

Has new technology turned the music industry from a product to a service sector?

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Introduction

When analysing the music industry over the last few decades, it is apparent that the music industry has undergone several seismic changes. For many reasons, what was recognised and accepted as a profitable product industry in 2000 became a vibrant and unstoppable service industry. Technological advancements have significantly transformed music creation, distribution, and how users consume the products. With the proliferation of digital platforms, streaming services, mobile technology, and the widespread availability of high-speed internet, music has become more accessible, transforming the industry from a product-based model to a service-based model.

Consumers can now stream music online, create custom playlists, and share their music with others without purchasing physical products like CDs or vinyl records. To understand why and how this occurred is to analyse the role various technological and social factors played in making this revolutionary leap happen.

This analysis would include highlighting the actual differences between a product-based music industry and its subsequent transformation to a service industry; outlining an overview of the industry's recent history; exploring the first indications of change with the emergence of digital music; examining the rise of streaming services; investigating the impact of mobile technology and indicating the implications of these significant changes.

By following this process, an effective conclusion can be reached, namely to answer the question, has new technology turned the music industry from a product to a service sector?

The product-based music industry

Firstly, a definition of the difference between product and service industries is required. Simply put, a product industry generally sells tangible or concrete items, something physical consumers can hold. In contrast, a service industry is typically intangible: something that can be provided, created or performed for another person. With this in mind, one of the most significant changes in the music industry in recent years is the shift from physical products to digital services. The traditional music industry was formulated by producing and distributing physical effects such as vinyl records, CDs, and tapes. The industry relied on a few major record labels to produce and distribute the products, with artists signing contracts with these labels to release their music. Major record labels controlled music production, distribution, and marketing, and artists received a small percentage of the revenue generated from their music sales.

This product-based model was standardised by the major record labels dominating the industry, with independent artists needing to be signed to record labels for their music to be heard. This model needed to be faster to change, but the record labels resisted new technology. Subsequently, this led to the emergence of piracy and illegal file sharing. According to Investopedia (Hayes, 2001), copyrighted music was downloaded without paying for the material or having the copyright holder's permission with

(P2P) peer-to-peer file-sharing networks, such as uTorrent or Napster. Once downloaded, these files could be re-uploaded on the same or different P2P networks, gaining a wider audience but further facilitating the unauthorised and illegal distribution of the copyrighted work.

The service-based music industry

The service-based music industry is characterised by music distribution through streaming services, with artists and labels earning revenue through monthly subscription fees and advertising revenue. The rise of streaming has led to a democratisation of the industry, with independent artists able to distribute their music to a broader audience without the need for a major label. The service-based model has also led to a shift in power dynamics in the industry. Streaming services now have colossal power in the industry, with major labels and artists vying for playlist placements.

Recent history of the music industry

In the past, the industry primarily focused on selling physical products like CDs and vinyl records. The rise of digital technology and the internet disrupted traditional music distribution and consumption models. In the early 2000s, the development of MP3 technology and the height of the internet paved the way for digital music distribution. Consumers could now buy music digitally online and download it to their devices, bypassing the need for physical products. The widespread adoption of

peer-to-peer file-sharing networks had a huge impact on the industry. It led to a decline in physical music sales as consumers shifted toward digital downloads and streaming. In response to these changes and the loss of revenue for record labels, the industry began to embrace digital distribution channels and seek new revenue streams.

First indications of change

However, the launch of iTunes in 2001 and the subsequent rise of digital music stores helped establish a legitimate market for digital music downloads. Streaming services such as Spotify and Apple Music have become increasingly popular in recent years, and the focus shifted to providing consumers with digital content through subscription-based services. This shift has had several implications for the industry. For one, it has made music more accessible to consumers, particularly younger generations, who are more likely to consume music through streaming services rather than physical media. It has also significantly impacted how music is produced and marketed, with artists and labels focusing more on creating digital content and engaging with fans through social media platforms such as Instagram and TikTok. Another significant change in the music industry due to new technology was the rise of independent artists and DIY music production. In the past, the industry was dominated by a few major labels - it was a product-based industry – but with the rise of digital platforms such as SoundCloud and Bandcamp, independent artists could now produce and distribute their music without needing a major label, turning the industry towards being more of a service industry.

The Rise of Streaming Services

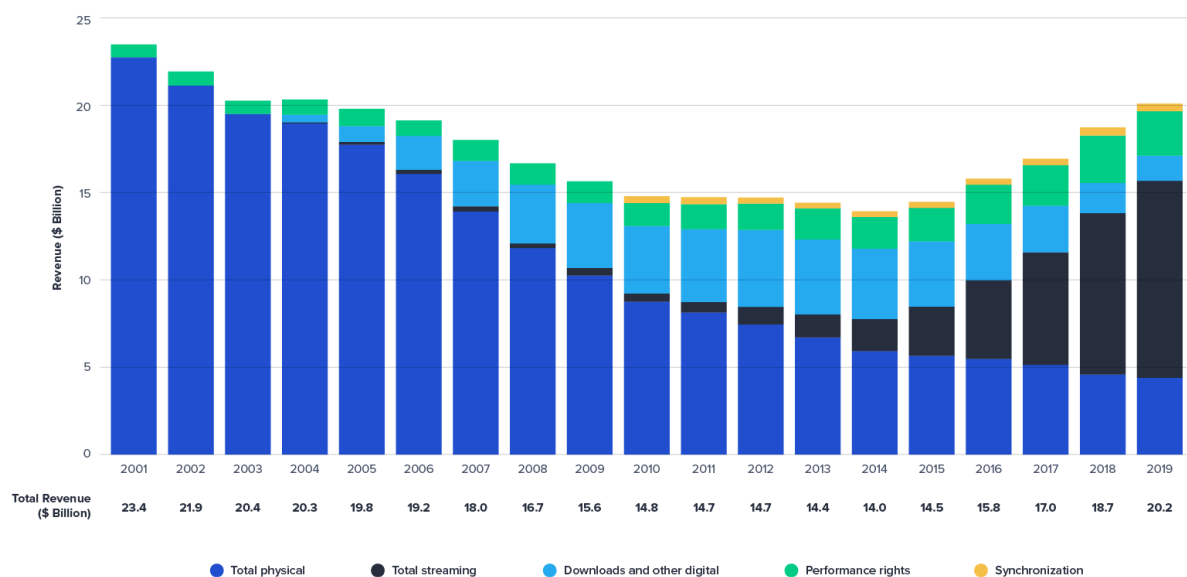
The rise of streaming services such as Spotify, Apple Music, and Tidal has also transformed the music industry from a product-based model to a service-based model. When analysing the 2021 study into the impacts of music streaming (Canadian Heritage, 2021), we understand that streaming services allow consumers to access a vast music library for a monthly subscription fee, eliminating the need for physical products or individual song purchases. Streaming services have democratised the music industry, allowing independent artists to distribute their music to a broader audience without needing a large label. Artists can now upload their music to streaming services such as Spotify and earn revenue based on the number of streams their music receives. The service-based model has also led to a shift in power dynamics in the industry. Streaming services now significantly influence the industry, with major labels and artists vying for playlist placements and promotional opportunities on these platforms. The rise of streaming has also led to a decline in physical sales, with major retailers such as HMV and Tower Records going out of business.

The Impact of Mobile Technology

The rise of mobile technology has further transformed the music industry, allowing consumers to access music on the go. Mobile technology has allowed for greater convenience and accessibility, with consumers able to stream music on their smartphones and tablets. The impact of mobile technology has also led to the emergence of new forms

of music consumption, such as social media platforms like TikTok and Instagram. These platforms have become essential marketing tools for artists, with songs going viral on TikTok, leading to considerable increases in streams and sales. According to the details in the IFPI 2020 annual Global Music Report (International Federation of the Phonographic Industry, 2020), since 2015, streaming revenue has grown globally at a 42% compound annual growth rate (CAGR), while the combined recording industry's growth is 9% CAGR. The chart from IFPI below details the industry's revenue composition evolution and how streaming growth has offset declines in physical and downloaded formats over the past decade.

Global Music Recording Industry Revenues: 2001-2019 (\$billion)



Source: International Federation of the Phonographic Industry (IFPI)

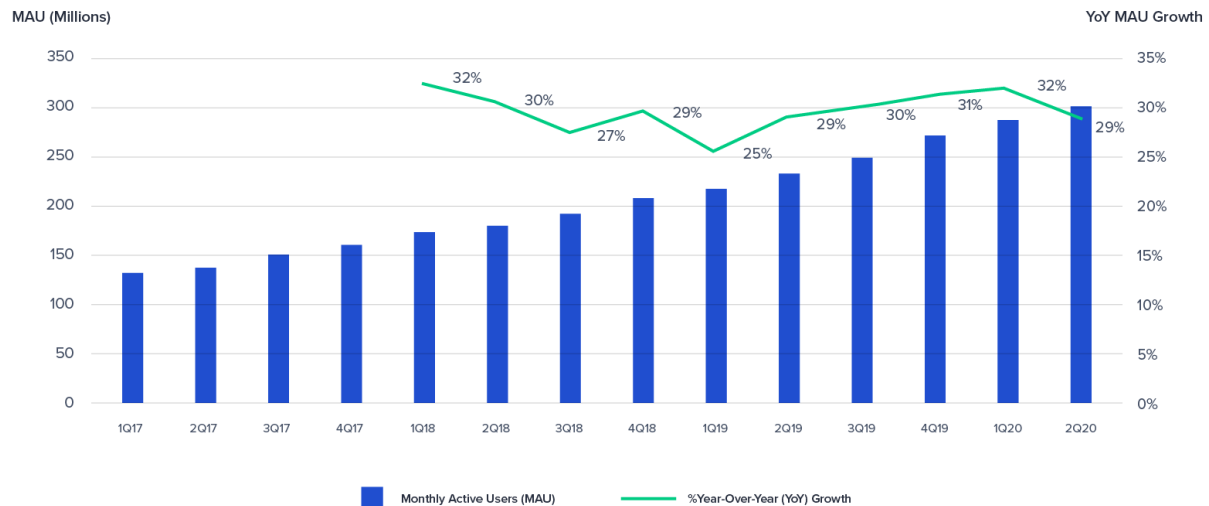


Implications of the Changes

The shift from a product-based industry to a service-based industry has had multiple effects on the music industry, both positive and negative. One of the main advantages of the new model is the increased accessibility of music to consumers. With streaming services like Spotify and Apple Music, consumers can access a vast music library anytime, anywhere, without purchasing physical products, thus, making music more affordable and accessible to a broader range of people, particularly those who may not have been able to buy CDs or vinyl records. When comparing the previous periods of the music industry's transition from a product to a service sector, the most striking difference is that technology has changed the consumer market dynamics and the music business's fundamental operation. People quickly recognised the early 2000s as a time when technology disrupted the music industry, but that disruption was focused on bypassing business models rather than delivering new ones. What we are seeing now is the maturation and development of an industry. The convergence of technology, global scale and greater need for a service mentality is blurring the increasingly indistinct lines between the record label and artist, executive and creator, and the professional with the independent. After 15 years of declining revenue due to piracy and unbundling, the global industry has grown, thanks in large part to streaming and new technologies. After nearly two decades of piracy-driven decline, record revenues increased in 2015, according to the International Federation of the Phonographic Industry's 2020 annual music report. The global industry's revenue bottomed out at \$14 billion in 2014, but rose to \$20 billion in 2019, in line with 2004 levels.

Anyway, despite some disruption caused by COVID-19, streaming has remained resilient. In early 2020, at the pandemic's start, music and podcast streaming hours decreased as consumers travelled less, so there was a focus on other platforms providing video and TV entertainment and gaming. According to a shareholder report, this downward trend resumed growth in May of the same year. However, the decline in listening hours is a precise measurement of consumer engagement; surprisingly, this fact did not transfer to their user base's willingness to continue paying for the services all together. Paid streaming subscribers and Monthly Active Users (MAU) have increased by 29% and 27% yearly, and Spotify's revenue income increased by 17% for premium subscribers year-on-year (Spotify, 2021).

Spotify Monthly Active Users (MAUs): 2017-2020



Source: Spotify



Another advantage of the new model is its increased flexibility for artists and labels. With digital platforms, artists can produce and distribute their music without needing major record labels, giving them greater control over their creative output and allowing them to reach a wider audience. Correspondingly, brands can now distribute their music more efficiently

and cost-effectively, reducing their overheads and increasing their profits. However, there are also some potential downsides to the shift to a service-based industry. One concern is that streaming services may be undermining the value of music by providing consumers with access to vast music libraries for a relatively low monthly fee. This has led to concerns about the industry's economic viability, particularly for smaller independent artists who may need help to generate revenue from streaming royalties.

Another problem is that the shift to a service-based industry may lead to a standardisation of music. Artists and labels are increasingly focused on creating music that could be popular on streaming platforms. This issue may lead to a narrowing of musical diversity and a reduction in the availability of niche genres and styles.

Conclusion

Thus, it can be seen the emergence of new technology and digital music in the late 1990s and early 2000s changed the music industry forever. The development of MP3 technology and the rise of the internet paved the way for a new music distribution model. Consumers could now buy digital music online and download it to their devices, bypassing the need for physical products. This idea allowed for greater accessibility and convenience for consumers but also posed a considerable challenge for the music industry, where piracy and illegal file sharing became rampant, allowing consumers to share and download music for free easily. The music industry needed to respond quickly to this challenge, driven by the rise of digital music distribution and streaming services,

such as Spotify, Apple Music and Tidal, making it easier for consumers to access music on demand without owning physical copies. Furthermore, this response is where the music industry shifted its focus, but doing so led to a decline in revenue for major labels. These new platforms, however, offered music as a service: often through a subscription model, which also provided other services such as personalised playlists, music recommendations, and social sharing, enhancing the musical-listening experience - a significant advance on simply selling a one-time product. All these changes also led to new revenue streams for the industry, such as advertising and sponsorship deals, and increased competition among music streaming services. Consequently, it is evident that the music industry's transformation from a product-based to a service-based industry has conclusively been driven by the rise of new digital technology and online streaming services, which have fundamentally changed how consumers access and interact with music. The music industry's ability to turn from a product sector to a service sector details a perfect response when facing existential changes in order to continue achieving financial success.

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