

Jack Smith

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New Technology in Music and Creative Entertainment

Essay

Zohe Mustafa

Critically Evaluate How New Technology Has Turned the Music Industry from a Product to a Service Sector

In order to answer this question, it is pivotal to have a solid understanding of the definitions of 'service' and 'product' with regard to the context we are dealing with. 'Product' is defined by the Cambridge English dictionary (2021) as something which is made to be sold. This is a suitable definition, where the key concept is the transfer from sale to ownership. 'Service' on the other hand is a more ambiguous term. Within the context of this essay, the use of the term 'service' refers to a 3rd party provision of music or music material from rights holder to audience where there is no transfer of ownership from the former to the latter.

Technology has had a transformative effect on the music industry. However, this essay will show that to argue the music industry can now be categorised as a service sector, where it was once a product sector, is an oversimplification. I will first illustrate how new technology has facilitated radical changes in the industrial landscape. This, I will assert, is underpinned by the industries loss of control over the distribution of intellectual property. I will go on to highlight how music has always been complex web of products and service. This, I will show, demonstrates that the situation is far more complex than service vs. product. As a final point, it will be noted that new technology has facilitated an environment in which this balance of power could shift the other way at any given time. Thus, it will be concluded by this study that the music industry continues to operate as a complex web of both products and services. New technologies have taken the control away from the gatekeepers of the 20th Century, thereby creating an unstable industry which remains in a constant state of flux.

New Technology and a loss of control

New technology has enabled a period of severe disruption throughout the music industry by means of the displacement of industry control. Before the recorded industry had emerged, music could be characterised as a non-rival good. This is a good whose supply is not affected by people's consumption (Corporate Finance Institute, 2021). As has been the case since the birth of music, new technology, by means of the vinyl disc in this instance, caused music consumption to develop significantly (Jenkins, 2015). By attaching music to a physical

product, the industry was able to create an artificial supply deficit, controlling distribution and upholding the consumer price (Wikström, 2020, p. 90). Processes of replacement from vinyl to cassette tape and eventually the CD-ROM helped to increase industry profits as manufacturing could occur evermore quickly and at a lower cost, from less than \$2 for each vessel (Cook, 1990). The key point here is that the distribution of recorded music remains very much under the control of the majors. Their links to an audience remains strong while the audience remain disconnected from one another. As a result, the so called “Tower Man” (Dredge, 2011) continues to purchase physical products, as this is the only way that he/she may control the listening experience. In this instance, control equates to profit.

Several technologies (high speed internet, data compression, p2p file sharing, micropayments, mobile communications and non-volatile information storage) have made it increasingly hard for institutions to convert music into a rival good (Wikström, 2020, p. 91). Through these technologies, audiences have been transformed by increasing interconnectivity (Baym & Burnett, 2009, p. 24). Through the removal of certain barriers, fans become less dependent on traditional gatekeepers (Music Business Worldwide, 2016). As information can move more freely between consumers, the record labels are less able to control the avenues of distribution. To exemplify this loss of control, in 2015 BPI was sending more than 200,000 notices every day to Google to remove illegal links from its search engine alone (Taylor, 2015). This loss of control to digital media resulted in year after year of continued decline, with CD sales in 2008 down an estimated 27% on 2007 in the UK (Michaels, 2008).

The years that followed entailed numerous desperate attempts to return to profitability and regain control of the market. At one point, the independent sector became increasingly squeezed by majors who were decreasing the prices of their CD's to as little as £6.95 (Music Week, 2007). Legal downloads, through services such as iTunes continued to be the industries preferred direction. However, these services continued to present music as a product to be purchased for ownership (Wikström, 2020, p. 113). This is problematic as digital music fans do not have a “strong ownership habit” (Dredge, 2011). In the fight between free and paid, it was inevitable that streaming would triumph over downloads which proved to be only a temporary bubble (CMU Editorial, 2010). With the emergence of streaming, p2p file sharing decreased in popularity (CMU Editorial, 2009a). At the same time as streaming was recorded as accounting for 89% of all digital music sales in Sweden (CMU Editorial, 2012b), it was predicted that streaming would generate £696 million for the global

industry, an increase of 40% year on year (CMU Editorial, 2012c). This evidence suggests that technology caused the industry to lose control of traditional channels of distribution. As a result, the profitability of the industry shifted from predominantly product to service dependence. This alone does not prove a switch from the former to the latter. To argue that this is the case would be to ignore those elements of the industry which used to provide music as a service, and to ignore the parts of the industry which to this day provide music as a product. Both will be explored throughout the rest of this essay.

Music as a Service: Then and Now

Throughout this essay, I am arguing that the suggestion that technology has caused a switch from products to services is an oversimplification. One element of this is that the claim ignores the importance of providing music as a service before the internet and p2p technologies. The reality is that revenues generated from the licensing of music through media platforms has always been an important part of the music industry (Wikström, 2020, p. 95). In addition, music could be licensed to many media platforms for free because the promotional value of these placements would go on to stimulate sales of CDs and other products. The industry notoriously used to provide music for free to MTV because of the promotional benefit associated with the outlet (History, 2001). The value of this promotional use of music may have been substantial, with Dertouzos (2008) estimating that radio airplay was providing the record industry with between \$1.5 to \$2.5 billion annually in sales revenue. It is illogical to draw a major distinction between the licensing of music to a service such as Pandora for a fee and licensing music to national TV and radio stations for free. Both uses adhere to our definition of 'service', as stated at the start of the investigation.

The emergence of the technologies already discussed have certainly had a transformational effect on the service sector of the music industry. As physical sales dwindled, synchronisation royalties grew significantly since the turn of the millennium (Wikström, 2020, p. 95). An early example of this shifting dynamic can be observed in the events surrounding Moby's album *Play*, released in 2000. Despite never achieving any radio exposure, the album appeared on the pop charts after all 18 tracks were successfully placed in films, television shows and other commercial spots (Klein, 2008, p. 463). With regards to advertising, it is argued that the industry turned to this avenue as a method to remain in business despite the collapse of the traditional industry, while advertisers recognised a unique

opportunity to utilise artists to connect emotionally with their target market in a way they had never before (Eckhardt & Bradshaw, 2014, p. 167). We have seen this relationship replicated elsewhere to the same effect. The video game industry is one such area. Throughout 2020 Travis Scott collaborated with McDonald's, PS5 and reached more than 27 million viewers through his videogame shows for 'Fortnite' (Music Business Worldwide, 2021). Not long after and Post Malone has found himself in a partnership with Pokémon to help them achieve a similar reach (Stassen, 2021). We can deduce from the increased prevalence of such opportunities, that new technologies facilitated the growth of these areas. The evidence suggests that the rightsholders expanded their efforts in synchronisation and brand partnerships to compensate for diminishing returns on physical products. An interesting note to end on is the effect that new technologies have had on traditional services. In 2020, BBC Radio 1 recorded 8.8 million weekly listeners, its lowest listenership since records began (Silverstein, 2020). This suggests that the relationship between products and services within the music industry is not an either-or scenario. Rather, we are dealing with a complex web of shifting dynamics, significantly affected by new technologies.

The Persistence and Resurgence of Music as a Product

The suggestion that technology has facilitated an industrial shift from product to service presumes that the industry, the artists and the culture no longer relies upon physical sales at all. Once again, the reality is far more complex. While the industry was shaken by the introduction of p2p filesharing service Napster in 1997, the CD dominated the music market for a total of 26 years, right up to 2017 (Wikström, 2020, p. 79). In fact, after a steep decline in the early 2000's, physical decline slowed continuously right from 2009 up to 2016, when physical music sales were still double that of streaming (CMU Editorial, 2009b; Cooke, 2015a; Ingham, 2016). The physical sale of music has even returned to growth in recent years. In 2020, despite the effects of Covid-19 on retail, cassette sales doubled as vinyl continued its ascent by a further 10% (Cooke, 2020b). The cause of this growth is likely a stabilisation of the industry following the digitisation of the industry. Claire Pace (VP of people and culture at Discogs) and Vangel Vlaski (senior label manager at Proper Music Distribution) dispute the suggestion from the media that digital and physical are at odds with one another. Instead, they suggest that all systems of delivery are key, with the digital sphere aiding discovery and providing convenience, vinyl and cassettes enabling the collection of artefacts and the CD still providing a key practical function for many consumers across the

globe (Dredge, 2019). While digital downloads appear to be disappearing, their prevalence in the early years of the millennium muddied the water further. A digital download is not tangible; however, it is still a product, bought by a consumer to be owned. According to figures published by the BPI, in the third quarter of 2011, 28.2% of all albums sold in the UK were digital downloads (Music Ally, 2011). When you observe the continuation of musical products through downloads and the subsequent resurgence of physical records, it becomes difficult to assert that new technologies have turned the industry from a product to a service sector.

We must also briefly recognise other product-based aspects of the music industry. The merchandise sector, for example, has retained its prominence throughout the recent period of disruption. Metallica managed to sell over \$125 million worth of merchandise from 1991 to 2019 in North America alone (Richards, 2019). We also need to address the live music sector, whose growth can be noted in the increase in revenue generated for artists by PPL. Before 2009, it was doubted whether PPL would ever be able to generate £100 million annually (PPL, 2009). This figure has increased from £197 million in 2015 to £233.7 million in 2019 (PPL, 2015; PPL, 2019). Perhaps the lack of recognition given to the live industry in these discussions is the result of an uncertainty around whether live music counts as a product or a service. It follows that live music should be considered (in its current form) a product. The combination of ticket sales and venue capacity allow the industry to create an artificial supply deficit and therefore maintain control of profits (Wikström, 2020, pp. 89-90). It must therefore be concluded that despite the transformational impact of new technologies, the music industry has never ceased to be an industry which relies on the sale of products.

Continuing Industry Fluctuations

So far, this essay has argued that, rather than forcing a transition from products to services, the music industry could be viewed as a web of both products and services. Whereas products used to dominate the music industry, new technologies have enabled a shift in dynamics, so that services are now dominant over products. The next question to ask is where is this heading? Through the displacement of control, new technology creates an unstable situation, whereby the balance of today is not the same balance of tomorrow. Moreover, the industry is no longer in control of any future shifts. Wikström (2020, p. 167) writes:

These kinds of uncontrolled processes are no longer merely random flukes, but are slowly becoming more or less the norm of music promotion in the digital age.

What is true of promotion in this case, is also true of the industry. I will support this claim through several recent developments in the industry.

It is entirely plausible to observe that services could continue to increase their dominance over products. The COVID-19 outbreak has aided paid subscriptions to streaming services, with the US exceeding 2019's numbers by a \$1 billion (Dredge, 2020). The livestreaming sector grew 45% between March and April of 2020 (Stephen, 2020). In addition, the UTA has reported that 70% of those who have been accessing live streamed shows say they plan to continue doing so after the pandemic is over (Cooke, 2020a). While I have argued that the live sector survives through products, live streams bypass the issue of venue capacity, therefore falling under the remit of services.

It is however possible to imagine that new technologies enable an opposite shift, whereby products return to dominance. It has long been suggested that streaming could enable the growth of D2C services (Music Business Worldwide, 2016). This suggestion has been supported by Chris Cooke (2019) who reported that 'Kantar' had revealed D2C music sales to be up by 28% in 2019. In the midst of public anger at the way in which streaming companies pay artists and songwriters, one could look to the NFT boom as a potential direction for future developments. Through Blockchain technology, people have begun purchasing original copies of digital art for thousands of dollars at a time (Volpicelli, 2021). In a bid to further connect with their favourite artists, fans could potentially bid to own original recordings of their favourite tracks. With blockchain technology set to emerge from the 'trough of disillusionment' from 2021 to 2023, the continued growth of D2C and the removal of intermediaries is a growing possibility (Gartner, 2019).

All of this is merely conjecture. However, these contrasting examples have been used to demonstrate that the industry is increasingly fluid. As a result of continuing technological developments, virality is now the norm and consumer habits are what control the industry as opposed to the record labels. It is therefore impossible to accurately predict the future trajectory of the music industry and it is foolish to assume that the industry of today will be the same as the industry of tomorrow.

Conclusion

This essay has sought to discredit the claim that new technologies have turned the music industry from a product to a service sector. It has been acknowledged that new technologies have had a transformational impact on the landscape of the industry and facilitated a balance shift from a system which is dominated by products to one which is wholly reliant on services to thrive. However, it is evident that the music has always been, and persists as, a complex web of both products and services. It would be more accurate to observe that technological developments have facilitated the displacement of control from record labels to consumers. This has resulted in an unstable environment, whereby fluctuations and trends in music services and products are wholly dependent on the habits of consumers.

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