

Economics Planning and Finance - A Discussion of Sony Music

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Introduction:

In this project, I will be looking at the company Sony Music. It is an international company that is known around the world and makes billions for thousands of music industry workers every year. In my analysis I will be looking at not only the history and evolution of the company to from its beginnings at the start of the distribution of recorded music, to its place now as a global leader in the music industry, but also the way in which it operates with regards to legal matters, tax situations as a global company, the micro and macro economics of its running and how various lean business methods can be applied to Sony and work to benefit the company. I will also be looking at the impact that COVID19 has had on the music industry and how this has impacted Sony and their working methods, and whether this is pushing them towards a permanent change in their methodology of managing the company.

Brief History:

Sony Music is an American music publishing and distribution company. Founded in 1929, it is one of the oldest music companies in the world and is often referred to as being one of the 'big three', as it is one of the three biggest music companies in the world. Sony Music started its life as the 'American Record Company' and worked under that title for the first nine years, before it bought up the 'Columbia Broadcasting System' and changed its name to the 'Columbia Recording Corporation' in 1938. Through the 1940s, the company

continued to grow as it released music on the first LP records with artists such as Frank Sinatra in the mid 1940s.

In the 1950s, the singer and composer Mitch Miller joined the company and was appointed head of A&R. His signing of some of the most popular artists of the 50s such as, Doris Day, Tony Bennett, and Rosemary Clooney brought the company even more to the cutting edge of the music industry. There was even an attempt to purchase Elvis Presley's contract from Sun records, although they were eventually turned down for RCA. Columbia Recording Corporation, through the 50s and 60s were the most commercially successful non-rock music label, and in the late 1960s, they eventually started to have an impact on the rock music scene as well.

Before their eventual entry to the rock market, Columbia Records moved towards the growing folk music scene, by signing Bob Dylan, Simon and Garfunkel in the early 1960s. However, they still kept their eyes still firmly on the ever growing pop market and signed Barbra Streisand in 1963. It was only after Mitch Miller left the company in 1965 that they started to branch out even more and finally made the long awaited move to signing rock acts as well their staple pop artists. The company's new president, Clive Davies moved strongly to the rock market by signing Janis Joplin in 1967.

The following two decades, the company went from strength to strength, signing and releasing music for acts such as Pink Floyd, David Bowie, AC/DC, Kate Bush and The Rolling Stones.

In 1988, Sony Corporation bought the Columbia Recording Corporation and renamed it Sony Music, although 'Columbia Records' still existed as a subsidiary part of the company. The 90s were just as productive as the previous decades for the company, this time with an even more global outlook as technology made accessing and distributing music even easier and more affordable.

Sixteen years after the merger with Sony, in 2004 Sony and Bertelsmann Music Group created a 50-50 joint venture and became known as Bertelsmann Music group. Only four years later however, Sony bought up Bertelsmann's 50% stake and became Sony Music Entertainment.

While Sony had spent nearly 100 years as one of the leading companies in the music industry, it was not without controversy. In 2005, the company was forced to pay out \$10 million in fines due to being found guilty of Payola. Payola, is a way of gaining airplay for an artist or song by providing the radio or radio host with gifts or money in exchange for exposure for the artist or song. The 2005 Sony Scandal, consisted mostly of Sony using Payola to increase the airplay of the latest Jessica Simpson album. As a consequence of all of this, in 2006 the Federal Communications Commission in the USA launched an investigation into Payola practices in several hundred US radio stations.

Sony has also had another major scandal in the 21st century. In 2016, many people called for a boycott of Sony Music and Sony affiliated businesses when they and a court ruling

denied the artist Ke\$ha's request to terminate her contract with them after making a rape accusation against the producer Dr. Luke. As of 2020, this case is still not resolved.

In the last few years, Sony has once again branched out into a new music scene, Kpop.

Signing acts such as BTS, Monsta X B1A4 and A.C.E, and co-managing them with their Korean record labels.

Economics:

The music industry is a constantly evolving market, technology

never stays the same for very long in this industry and as a

result, the way that people make money is constantly

changing. One way of demonstrating this constant change

is by looking at the differences in physical sales of albums

over the last 40 years. At the beginning of the 1980s, the 8

track player was ending its reign of music and the CD was

starting to become more widely used. Vinyl was also

declining in use but it has never been fully out of use, as many people find that having a

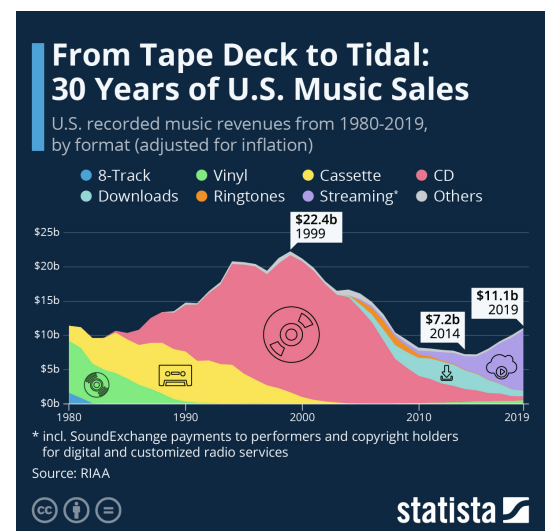
larger physical album as a collectors item along with the music to be very important to

them. CD became the dominant form for owning and playing music through the late 1980s

to the early 2000s where digital download and mp3 players started to take off. However, as

this chart from Statista shows, despite the clear dominance of digital music, people still

want to buy and own physical copies of their music and despite their almost non-existent



sales in the earlier part of the decade, there has been a small but significant resurgence in the purchasing of both tapes and Vinyl records.

So what does this mean for the music industry? Well, simply put, it means that the artists and the teams behind them can't afford to not be constantly watching and adapting to the newest way to access music. While it should be noted that looking towards the newest forms is incredibly important, it is also vital to watch the downward trends and where they are going. The Statista chart shows a small sliver of orange representing the purchasing of ringtones, while it would have been a good investment around 2005 when they were at nearly the same purchase levels as download music, it would be foolish for any music company to be putting major money into it as of 2014.

Keeping an eye on the ever changing market is something that Sony Music has done for the better part of the last 100 years. Their steps towards the folk music in the beginning of the 60s and towards rock in the latter half of the decade, show how the company kept its finger on the pulse of the ever evolving music scene. But over the last 40 years, the methods that we use to listen to music have changed drastically, and it is a challenge that Sony has had to face, which artists should sell both their music physically and digitally and which should forego the physical market all together.

Most importantly with music becoming increasingly globalised, Sony must make sure that they are not only looking at the market as a whole but how each country interacts with their music. Norway for example has one of the most developed streaming markets, "is the most

mature in the world, with a 78 % digital market share of recorded music. According to TNS Gallup (2014), Spotify is the dominating player, with 50% of the Internet population in Norway Q4 2013, while 21% of the Internet population is using WiMP Music”. Compare this with the South Korean music market and you will find that physical album sales remain fairly high and show no indication of falling, in an study by the ‘Korea Advanced Institute of Science and Technology’ they found that releasing the music as both physical and digital, it in fact had a positive result on sales. People that listened to the music digitally would go and buy a physical copy of the album and those who bought the physical album would stream the song using a digital platform as they could listen on the go and as most streaming services are subscription based, this was of no extra cost to the consumer.

The differences in markets across the world is something that all companies need to take into consideration but Sony has done so by co-managing acts with smaller companies, this allows Sony to invest their money where they know that they will get a good return but minimise the risks while also allowing the smaller and more localised companies and labels to have a tailor made marketing plan to their specific locations.

Major Competitors:

There are several major competitors to the Sony music company: Universal Music, Warner Music, Kobalt Music group and many leading technology and streaming companies.

Warner Music and Universal are the two biggest companies along

with Sony, the

three of them often referred to

collectively as the 'big three'.

'Universal' is the biggest of the 'big

three' with over 100 subsidiary

groups. In 2020 alone, it generated

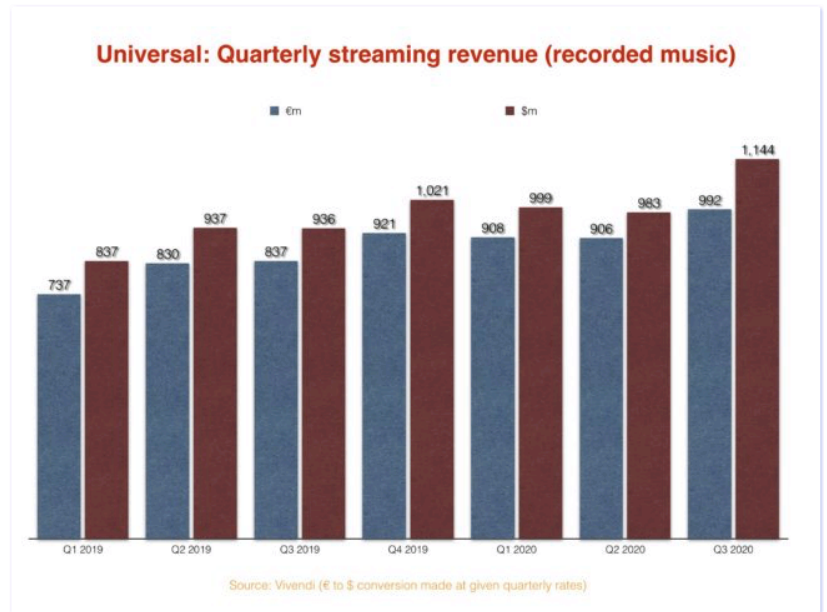
over 1 billion US Dollars just from

streaming. Universal hosts some of

the biggest names in the music industry including Ariana Grande, The Weeknd, Taylor

Swift and Rihanna. As with Sony, Universal has also branched out into managing the global

aspects of Korean artists as the global interest into K-pop grows.



These charts from Music Business Worldwide, show the growth in profits from streaming

that universal has made throughout the year. There are many thoughts about why this may

be, but the most widely accepted is that with more people off work due to COVID-19, they

have more free time to stream and listen to music.

Universal are on track to have made more than half a billion more in USD than they did last

year, but it is likely that this increase in profits is not a long term increase, as more people

go back to work over the course of the next year, there will be less time available to them to

stream music and the profits made this year will decrease. Although given the fairly

consistent growth that universal has seen in terms of streaming, it is unlikely that this

decrease will be a major blow to the company and will not reduce streaming revenue to a figure lower than its 2019 profits.

Warner music is another of Sony's main competitors and makes an equally big impact on the global music scene in the same way that Sony and universal do, also representing some of the biggest artists in the world such as Ed Sheeran, Madonna, Charli XCX and Camilla Cabello. They have many subsidiary groups and employ a very similar business model to that of Sony and Universal, focusing on co-managing acts from around the world, with smaller companies and bringing in huge amounts in streaming revenue.

Whilst the other two of the 'big three' are some of the main competitors to Sony, Kobalt Music is also considered to be one of the leaders in the industry, just behind, Universal, Sony and Warner. While the 'big three' operate in every aspect of the music industry from creating the music to publishing and promotion, (a benefit of having so many subsidiary companies), Kobalt is simply a publishing and rights management company. However, they are hugely important as they believe that artists can make a substantial amount of money through streaming, it's just that the streaming companies are not transparent. The founder of Kobalt believes that their invention will create ““transparency and accountability” [that] will empower artists. This dashboard grants artists access to the notorious “black box” of record label revenues and shows them where their music is played, who is paying -- and how much.”

This means that many artists who are not currently getting the full amount of money owed to them through people playing their music, would be able to significantly increase their revenue and be able to massively streamline the process of other companies gaining rights to play the song and the money coming back to the artist. "The portal also acts as a clearing house for synchronisation rights, a piece of music's use in films, TV shows or ads. "The other day, there was a request for my song 'Bangerang' from a French movie producer," says Moore, who approved the usage in the time it takes to download a song. "It shows the money offered and I just okayed it right there. It's happening in real time. You used to get this ugly PDF and it took months to okay."

While there are music companies that are the main competitors of each other, it is not exclusively them that are the major competitors of each other. Increasingly, technology companies are providing the competition to the major music labels.

The modern music scene is incredibly heavily influenced by streaming and the various streaming platforms. Many smart-tech companies are using this to their advantage, for example Apple. They have created a streaming service, Apple Music, which is similar to the likes of Spotify and has quickly become a major player in the streaming economy. The difference with Apple Music and Spotify however, is that Apple music is primarily aimed at and available to people who already own an Apple branded product and Apple Music is often used as an incentive to buy an Apple product.

Whilst many of the streaming services work in the favour of the music company, the ones created by tech companies also make money for them and there is an even smaller profit made by the company and therefore the artist.

Finance:

As with many of the big music corporations, Sony is rather private about its financial affairs, although there are some aspects that for legal reasons they do make public. In 2018, they published their financial targets for the next three years. Their plan was to invest far more heavily in streaming services and promoting their artists of streaming platforms. This turned out to have played heavily in their favour in 2020, as people streamed their music much more over the year and Sony saw a significant increase in income generated from streaming. This earlier investment towards streaming worked to protect them from the fall in physical sales over 2020. This will be directly connected to the COVID-19 pandemic that has seen countries all around the world impose various national and local lockdown measures, having a huge impact on the retail industry and affecting the sales of physical albums which are still often bought in person.

Also in 2018, Sony acquired a 90% stake in EMI, one of the largest publishing companies in the world, and in their statement, as put by Music Week: “The Japanese giant’s focus on the business philosophy of Kando (meaning “emotional involvement”) also underlines its commitment to music. “Sony will aim to create social value by giving people a sense of enrichment through the creation of a Community of Interest,” the company explained in its latest strategy document.”

This focus on community in 2018 has again played in the giants favour and helped them to weather the unexpected hurdles caused by 2020.

In 2020, despite the growth in streaming, “Sony Music’s recorded music revenues were down by 10.5% year-on-year in the second quarter of this year (its fiscal Q1) although its recorded music streaming revenues were up by 5.9% to \$640m.

Physical sales fell by 41% to \$118m, while ‘other’ revenues (which include licensing, merchandising etc) fell by 38.8% to \$82.6m.” So as with many business in 2020, even Sony is not immune to the economic impact of a global pandemic. There are many factors as to why Sony’s revenues were down this quarter but it is most likely to be tied into the lockdowns and the recessions caused by the pandemic. People are less likely to leave the house and shop for ‘non-essential’ items and music and music merchandise would both fall under ‘non-essential’. Also with people having much less disposable income due to losing their jobs or to being furloughed, they are even less inclined to go and buy extra music items. However, the same people will often have had a pre-existing streaming service subscription, and they can still access all their music without the price changing.

If someone is paying £9.99 a month to Spotify to stream their music, they may well, when the economy is in good shape, go out and buy the physical version of the album they are currently listening to for another £9.99, or merchandise for the artist at a similar price.

However, when the economy goes into recession as it has done over the last year due to the pandemic, people will cut out their less necessary spending. If they want to still listen to

their music, they will keep the Spotify subscription but stop spending on merchandise and physical albums.

With this theory as to the drop in Sony's physical revenue and increase in streaming revenue, it is likely that in the third or fourth quarter of 2021, we will see a bounce back from Sony's recorded music revenues, merchandise sales and even live ticketed events. This is provided that the projections for a vaccine for COVID-19 in the first quarter of 2021 are accurate. Whether, streaming revenue will simply stay this high or take a hit when people are more able to work and buy physical music, remains to be seen. It is unlikely but not implausible.

Lean Business:

Lean Business, according to Accounting Tools .com is a business model that is designed to "reduce waste in business processes." There are several aspects that make up the Lean Business Model but in essence it creates a reduced need for cash, while delivering higher quality products and often faster delivery to their customers. It is a particularly useful model for smaller or startup companies.

There are several methods that fall under the lean business model, and one of them is the 'Just in time production.' This is where items are only made when a customer has placed an order. "This means that batch sizes tend to be very small, since only the amounts immediately needed by customers are produced. This shrinks the investment in work-in-

process inventory and finished goods inventory." This also gives the benefit of reducing the cost of storing the items, as they are only made in small batches, there is no need to hire out large warehouses and that production errors can be spotted and fixed almost immediately and this results in the company paying less and the customers receiving higher quality items.

Another method of Lean Business is the Minimum Viable Product. This is particularly useful for smaller and startup companies. This is where a company makes a limited amount of several different types of product and releases them to the market place, they can see the reception to the products and which they should continue to manufacture or discontinue. "The result is a lower investment in product development, as well as less time needed to devise products that are accepted in the marketplace."

Another method of Lean Business is the Total Quality Management system, here "a number of tools are used to gradually improve operations throughout a facility. Examples of these tools are statistical process control, failure analysis, and product design control." This is not as instant as the previously mentioned systems, but it will gradually reduce the production, running costs and waste over time.

This is a method that could be implemented by Sony in the manufacturing of their products. It would be unrealistic to expect a company as large and global as Sony to manufacture using the 'Just In Time' method, they make a large amount of the money from early manufacturing and sending to distributors all over the world. One of their artists, Little Mix,

Just released their latest album, Confetti. This was widely anticipated by fans all over the world and as a result had to be manufactured in advance and sent out to distributors. As its initial release week went number one in charts all around the world, it would simply be unfeasible for them to make each order as it came in.

The Minimum Viable Product model may work for Sony when producing extra content to boost fan engagement with an artist. Creating merchandise or 'fan-meet' events can be made/done in a minimum amount to gauge the reception and see which they should continue with. It also works in Sony's favour as many music fans will often pay much more for a limited piece of merchandise so they may well be able to make a significant profit even on the items/events that they have chosen to discontinue.

However, because of the large scale of consumption of physical music in the music industry, it is very difficult for the companies that work with the most popular artists to implement either of the two previously mentioned methods of lean production. Which is why it would make most sense for Sony to follow the 'Total Quality Management' method to streamline their production. Here, the heavy personal involvement in every aspect of manufacturing the product and the clear focus on what the customer would ideally want from that product, allow them to cut waste and reduce costs. However, this method would not cut the costs as quickly as the other two but it would definitely be the most viable option for a mega-corporation like Sony.

Impact of COVID-19

In November of 2019, a new strain of the Corona Virus known as COVID-19 was reported in Wuhan in China. The disease quickly spread throughout the world causing many countries to impose strict measures on their populations in order to stop the virus from spreading. These measures have caused huge economic impacts across the globe as many of the restrictions that have been imposed, require people to work from home or to 'socially distance', which has changed the way that many people have approached their work.

The economic impact of COVID-19 has been huge, as many countries have imposed lockdowns which include a ban on buying 'non-essential' items. This has caused a huge impact on the hospitality and entertainment economies. "The hospitality and travel industry have perhaps been most hard-hit, with hourly workers facing potentially devastating hardships. Marriott International (approximately 174,000 employees) is poised to place tens of thousands of workers on furlough . Hilton Worldwide has also notified lenders on March 5, 2020 that they would be borrowing a precautionary \$1.75bn under a revolving loan to preserve money and to maintain flexibility "in light of uncertainty in the global markets"."

There has also been an unprecedented impact on global finance and manufacturing industries. "COVID-19 has affected communities, businesses and organisations globally, inadvertently affecting the financial markets and the global economy. Uncoordinated governmental responses and lockdowns have led to a disruption in the supply chain. In China, lockdown restrictions significantly reduced the production of goods from factories,

while quarantine and self-isolation policies decreased consumption, demand and utilisation of products and services”. This impact on manufacturing will have a knock on effect to many other economies as well.

The impact that COVID-19 has had on the music industry is huge. The implementation of ‘social distancing’ meant that it was nearly impossible to host live music events and when lockdown was introduced in many countries, it then meant that live music events were now impossible to hold. But the further restrictions on only working from home, made it incredibly difficult for many musicians to meet with their bands for rehearsals and much of the meetings that would normally take place face to face, were moved online to video calls. For many industries this would be a hurdle but not an uncrossable one. However, in the music industry where so much of what is made requires face to face contact, as many creative industries require as well.

While it is true that some of the more business related aspects of the music industry are able to move online, and even some creative aspects, the creation of a musical product from start to finish requires a lot of work where people are required to be in specific locations. Using a typical pop release as an example for this; a promotional photoshoot will require stylists makeup artists and the photographer to come into close contact with the artist, then with a music video, even more people are required to work with each other.

Of course in a global pandemic, the precautions that governments have put in are necessary to keep the public safe. However, these restrictions have had a huge negative impact on the Music Industry.

The impact that the COVID-19 lockdowns have had on manufacturing has also had an impact on the music industry. Although not as big or noticeable as the lockdown and social distancing measures that were introduced, the impact on manufacturing has impacted the music industry by slowing the production of physical items; which many artists rely on to make their money.

The music industry relies heavily on the live events and selling of CDs and merchandise for income to not only artists but everyone involved in the supply chain as royalties are paid out quarterly.

There is no way to understate the impact that COVID-19 has had on the global music industry but during the writing of this project, two companies, Pfizer and Moderna have both released statements saying that they have managed to create effective vaccines for COVID-19. Hopefully this will start a turning point on the economic impact of COVID-19 and the music industry will begin bouncing back in the second quarter of 2021.

Conclusion

In conclusion, there are many factors that impact the micro economic environment of Sony Ent. from the varying business models available to them to streamline their production, to

the impact of COVID-19, their investment and purchasing of large stakes in other companies to win a monopoly on the music industry. Sony is a large company and that has allowed it to weather the many crises of the 20th century and it will weather the COVID-19 pandemic as well. This doesn't mean that it has not dealt Sony a heavy blow with the company having to cancel its live events and tours over 2020. However, the upcoming vaccine will allow for a bounce back in the music industry which will benefit Sony and their artists. As for what the future holds for the company, it is difficult to predict, but it looks as though it will continue to grow and maintain its strong influence over the global music scene.

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