



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

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INTRODUCTION

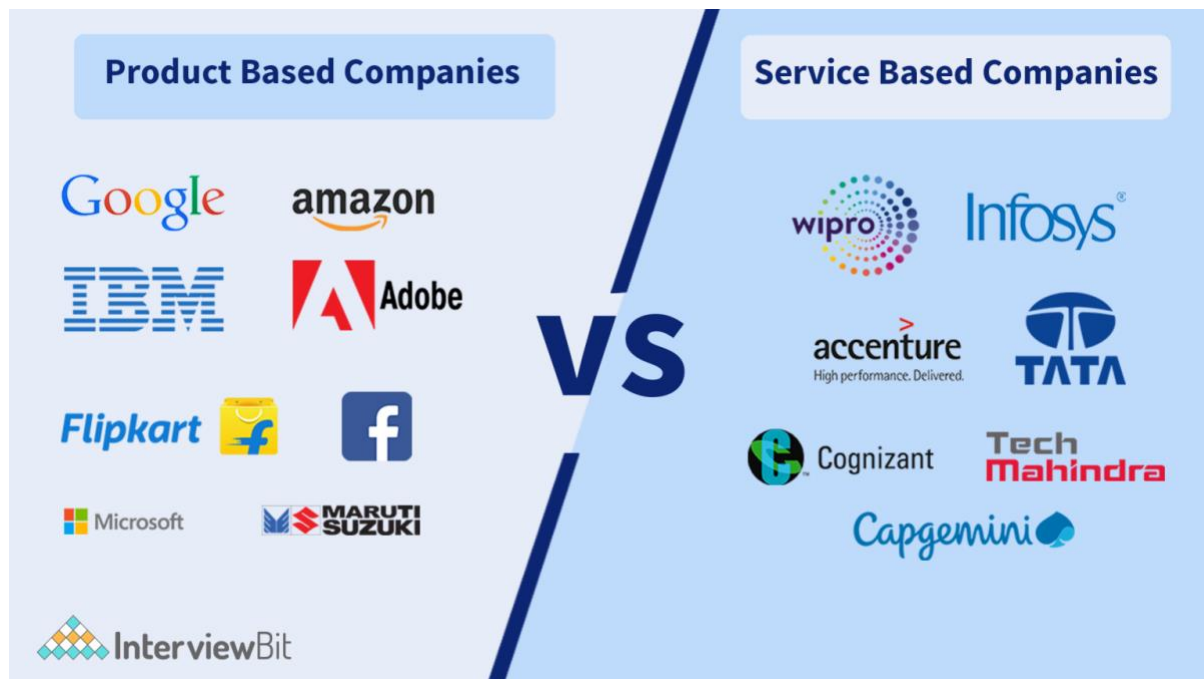
In my attic is the evidence of my obsession with music. Boxes and boxes of vinyl records, cassettes and CDs, which very rarely see the light of day. Every time we have a clear-out my wife beseeches me to get rid of them. I came very close once, registering them all for sale on the Magpie app, but cancelled the whole transaction after hours of scanning barcodes on my iPhone, disgusted that forty years of music collecting was being valued at £45. “I’d rather keep them in the attic than give them away” were my final words on the subject. Not only does this anecdote encapsulate the stubbornness of man it also absolutely illustrates the nature of the music industry as a product-led business.

The title of this assignment states that new technology has turned the music industry from being product-based to service-based. I hope to evaluate this statement by looking briefly at the history and development of the music industry and examine the technological changes that have occurred, particularly during the last twenty years.

It would be useful to first clarify what we mean by product-based and service-based and the fundamental differences between the two contrasting models.

By product, we mean something that people buy from a business. They can be physical (or tangible) such as phones, pizzas, furniture, or cars, or virtual (intangible) such as software, a hotel room or an insurance policy.

A service on the other hand is an activity that is carried out by the service provider. They include design, management consulting, hairdressing, and financial advice. (Miller, 2020)



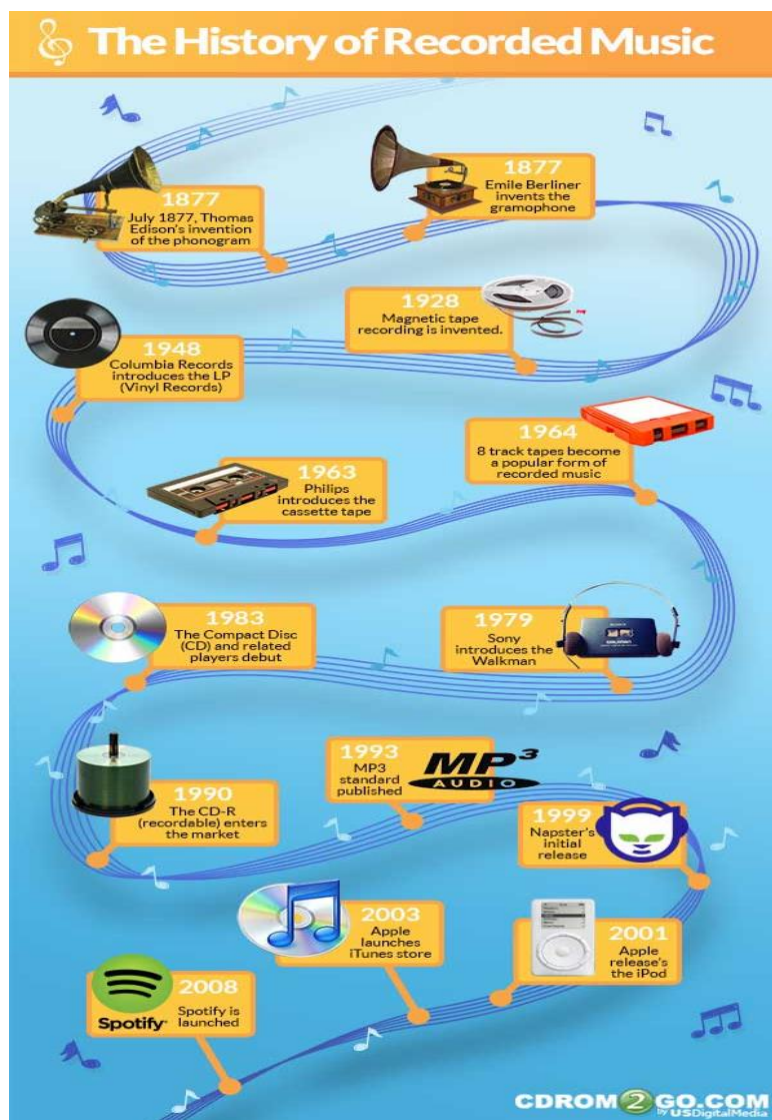
(InterviewBit, 2022)

A BRIEF HISTORY OF THE MUSIC INDUSTRY

From the very beginnings of the music business in the 15th century, companies in Europe produced paper based sheet music (incredibly that medium is still an important source of revenue in the 21st century (worth \$233 million in the US alone, though the market is now split between paper and digital)) (IBISWorld, 2023). They were music publishers, but back when publishing meant nothing more than printing.

The nature of the business remained significantly unchanged for centuries until the creation of copyright law, beginning with The Statute of Ann in 1710, “widely regarded to be one of the first full copyright laws...it laid the foundations for centuries of copyright law across the UK and the US.” (The Guardian, 2017)

Thus the business of the music publisher, previously a product-driven business with the manuscript as the product, grew to incorporate the protection of the author’s copyright, a service. So we have an example from the early days of the music industry where a music publisher is a hybrid product and service based company.



(The History of Recorded Music, 2022)

As well as legal changes, technological advances also brought change to the industry. Manuscripts were supplanted by music recordings in the late 19th century and recordings have been the basis of the industry ever since, though the format has evolved and changed several times, through the phonograph to shellac / vinyl to tape to digital.

Early products were scarce as they were expensive and only affordable by the very wealthy and it wasn't until the 1930s that 78 RPM shellac disc recordings began to shift in significant volume.

It was in 1948 (known as the dawn of the LP) when the first 33 and 45 RPM records were produced made from the new material Poly Vinyl Chloride (PVC) that could hold an album's worth of songs (hence the term Vinyl).

"It was the LP, which could hold over 20 minutes of music on each of its two sides, that revolutionised the way music was recorded and released" (Holdener, 2022).

Whilst technological change has been a constant from the era of the industrial revolution, the pace of change has been increasing. "Civilizations advance by 'repurposing' the ideas and breakthroughs of their predecessors. Similarly, each generation of technology builds on the advances of previous generations and this creates a positive feedback loop of improvements...because each generation of technology improves over the last, the rate of progress from version to version speeds up." (Berman, 2016)

This pace of change can be demonstrated by the shelf-life of the music format: Radio broadcasts have been around for a century, Vinyl has lasted almost 75 years, CDs 40 years.

Whilst the evolution in recording formats led to improved sound quality, reduced costs and better durability, their impact on the structure of the music industry was limited. Record companies continued to fund the recording process and to own the end results, and to distribute the end product to the buying public. It was digitalisation that wrought the radical changes that we are witnessing today, and fundamentally changed the business model.

DIGITALISATION

Up until the invention of the CD in 1982, music was recorded in analogue. Converting the analogue sound waves into digital was the crucial first step, but at this stage the internet did not exist and therefore the distribution channel was absent, so this new digital technology had to be distributed in the same clunky way as its predecessors, physically to the consumer via stores.

When the internet was in its infancy, utilising dial-up lines, music files could be transferred electronically, but the speeds and bandwidths available made this impractical.

It was the advent of the mp3 file format that heralded the full digital ecosystem we have today. The mp3 was invented at the Fraunhofer Institute in Germany in 1991 and allowed a song to be compressed to only a tenth of its original size. This feature made songs easily portable -

opening up the possibilities of transferring songs quickly across the internet and of storing large collections of songs on mobile players.

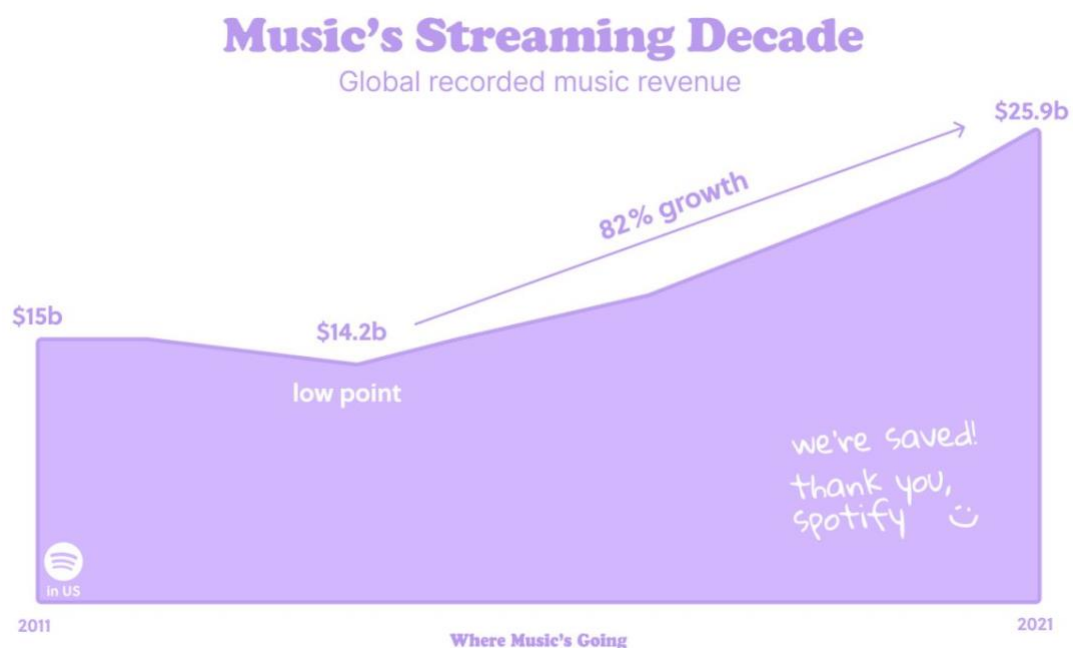
Once we had the trinity of technologies together – the digital file, the compression algorithm and the internet protocol (TCP/IP) the digital revolution within the music industry could begin.

Initially, the new era mimicked the old, though without a need for physical distribution, costs for the record labels were drastically reduced – no raw materials, no factories, no trucks and no shops. Music fans bought their music from iTunes for much cheaper than they had bought CDs and it seemed as if a rare business symbiosis had occurred where the buyers and the sellers were both happy with this new relationship.

With this ease of digital transmission came the inevitable rise of digital piracy – commonly available software that was used to rip tracks from CDs so that owners could transfer them to their digital players, would be used indiscriminately. In more innocent times, we took our cassette players round to a friend's house and made a copy of a tape or recorded our favourite songs from the Top 40 show on a Sunday evening. In the digital age we downloaded anything we wanted from BitTorrent or Napster.

Napster, with 80 million monthly users in 2001, faced legal action for copyright infringement and was ordered to pay \$26 million in damages. And despite the founding members of The Pirate Bay being jailed in 2009, music piracy remained a major issue for the industry. This eventually led to the emergence of digital streaming platforms like YouTube, Pandora, and Spotify

“Streaming saved the music business and created a much-improved landscape for recording artists...before streaming, and despite the best efforts of iTunes, the digitalisation of music had led to wholesale theft. The global industry was contracting. It was thus risk averse, and this made it harder for any new artist to attract investment and break through...Then Spotify appeared, and things very quickly got better again” (Collinson, 2022)



(Abelow, 2023)

On the other hand Shira Ovide (2021) writing in New York Times claims “The big winners are the streaming services and the large record companies. The losers are the 99 percent of artists who aren’t Beyonce’s level of fame. And they’re angry about not sharing in the music industry’s success”.

The mp3 was the dominant format for only a decade before we gave up on ownership of the music and settled on being able to just listen to the music, like we did with early radio. The difference of course is that we no longer have to listen to what the radio stations want us to – we literally have almost the entire back-catalogue of all songs ever recorded available to us.

With the dominance of the streaming platforms, the music industry has shifted its focus from selling physical products to offering unlimited music as a service, and this has led to a shift in the way that record labels generate their revenue, with a greater emphasis on recurring revenue from subscription fees rather than one-off product sales.

No matter what the technology is, the purpose of a record label is the same as it always has been, to find talent, to discover repertoire, and they typically invest millions in trying to do so. Despite this, it is often perceived that the business model is biased against the talent

Fred Bolza VP Strategy, Sony Music “We’ve become much more service oriented in our mentality, thinking a lot more about what specific set of needs does this particular artist require to commercialise their art”

(Balls and The Economist, 2019)

Whether technological change has turned the music industry into a service based business is hotly debated, what is indisputable is how many new services are being created, mostly with a technical focus.



Take Kobalt for example.

The company was founded in 2000 by Willard Ahdriz with the intention of enabling artists and writers to disrupt the traditional music publishing model by creating technology “To take the music industry into the digital age. We want to make everything transparent open and fair, which doesn’t sound like a big thing but in the music industry that’s quite a revolution” said Sam Winwood, their Vice President at the time.

(Balls and The Economist, 2019)

With the initial flurry of streaming services taking off, it became impossible to track usage globally across all these sites. Kobalt were one step ahead with their tech platform, which aggregated all the information and presented them to the artist via the Kobalt Portal and ensured they were being paid the “percentage of a cent” they were due, the tiny micro-payments that streaming had created. This level of granularity was beyond the traditional technology being employed by the Performing Rights Organisations such as PRS, GEMA and ASCAP and so enabled the company to gain a competitive advantage.

“KTech is the reason we can collect more money faster and give you unparalleled access to your data. This one-of-a-kind proprietary rights and content management platform helps us efficiently track, collect and maximize royalties for Kobalt creators. KTech’s robust data processing power handles billions of micro transactions with efficiency, and scales with increasing demands. KTech’s technology platform allows content companies to efficiently collect, process and account for the billions of micro-transactions in today’s complex digital landscape.

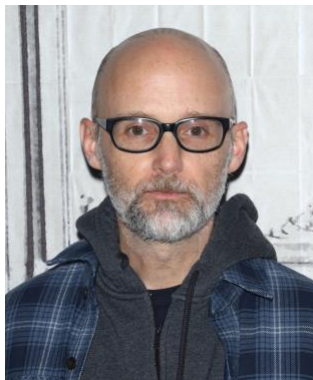
(Kobalt Music, 2023a)

The firm has now grown to being one of the largest publishers outside the Top 3 (Universal, Sony, Warner Chappell) and has managed to prise away an impressive roster of clients. The band Snow Patrol for example, saw a 23% increase in revenue since switching to Kobalt (Billboard, 2009). They keep pushing and improving their technical offering, staying one step ahead of the competition:

CONCLUSION

It is undeniable that technological advances have had a huge impact on the music business, particularly over the last twenty years. The question that was posed at the beginning of this essay was, have these advances transformed the industry from being product based to service based. Whilst I have illustrated how some of these changes have created new services within the sector, and transformed the delivery of music into a service, I still believe that the industry consists of both product and service providing companies, as it always has, and that at its core the industry still revolves around the one true product that is at the heart of the business – the song.

As the artist and music philosopher Moby said, “Nothing is bigger than the music itself”.



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