Profit Margin = \$(38. 5 - 2. 89) billion =  
\$35. 61 billion.