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MA Music Industry Entrepreneurship

**New Technology in Music and Creative
Entertainment**

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

Introduction

The music industry has always been unique in its versatility, with many business models working to find the best way of exploiting music as a financial asset. In recent years, the industry has undergone a huge transformation with the backdrop of the digital era. Since the late 90's and early 2000's, the industry has been trying to adapt to the effects of new technologies and use them to its advantage. The massive impact of new technology in the digital era has been exemplified by the recent dominance of streaming services when it comes to music consumption which has led to the industry becoming a service-based sector. However, although the consumption and distribution of recorded music are now supplied as a service, artists and labels have been re-positioning themselves to offer both service and product to their customers in a comprehensive, holistic approach.

Product Sector to the Digital Era

In the past, music has been created and consumed in countless ways – it has been a part of human nature and communication for millennia. In Western culture, music eventually became something that 'musicians' performed as a service to entertain others, rather than everyone participating together:

Virtually no one alive today remembers a time before vast, personal record collections, a day when music could be experienced only in the moment in which it was performed. But that is exactly how it was experienced for thousands of years before Edison. (Doydon, 2013)

Eventually, *"When the phonograph debuted in 1877, the traditional service of music (live performance) was transformed into a product (recordings)"* (Doydon, 2013). This invention would pave the way to create the product-based music industry where people could 'own' and make collections of their own personal music catalogues. The ownership created a sense of identity and a physical connection between the music and the consumer. This model mirrors a typical business in the climate of capitalism: the artist creates music as their product which is then sold to the customer.

This business model of 'selling music' was stable and continued reliably for a long period of time. However, in the 1990's, the development of .mp3 compressed audio files alongside the rise of the internet had created an under-the-radar marketplace for distributing free music that caught the industry off-guard. Knopper notes that "nobody in the record industry had a clue any of this was going on... didn't know MP3 existed, let alone that it contained no copy protection." (Knopper, 2009). He continues to explain how the industry's realisation came about:

“The dam broke in late 1997, when entrepreneur Michael Robertson created MP3.com, a hub for finding free music on the web.* The media started to notice, as “MP3” displaced “sex” as the most-searched-for term through internet search engines such as Yahoo! and AltaVista.” (Knopper, 2009)

The internet culture of sharing music for free had already gained too much traction to be prevented by the time the main stakeholders in the industry had noticed. It was then popularised en masse by the rise of Napster which facilitated the downloading of free music on a huge scale.

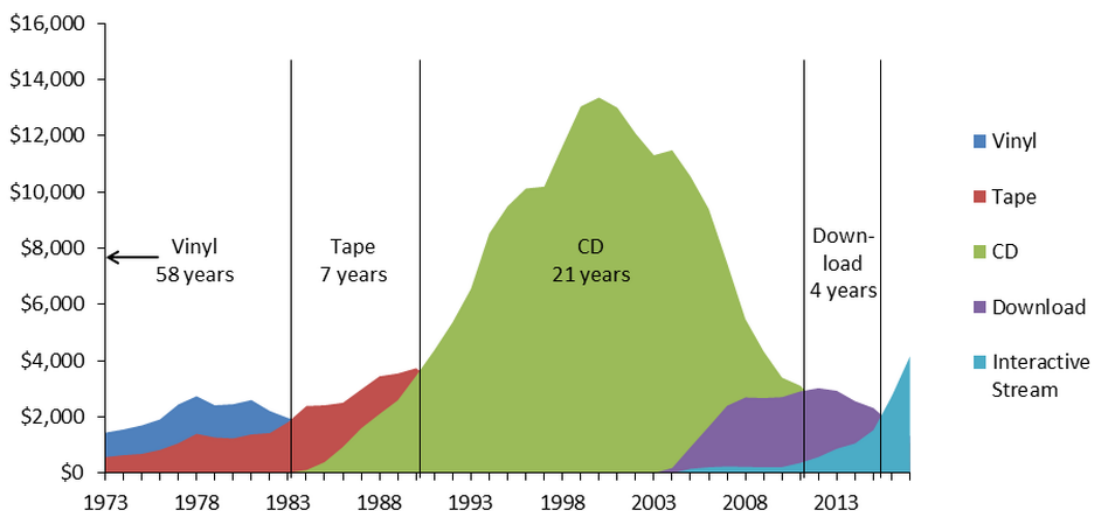


Figure 1 - Rosenblatt: *The Short, Unhappy Life of Music Downloads*

Eventually the industry managed to respond to the issue with the launch of iTunes, which provided a legitimate, legal means of purchasing music digitally. Whilst the major record labels were set up to benefit financially from iTunes, Apple had a different motive:

Steve Jobs' agenda was not to make money off 99-cent digital songs, although they were a nice additional source of revenue. He used the songs to profit from expensive iPods. Labels made exactly zero dollars for every iPod sale. Not only that, record execs noted ruefully, there was no chance music fans were filling their 80-gigabyte iPods with 20,000 songs they'd bought for 99 cents apiece or ripped from their CD collections. Surely pirated music had something to do with the booming iPod sales as well. (Knopper, 2009)

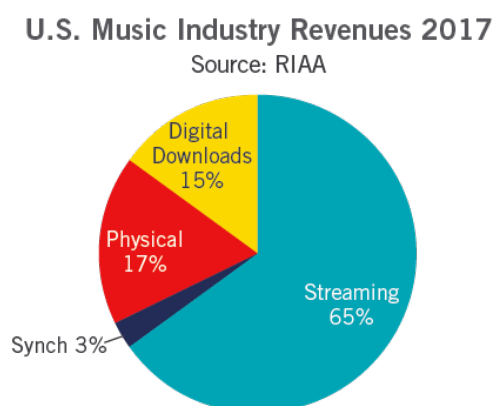
The other issue labels had with iTunes was its reluctance to sell albums exclusively as a whole and made each track available individually. This was arguably the pre-cursor to the micro-payment economy that the industry is currently in.

Streaming and the Service Sector

Although iTunes helped to alleviate piracy, downloading music for free was still exceptionally popular on the side. In 2008, an innovative idea was launched that would allow consumers to listen to whatever music they liked for free and without the hassle of downloading. Supported by advertiser revenue, Spotify simultaneously created a viable competitor to both iTunes and illegal downloading by offering what users wanted – unlimited, cheap and user-friendly access.

With the rise of Spotify, and music streaming in general, consumers of music now have unlimited, on-demand access to almost every released song in the world and have several options in how to subscribe to this broad access. In contrast to the Film and TV industry, where Netflix and Amazon Prime compete with exclusives and originals, all the major streaming platforms are competing against each other with the same content. Therefore, their distinguishing factors can only come down to price, user experience and brand loyalty.

The move into subscription-based business models has arguably saved the music industry. In 2017, revenues from streaming accounted for 65% of all revenues in the US market (Friedlander, 2018) helping the industry reach total revenues last seen in 2008 (IFPI, 2017). This uplift in the industry financials has been provided by a transition to a service-based sector for recorded music, facilitated primarily by Spotify and other platforms.



The new service sector has not only changed the way people consume music but has also transformed the way artists are paid. In the previous model of product to consumer, sales were relatively simple – once a CD is sold, the revenue is divided into the various percentages each stakeholder has a right to. An artist's success was also primarily based on how many sales they had achieved.

With the new model the way everyone gets paid is more confusing and less transparent, where each streaming service has a different deal with each label and distributor, and the 'royalty per play' figures are affected by several factors, including what payment plan each

listener is subscribed to. The new system has caused a passionate argument about whether it's treating artists fairly or not, citing the fact that Spotify pays less than \$0.01 per track play. However, a significant difference between the product and service sector is that selling music in a physical format is more of a short-term benefit, whereas the new model can provide huge benefits in the long-run, if tracks continue to be played over months and years. There is also an argument that being paid a little is much better than being paid nothing at all:

As much as we disagree with Spotify over their rates and PR spin on several issues, we also recognize that they are legal, licensed and pay out royalties as they have been negotiated. Artists are able to opt out of Spotify individually (and also if their label permits). It is for these reasons that Spotify are NOT the enemy.
(Dredge, 2013)

Another perspective is that many streaming services offer huge amounts of data to artists about their music which can be exploited to promote everything else that they're selling. When an artist sells a CD, they don't get any data except at the point of sale. With streaming, it's possible to see what tracks are played most, skipped most and where in the world they are most popular. This data can be used to inform marketing and advertising to promote new releases in the future, live shows and merchandise sales. Robley notes that you can *"find out where your fans live so you can route smarter tours and concentrate radio promotion efforts on the right markets"* and analyse demographic data of artist's actual audience instead of just guessing (Robley, 2017). This data is a hugely important asset and allows artists to fully unlock the potential of their brand.

Physical Sales:

Despite the prevalence of streaming in recent years, physical sales have not been written off in the way many people expected them to. Vinyl is making an unexpected comeback and CD sales are still being bought on a significant scale. Kim Bayley, chief executive of the ERA, said a physical product was most popular when it "offers something distinctive and additional to the content, whether it be the tactile experience of vinyl or the simple fact that physical objects work well as gifts" (Fildes, 2018). The physical market has undergone a change where it's being consumed differently. Instead of buying physical formats to discover new music or to listen in general, it's a purchase made on more of an emotional level – people still want physical product from artists they love to support. Furthermore, a CD or Vinyl works much better as a gift than a link to Spotify. Somewhat illogically, the only sector that streaming seems to have killed off is digital downloads – which generated a revenue smaller than physical sales in 2017 (Friedlander, 2018)

Another form of selling physical product in the music industry is through merchandise. By creating a strong brand profile, artists are creating new revenue channels to compliment income from recorded music:

It's about extending an artist's brand through a global program of different consumer products. It's important to learn from other industries where they have tapped ideas around merchandising being a prominent marketing vehicle and being able to help build your brand. (McIntyre, 2017)

Live Sector & The Future

Interestingly, the live sector of the music industry has not been disrupted in the same way by digitisation and whilst a live show is technically a 'service', it is regularly sold as a product. Many artists now sell albums and merchandise in a bundle deal that includes a ticket to a gig, generating extra revenue and providing more value to their customers.

There are a few examples of businesses trying to implement the subscription business model into the live industry. One of these is *Jukely*, which charges £25 a month for unlimited access to the shows it affiliates with. This hasn't proven to be a viable business model and seems to just about stay afloat by being propped up by investors, after raising \$11m. Michelle Shevin wrote a scathing review of the service after being a long-time customer, stating:

"Their rampant and transparent quest for saleable metrics to show their investors [...] at the expense of the user experience for loyal customers is inexcusable"
(Shevin, 2016)

She goes on to slate the platform's treatment of its users further:

"the snarky mass emails, near-constant disappointments, sub-par production, and blatantly discriminatory algorithm are bad enough. But taken as a whole, the pattern spells doom for the four-year-old company."
(Shevin, 2016)

Whilst the service is still running and available to sign up to, *Jukely* isn't showing signs of improvement, adding a cap to the amount of shows users can attend depending on what subscription tier a user is on. The business also doesn't seem to have any high-profile events to show off and potential users can't even view the events they could get access to until they sign up for a 2 week 'free trial'. Whilst the concept of *Jukely* might be a nice idea, it's implementation is clearly flawed.

Recently, *Sofar Sounds* opened up a membership scheme to its existing users that offers half price tickets to all their shows, alongside invites to "special events" for £18 a month. Whether this will work better than *Jukely's* business model will depend on how much value customers attribute to the offering.

The Future and New Technologies

Looking to the future, there are plenty of innovative technologies that have the ability to disrupt the music industry. While it's unlikely that any of these will have the same effect as moving into the digital era, there is a potential to fix many of the problems that the industry is still facing. Blockchain, in particular may come to help solve issues relating to Digital Rights Management. If the technology becomes simple enough to use for mass adoption, the solutions it could provide could revolutionise the back-end of music recordings.

On the consumption side, we have begun to see more playlists curated by Artificial Intelligence rather than humans. This may start to challenge radio markets even more if consumers don't feel the necessity for human involvement in their discovery of new music. Artificial Intelligence may also have a role to play in the actual creation of music with the progress of Aiva Technologies:

“They have created an AI called “Aiva” (Artificial Intelligence Virtual Artist) and taught it how to compose classical music – an emotional art which is usually considered to be a uniquely human quality. Aiva's musical pieces are used as soundtracks for film directors, advertising agencies, and even game studios.”
(Kaleagasi, 2017)

Technologies such as AI can be met with a significant amount of distrust from consumers and creators and this will be a problem that needs to be fixed before it is adopted on a larger scale.

Conclusion

In conclusion, although the consumption of recorded music has moved more towards a service sector, plenty of the music industry is still product based, just in a different form to what has occurred previously. With artists now relying on sales of merchandise, synchronisation deals and live shows to make money, instead of selling one product – ‘the music’ – artists are required to provide a holistic service that includes unlimited access to the music that is created alongside the ability to purchase products that offer an affiliation or emotional attachment to their brand. With industry move into a service sector, artists have more opportunities than ever before to unlock their full creative potential.

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