

Critically evaluate how new technology has turned the music industry from a product to a service sector.



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1. Introduction

Technology has transformed the music industry, bringing further opportunities and consumption avenues, whilst also opening the door for illegal piracy and file sharing platforms. As technology has implemented itself into global society, it has meant that companies must try harder than ever to maintain their margins and grow the business in ever expanding and evolving markets. As a result of this, there is a growing trend of companies earning profits by offering services and customer solutions. (Ulaga, Kondis and McTeague, 2013)

Whilst this is something that many companies from various industries may want to switch to for innovation and profit reasons, many would argue that the music industry has evolved into a market providing a service, rather than a product, out of necessity. This study will explore and critically evaluate the research regarding how new technology has transformed the music industry into a service sector, and the reasons for the change.

2. Definitions

Services and Products are two different, but closely related concepts. A product is often sold with services, and vice versa, therefore a company or industry is unlikely to solely sell either just a service or product. For example, a laptop can be sold to a consumer (Product), with a warrantee, or repair cover (Service). There are however key differences between the two and must be understood to explore the concepts (Palmer, 2007).

2.1 Product

Products are items that a company/organisation produces that are tangible and discernible. The coming of the digital age has made it more complex when defining products, however in the context of the music industry, CDs, Vinyl, Downloads, Merch and Live Shows can be seen as being products. Simply put, products are generally produced.

2.2 Service

A service on the other hand, provides an intangible asset. These can either be a standalone service, or a service that is offered along with a tangible item. These services can sometimes be difficult to identify as they are closely associated with a good; such as the combination of a diagnosis with the administration of a medicine. (Archives.gov) In relation to the music industry, examples of services would include streaming platforms, file sharing sites and social media platforms. A service generally fills a need or purpose.

3. Industry

The most important fact to recognise when evaluating why the music industry is selling a service now, rather than a product, is that the digital era has completely changed the way in which we consume music. In a short space of time, the industry has gone from focusing Vinyl, CDs, Mp3 Downloads, to Streaming as its main consumer avenue. With the increase and ever-growing threat of piracy to the industry, various methods were explored to combat the issue. Streaming services offered a new way of listening to your favourite artists, and in 2011 (early days in the age of streaming), the number of access-based subscriptions increased by 65% to 13 million, with the total global number of music streaming subscriptions now at 255 million

(Gunther, 2016). Physical sales, however, have been decreasing year on year, with a 10% drop from 2018-19 (IFPI, 2019).

A Wall Street Journal article perfectly captured the state of the music industry during its decline, and just before the emergence of streaming. In 2007, sales from CDs had plunged 20% from the year before, but still made up 85% of all music sold. The growth in digital downloads wasn't quick enough to offset the decline (Smith, 2007). This marked one of the earliest calls for a new business model, and ultimately brought about the age of service centred sales.

3.1 Why Music Isn't Seen as a Product

Whilst there are many arguments as to why the industry has shifted towards services rather than products, there are people who argue that music itself isn't, and has never been, a product. Tickets, CDs, and merchandise are all products that stem from the creation of music. Grasmayer (2012), set out three reasons why not seeing music as a product is beneficial:

1. **Digital-Proof** - *As the digital age was incorporated into the music industry, an increasing number of consumers could differentiate between the content and product. This led to the explosion of file sharing platforms exploiting and extracting the content from the product to distribute illegally*
2. **Flexibility** - *Music itself is not a download, CD or stream. The value of music can be added to multiple industries and products to increase its worth*
3. **Fan-centerism** - *Separating the product and content opens further revenue opportunities, allowing a label or artist to sell the product they want, with the music simply adding further value. By understanding who the core fanbase are, you can provide them with something they will be happy to spend their money on*

When the music industry started to get into streaming via platforms such as Rhapsody, Pandora, and Spotify, it highlighted the redundancy of viewing music as a product. You suddenly didn't need a vast record collection or CD stack. You could simply pay a monthly or yearly subscription fee to access virtually all of the recorded songs globally instantly. (Doyon, 2013)

4. Streaming Vs Physical

The shift from a product focused industry, to a service focused sector is a direct consequence of various events and issues over recent years. Society evolving into the digital age is the primary reason, with the rise of streaming, and decline of physical sales being the secondary effects from the shift.

The data graph (*Figure 1*) clearly displays the recent trend in how music is being consumed in the UK.

UK Music Consumption

Album sales / streams in millions

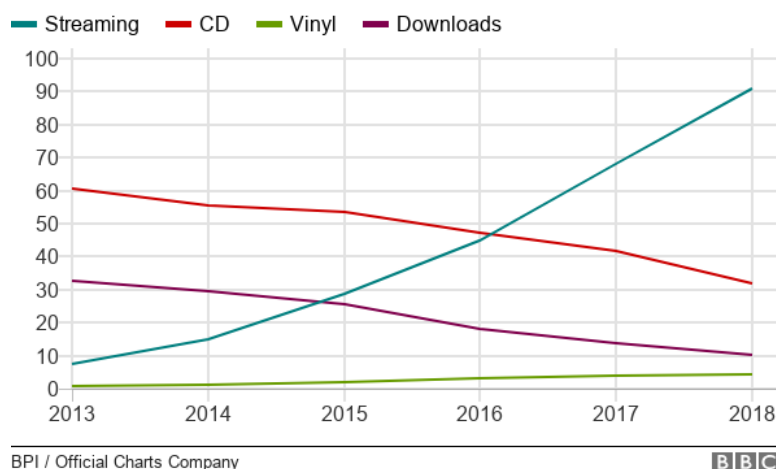


Figure 1

4.1 Rise of Streaming

On-demand music streaming is currently the primary way people consume their music. Streaming took off in 2008, when Spotify advanced streaming audio and improved consumer internet connectivity made ongoing high-quality audio playback viable (Grannell, 2018). Spotify is the ideal case study as it boasts the largest share of the market (35%) and has the largest userbase of 271 million active monthly users, and 124 million premium subscribers (Ingham, 2020). Spotify also provides a perfect example for how a product focussed industry can transform into a service focussed one. In an environment with transaction costs as small as those on the internet, where virtually everything is a click away, offering platforms of this type makes perfect sense. Streaming gave people the freedom to choose what song they want to hear, whenever they want to hear it. In a society which is becoming increasingly used to instant satisfaction, this is a key part of the evolution of the industry (Dans, 2017).

MediaUpdate outlined five keyways that streaming has changed the music industry.

1. *New Releases aren't always the main focus*
2. *Artist's encounter increased difficulty in gaining revenue*
3. *Music Industry has grown as a direct result*
4. *Introduced subscription models into Music Industry*
5. *No longer about free and easy access*

(MediaUpdate, 2019)

These points give a general idea of how the digital era has affected the industry. Point 5 was written by the author to highlight the issue of exclusivity deals that were negatively looked upon by the industry. These deals have since died out so therefore renders the fifth point redundant. Especially as Spotify and YouTube both allow you to listen to music easily and for free (with short adverts).

4.2 Decline of Physical

Physical sales have been falling rapidly since the streaming market emerged. CD sales were hit especially hard, with 32 million CDs being sold in 2018, around 100 million fewer than 10 years before. For the first time since 1984, two of the nominated albums for album of the year at the Grammys weren't even released on CD in the US.

The CDs that have sold in large quantities tended to appeal to older, non-traditional music buyers (Savage, 2019). CDs also still have some benefits over various digital formats such as MP3. CD boasts superior quality, and only a few streaming sites like TIDAL and Qobuz can match that quality (Sparrow, 2019).

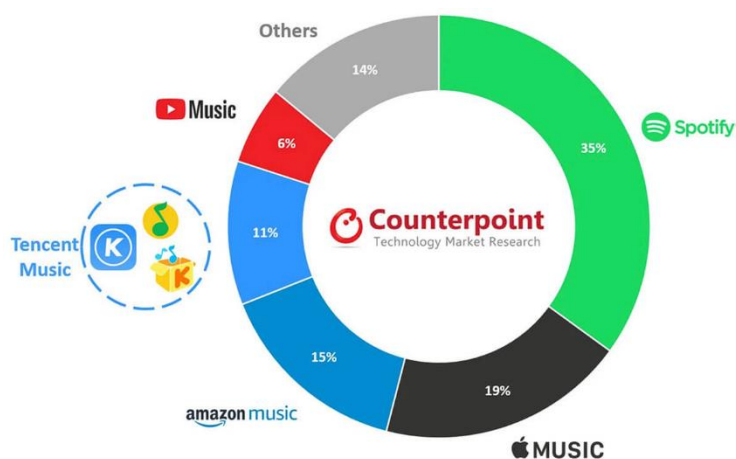
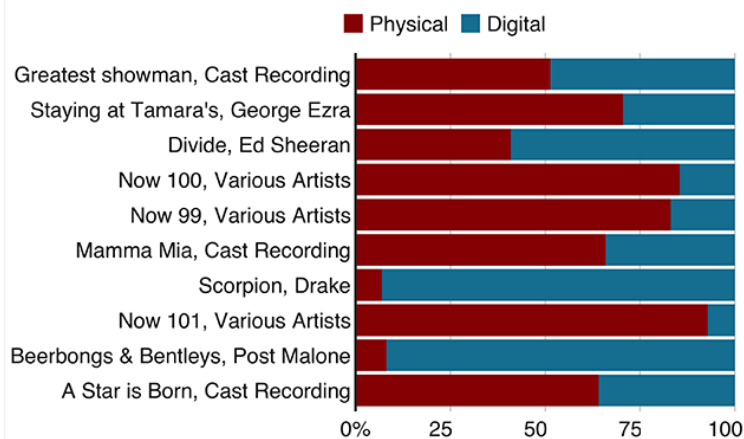


Figure 2

Top ten biggest selling albums in 2018

The physical/digital divide in sales



Source: ERA

Figure 3

But supermarkets and stores are phasing out the sale of CDs and are dedicating less space to them year-on-year

Not acknowledging the physical market would be counter productive as it still contributes to around a quarter of the recording industries recording revenue (IFPI, 2019). Physical sales still generate around £2 billion, and HMV still reportedly has sales of a quarter billion pounds. Whilst most would argue that streaming is squeezing the physical market, there are people who believe that streaming, CDs and Vinyl can exist and thrive alongside each other.

"I don't buy it that physical music is necessarily competing with streams. We all access music and film on the internet, and that's fine and healthy and valid, but you wouldn't look at the Mona Lisa on your phone and think it's the same thing as going to see it in a gallery."

"The reason vinyl sales are at a 25-year high is because people are rejecting this part of modern society where everything is immediate, and nothing means anything."

Jon Tolley (Independent Record Shop Owner)

"We all use Spotify, but I think we all value vinyl, we've spent a lot more time talking about how we put our vinyl out than we have done about how we're going to stream our songs."

Ben Lovett (Mumford & Sons)

Although there are some die hard advocates for CDs and Vinyl, the way the market is going, it seems likely that CDs won't make a full industry comeback anytime soon. As for HMV, whilst they still report sales of around £2 billion, they have gone into administration twice (2013+2019), much due to the decline in CDs being bought/made, and the presence of online competitors such as Amazon (Sum, 2019).

5. Considerations

As has been discussed, streaming is the most important factor when identifying the causes of the product, service shift in the music industry. There are however other notable factors that contribute to both the growth in service led business and decline of the product focus. Also, worth noting is the steady rise of vinyl sales, keeping the physical music market alive.

5.1 Synchronisation

Music Synchronisation (Sync) is another example of the music industry's shift towards a service-based model. This service provides a platform for labels and artists to get their music featured in other entertainment sectors, such as TV, Games and Film. An example of Sync's recent success and impact would be Florence + the Machine's '*Jenny of Oldstones*', which was featured in the end credits of a Game of Thrones episode. The feature broke Shazam's all-time record of around 300,000 'Shazams' worldwide in 24 hours (Ingham, 2019). Music Sync revenues grow steadily (11% in 2017), but still remain a relatively small revenue source for the industry. The growth of other service driven channels such as Video streaming, video games, social media and TV shows, has triggered a wave of increasing demand for the sync marketplace (Mulligan,

2019). As this avenue expands, the demand for more service focused material has continued to push the music industry into transforming from a product to a service centred business model.

5.2 Vinyl Sales

Whilst it is easy to identify why the physical market is rapidly declining, something that is less easy to explain is the curious growth in vinyl sales. The vinyl market has been growing for 13 consecutive years, growing 6% 2018-19, with an overall recorded music market share of 3.6%. In the week ending 18 April 2018, Vinyl sales in the US were up 193% year-on-year, from 282,000 to 827,000 (Connolly, 2019). Whilst this is a surprising growth, it is not enough to offset the rapid decline of other physical products. What this captures, is a niche sector of the music world that enjoy and value more traditional methods of consuming their music. Whilst this may not be a particularly profitable avenue for many labels and artists yet, the market could see continued growth and would be sensible to keep an eye on.

5.3 Piracy

The emergence of new technology and increased accessibility meant that the opportunities to exploit music also increased. One of the most notable and original violations was that of Napster. Napster in 1999 provided quick and easy access to millions of songs, for free. At its peak, it is reported that Napster has a userbase of around 80 million (Forde, 2019). The ability to burn, copy and share CDs (along with mp3 files), took a big impact on the music industry. Ultimately the music industry learnt that despite the free access services like Napster, people were still willing to pay for their music, as long as it is instant and convenient (Grannell, 2018). This caused streaming sites to take off and is further evidence in the shift from a product, to service focussed industry. Piracy is near impossible to end, however music piracy has largely slipped off the agenda as the industry enjoys its return to growth. The rapid increase of subscriptions to on-demand music streaming services, has seen off a fair amount of online music piracy in recent years. MusicWeek reported that 63% of illegal music pirates have now turned to use streaming services, with one of their survey respondents saying that,

'It is now easier to stream music, than to pirate it. And the cost is not prohibitive.'

And

"Spotify has everything from new releases to old songs, it filled the vacuum, there was no longer a need for using unverified sources."

(Paine, 2018)

5.4 Merchandise

Merchandise remains a significant revenue source for artists and labels. The Global Licensing Survey 2019 found that the worldwide retail sales of licensed goods based on or derived from music properties, were worth:

2016 - \$3.08 Billion

2017 - \$3.33 Billion (+8.1%)

2018 - \$3.48 Billion (+4.5%) (Licensing International, 2019)

The report also states that the move to streaming platforms, has 'prompted the industry's largest companies to generate revenue through a range of artist support services that extend beyond simply

generating income from music sales' (Chapple, 2019). This is a clear argument for the importance of both service and product goods, but also highlights the shift of the industry model toward a more service focused culture.

6. Conclusion

The emergence of streaming platforms has fully thrust the music industry into the digital age. This has sparked numerous debates among academics, musicians and journalists alike into the benefits and drawbacks of these services. Ultimately, the argument is between on-demand streaming and ownership. As ownership of records in a physical capacity is rapidly declining year-on-year (aside from vinyl sales), and streaming subscriptions are quickly growing, it is therefore accurate to say that the music industry has gone from being a product focused market, to being a service dedicated market.

This isn't to say however that the industry is solely focussed on services. Merchandise is still an important part of the industry as discussed, with large revenues that continue to grow each year. The surprising rise of vinyl, and the dedicated audiophiles who prefer the sound quality of CDs and other formats also shouldn't be forgotten, as they are the music industries true enthusiasts. Streaming is ultimately loaning, if you join a service because you want to listen to your favourite band but then the platform suddenly drops their music or gets into a copyright dispute, you are not in control of what happens. It is the lack of control and sense of sole ownership that has prevented many from fully committing to the modern way of consuming music.

Moving to a service focussed industry, however, ultimately creates new opportunities, expands the reach of music, and simplifies consumption. Streaming can be seen as the largest contributing factor for this shift, resulting in declining physical sales, and viewing music as a database rather than a collection. New technology has aided in the necessary evolution of the music industry to adapt with the times, and to satisfy modern consumer behaviours.

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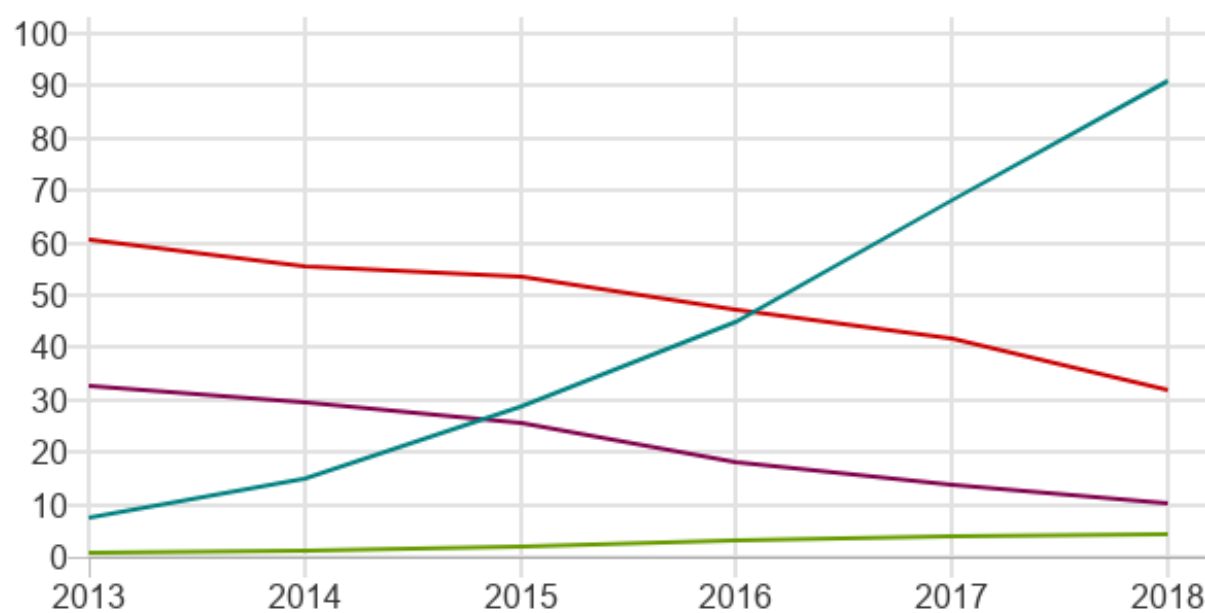
8. Appendices

8.1 Figure 1

UK Music Consumption

Album sales / streams in millions

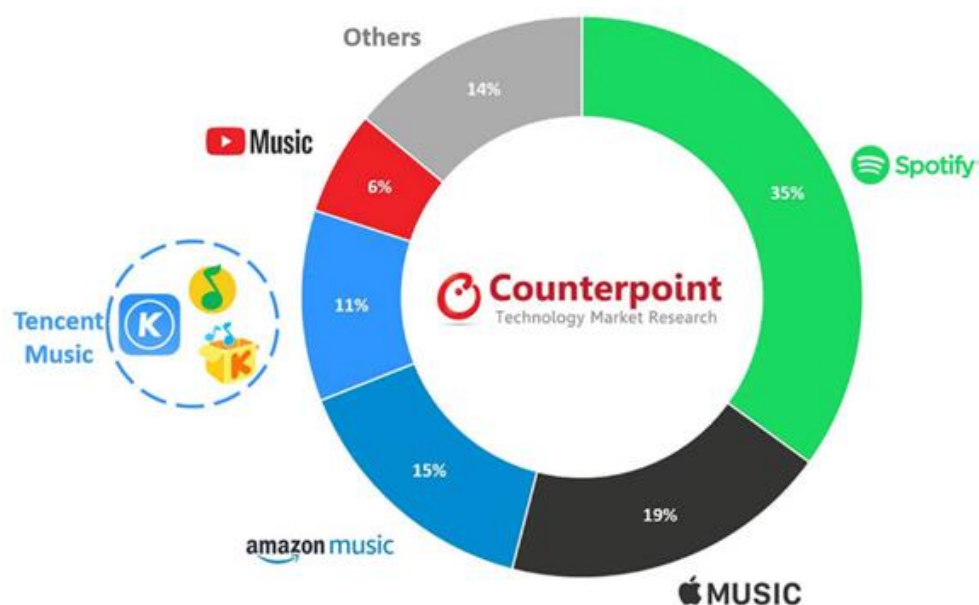
Streaming CD Vinyl Downloads



BPI / Official Charts Company

BBC

8.2 Figure 2 – Source: Counterpoint.com



8.3 Figure 3

