

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

BMTY7004 | NEW TECHNOLOGY IN MUSIC ESSAY

BATKOVA, KALINA - 2014509 (TILEYARD EDUCATION)

Table of Contents

Introduction	2
Streaming and Digital Distribution.....	2
Live Music Industry	4
Social Media	6
Advantages of Music Industry Shifting to the Service Sector	8
Disadvantages of Music Industry Shifting to the Service Sector	10
Conclusion.....	11
Citations	12

Introduction

This essay discusses how the music industry has shifted from a product to a service sector in recent years due to technology. The first section focuses on streaming and digital distribution illustrating how these services have drastically decreased people's interest to purchase music on CDs or vinyl. The next section argues that the live music industry has been acting as a service before the Internet, however due to the insufficient amount of money streaming generates, tours have been a bigger focus for labels. Then, the way social media has impacted fans' consumption of music is discussed, conveying that fans are difficult to retain without social media presence. After these three main sections, advantages and disadvantages of the music industry joining the service sector are listed.

Streaming and Digital Distribution

Before the rise of the Internet, music was a product-based industry where consumers could purchase albums on vinyl, cassettes and CDs. In the '80s 41.4 percent of album sales came from cassettes, in the '90s 51.8 percent came from CDs (Figure 1). By 2007, 44.2 percent of music sales revenue came from single downloads (Figure 2). Then, as the next decade came, streaming became the leader. In the span of just ten years, the preferred music outlet shifted from CD, to downloads and finally arrived at streaming.

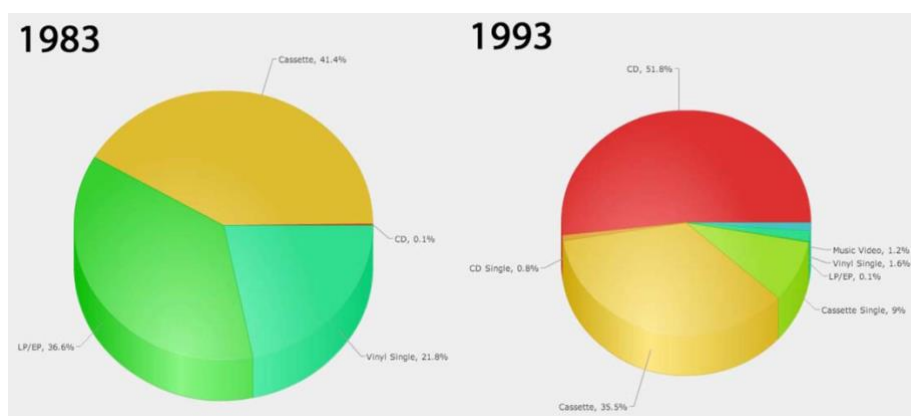


Figure 1. Source of Music Sales in 1983 and 1993 in % of Music Sales Market (RIAA)

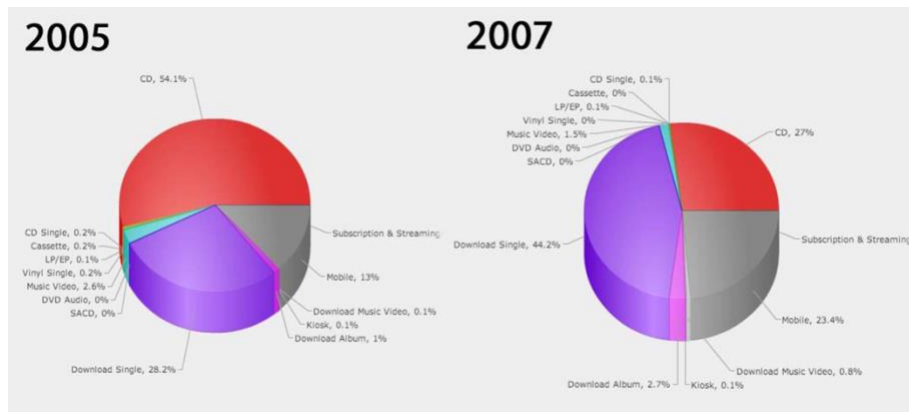


Figure 2. Source of Music Sales in 2005 and 2007 in % of Music Sales Market (RIAA)

The first platform that pushed the industry to the online world was Napster – a peer-to-peer mp3 sharing app where people could download albums, live versions, alternate versions and demos of songs by their favourite artists for free. The platform only functioned for two years before being shut down due to them breaching copyright laws by distributing free music. Apple offered a solution by launching iTunes in 2003 where consumers could download music to their devices but for a small fee: \$0.99 per track. In 2005, the first music streaming service Pandora was created and it “recommended new music based on a user’s listening history, allowing users to bookmark artists and discover new acts” (Brewster, 2021). Moreover, MySpace could also be considered as a streaming service as it allowed indie musicians to upload their music to be streamed for free by their fans. Spotify took inspiration from what was happening in the industry and launched, quickly becoming the biggest music streaming service with 158 million premium subscribers in the first quarter of 2021 (Statista, 2021). For all music streaming platforms, one would pay a monthly fee to receive a large catalogue of music and podcasts. The platform would then recommend music the customer might like based on their listening habits, place the songs into different playlists and constantly update the general playlists. The streaming app enhances the listener’s experience making sure they are satisfied and stay on the platform longer. This is why when it comes to streaming, the industry has shifted to the service sector. People no longer walk into the store and buy a CD; they are looking for a more engaging experience.

In the era before the twenty-first century and streaming, it was close to impossible for independent artists to showcase their music to a large audience. It would have been quite expensive to record, produce, manufacture and distribute. This is why artists needed a record deal. Nowadays, digital distribution services such as DistroKid, TuneCore and CD Baby make it possible for independent artists to upload their catalogue to the streaming platforms. This, combined with the easy access to DAW and basic recording equipment, has encouraged more artists to release music without a label. The presence of digital distribution services demonstrates that the music industry no longer mainly offers products to the audience, it now serves the audience, as well as the artists.

Live Music Industry

The live music industry is considered a service sector. This is because services are “the non-physical, intangible parts of our economy, as opposed to goods, which we can touch or handle” (Market Business News). When attending a live show, the audience member is experiencing the music and atmosphere, so once the concert is finished, they are left with the emotion and memory. They do not receive a physical product from attending, unless they purchase merchandise, of course.

The digitalisation of music has decreased revenues from physical music sales because of the low income streaming services distribute to artists and labels. The pay per stream by some of the main platforms varies from \$0.01196 (Amazon Music) to \$0.00087 (YouTube), as shown in Figure 3. This means that labels were pushed to think of new ways to generate income from their artists.



Figure 3. Average Per-Stream Payout Rate by Platform in USD (Digital Music News, Soundcharts)

Streaming encouraged labels to mostly offer a 360 deal, where the company gets a share from all income streams of the artist. This motivated them to start adopting vertical integration by promoting tours of artists they sign with, while taking a portion of the revenue from ticket sales, merch and any additional revenue streams. Thus, the live music industry experienced growth and is forecasted to surge even more. The global live music revenue was moving at a linear growth before COVID-19 came, generating \$28.87 billion in 2019. Now that the pandemic is clearing out, it is forecasted that numbers will continue to rise (Figure 4). In the article “2021: The Music Boom is Coming”, Gareth Murphy states that “lockdown is strengthening demand” meaning that people would be excited to finally attend concerts (Murphy, 2021). The popularity of streaming and the growth of the live industry suggest that these two dynamics are working together in a co-evolutionary way toward the sustainability of the music industry (Naveed, Watanabe, Neittaanmaki, 2017).

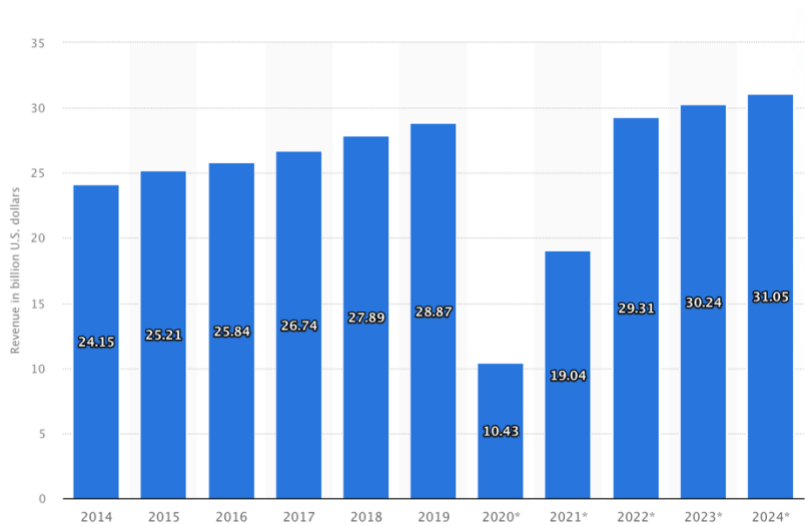


Figure 4. Live Music Industry Revenue Worldwide from 2014 to 2024 in USD (Statista)

Partnerships of ticketing websites with social media platforms and streaming services will also contribute toward the growth of the live music industry sector. Facebook and Spotify have partnered with ticketing websites such as Eventbrite, offering a direct link from an artist's profile to their upcoming shows (Spotify for Artists). This is beneficial when following the "Three-Click Rule", "stating that each piece of information on a site should not be more than three clicks away" (Weber, 2019). Minimising the effort of the user is a key guideline in social media engagement, which leads to the next section.

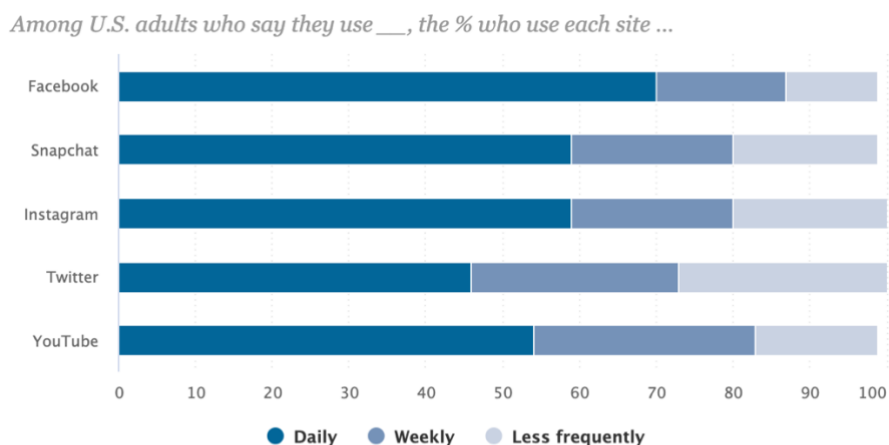
Social Media

It could be argued that social media platforms function as a service since better customer experience and higher audience engagement are some of their main aims. After all, apps such as Instagram are "about community, sparking connections and having conversations on a global platform" (Built Mighty, 2021). Spending time on the platform looking at pictures, watching videos or chatting with friends is not a tangible product. It gives the user an experience.

In an age of influencers and constant flow of information and entertainment, it is difficult for an artist to retain a fan's attention without the use of social media. In the paper "Fans or friends? Seeing social media audiences as musicians do", author Nancy K. Baym interviews a number of musicians who share their thoughts on the importance of a social

media presence. Greta Salpeter of the bands The Hush Sound and Gold Motel stated that, “Starts in the ‘60s and ‘70s were untouchable. It was this kind of like exclusivity complex where you couldn’t really know anything about them, and that’s what made it so interesting. And today it’s changed. It’s like if you make yourself invisible and you make yourself exclusive in this modern music age, people won’t care” (Baym, 2012). This suggests that communicating with the online audience helps artists attract attention and stay relevant, otherwise in today’s fast-moving world they would be quickly forgotten. Being active on different social media platforms allows musicians to “connect with their target audience on a global scale”, which could in turn be beneficial for increasing the fanbase and scheduling live shows (ReverbNation, 2019).

In a survey measuring how often Americans use social media platforms such as Facebook, Snapchat, Instagram, Twitter and YouTube, over 45 percent of them state that they engage with them daily (Figure 5). This demonstrates the level of addiction of social media users. Thus, it could be argued that when visiting Instagram, for example, a fan would expect to see what their favourite artist is doing.



Note: Respondents who did not give an answer are not shown.
Source: Survey of U.S. adults conducted Jan. 25-Feb. 8, 2021.

Figure 5. How often Americans use certain social media platforms (Pew Research)

By being active on social media, artists are able to create fan communities. Lady Gaga was one of the first artists who utilised this new communication tool with Twitter, talking to her fans and referring to them as “little monsters”, making the fan have “a strong

feeling of connection and contact, despite being one amongst millions (Bennett, 2014). Fans have the need to engage with the musician's online content also with the hopes of interacting with the artist, their team, label or media partners. Such interaction is "are perceived by the fans as emotional rewards, which then motivate them to engage in these activities and create a reward industry" (Sandi, Triastuti, 2020). This reward industry lets the fans collaborate with certain industry components, letting their networks grow and making them feel like they are being valuable to the artist's career.

Advantages of Music Industry Shifting to the Service Sector

One advantage of music moving towards a service sector is that costs for physical music distribution have shrunk. In the year 2000, compact disk sales were at almost 1 billion units in the US, in 2020 31.6 million units were sold there (Figure 6). This decrease in sales signifies the fall of demand for physical music. Therefore, record labels are investing less in the manufacturing of CDs. This in turn means that the main cost for distribution is digital distribution, where they would pay a fee or negotiate a deal with a streaming platform to release an artist's new album. Nowadays, music can reach more people online at a much smaller distribution costs for labels.

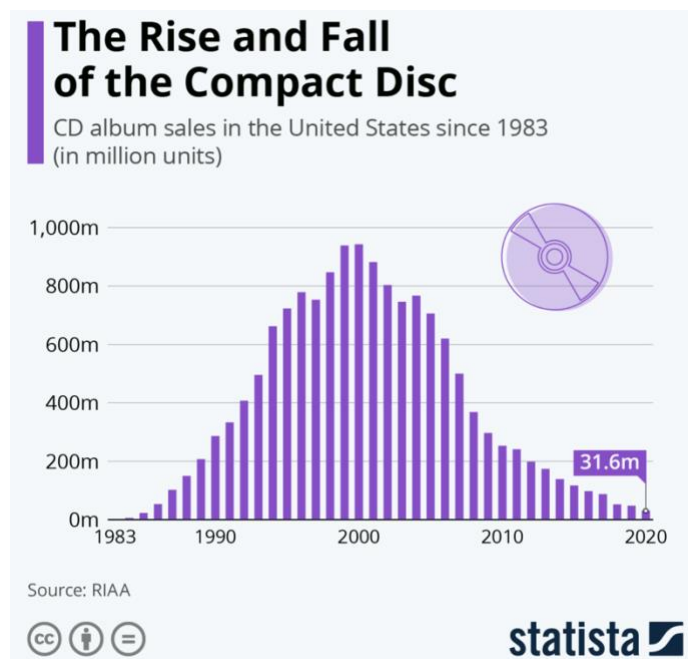


Figure 6. CD album sales in the US in units (Statista)

Another advantage is that the marketing of the live music industry is being facilitated by the Internet and social media, as shows can be easily promoted. Many labels employ features such as Facebook and Google ads to popularise an artist's upcoming tour. The advertising revenue of Google has exponentially grown since 2001 and in 2020 it was at \$146.92 billion (Figure 7). This conveys that many businesses take advantage of that tool to reach an audience. Labels often create a promotional video or a simple poster of a concert and target different audiences worldwide, while also having access to the ad statistics. This in turn helps them to optimise the ad and retain the information for a future campaign.

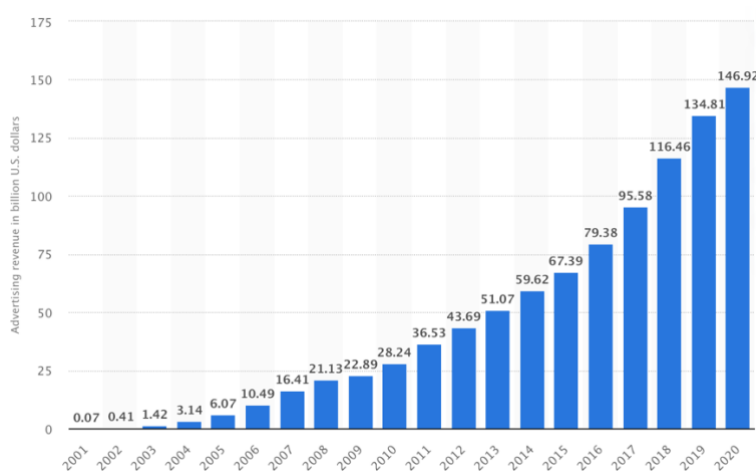


Figure 7. Advertising revenue of Google from 2001 to 2020 in USD (Statista)

A third advantage is that, with social media, industry executives are motivated to be more creative with marketing campaigns surrounding an artist's release. In the past, promotion was more focused on different regions often revolving around print media, TV appearances, billboards, flyers, etc. Nowadays, an artist can potentially reach millions of people at a much lower cost if they create engaging and viral-worthy content. An example is DJ Khaled's rise to fame when in 2013 he started posting a series of videos on Snapchat and Instagram "revealing his 'keys' or paths to happiness in a novel and engaging way" (Trendjackers, 2017). This helped him become a meme in internet culture because of his catchphrases such as 'You the best' and 'I appreciate you'.

Disadvantages of Music Industry Shifting to the Service Sector

One disadvantage of the rise of streaming and the birth of sign-up digital distributors is that the market has become oversaturated, increasing competition while also flooding the database with non-curated music. It is known that “over 60,000 tracks are now uploaded to Spotify every day”, which equates to nearly one per second (Ingham, 2021). During the event ‘Stream On’, Spotify’s founder Daniel Ek said that in 2018 there were 3 million creators on the platform and in 2020 they reached 8 million. One could deduce that chances are not all of these people are uploading high-quality music worth listening to. However, the platform gets overflowed and the really good independent musicians struggle to be heard.

Another disadvantage is that the reliance on revenue generation from shows of emerging artists is risky, as these tours often have a lot of costs and rarely break-even. Smaller acts cannot have their show at a big arena where many tickets could be sold. They often perform at venues with no more than 1,000 capacity. It could be challenging to sell out everywhere. Furthermore, travel expenses, crew wages, rental of equipment and other costs often reach the revenue. This is why in the early stages, tours of smaller artists serve more as a promotional tour rather than to generate big profit.

A third disadvantage is that it is difficult for independent artists to “cut through” on social media, as so much content is being posted every day. There is a lot of pressure on them to be constantly online and engaging with their audience, so fans are satisfied, and growth is not slowing down. In an interview with Vice, musician William Doyle shared that "as my profile started to rise, the number of followers I had on Twitter started to rise, and so the pressure to be attentive rose with it. It was a vicious cycle: Get more followers, tweet more, get more followers for being funny. I just don't see how that's productive. I felt like I was doing more tweets than making music" (Murray, 2017). This is why artists often struggle to find the balance between being influencers and being musicians.

Conclusion

One could speculate that the music industry will continue its shift towards the service sector, as Generation Z values experiences more than products. Thus, it could be argued that the live industry will grow more due to the ticketing websites' merge with social media platforms. Social media platforms encourage the fans to share their experiences, thus motivating them to go and popularise the events. Social media has also eliminated the barrier between artist and fan giving birth to online communities and movements that facilitate an artist's fan-building and revenue generation. The main innovation that shifted the music industry from a product to a service sector is streaming. It broadened the reach of music at a lower price, giving more power to independent musicians. However, royalty payouts are low for many musicians who do not have millions of streams. This is why new technologies such as Blockchain could facilitate royalty distribution eliminating intermediaries such as the collection societies and would give access to their streaming earnings. One thing is certain – technological innovation will be the driving force for industry growth.

Word count: 2, 498

Citations

- Baym, N., 2012. *Fans or Friends? Seeing social media audiences as musicians do*. [online] Participations. Available at: <<https://www.participations.org/Volume%209/Issue%202/17%20Baym.pdf>> [Accessed 11 July 2021].
- Bennett, L. *Fan/Celebrity Interactions and Social Media: Connectivity and Engagement in Lady Gaga Fandom*. 2014. [online] Taylor & Francis Group. Available at: <<https://www.taylorfrancis.com/chapters/edit/10.4324/9781315612959-9/fan-celebrity-interactions-social-media-connectivity-engagement-lady-gaga-fandom-lucy-bennett>> [Accessed 12 July 2021].
- Brewster, W., 2021. *Studio Essentials: Billy Davis*. [online] Mixdown Magazine. Available at: <<https://mixdownmag.com.au/features/studio-essentials-billy-davis/>> [Accessed 10 July 2021].
- Built Mighty. 2021. *Why Instagram Is Such A Brilliant Customer Experience Platform | Built Mighty*. [online] Available at: <<https://builtmighty.com/blog/why-instagram-is-such-a-brilliant-customer-experience-platform/>> [Accessed 11 July 2021].
- Ingham, T., 2021. *Over 60,000 tracks are now uploaded to Spotify every day. That's nearly one per second. - Music Business Worldwide*. [online] Music Business Worldwide. Available at: <<https://www.musicbusinessworldwide.com/over-60000-tracks-are-now-uploaded-to-spotify-daily-thats-nearly-one-per-second/#:~:text=Over%2060%2C000%20tracks%20are%20now,%2D%20Music%20Business%20Worldwide>> [Accessed 13 July 2021].
- Market Business News. n.d. *What are services? Definition and meaning*. [online] Available at: <<https://marketbusinessnews.com/financial-glossary/services/>> [Accessed 10 July 2021].
- Murray, E., 2017. *Help or Harm? How Social Media Can Impact Musicians' Mental Health*. [online] Vice. Available at: <<https://www.vice.com/en/article/7xxpvx/social-media-musicians-mental-health-east-india-youth>> [Accessed 13 July 2021].
- Murphy, G., 2021. *2021: The Music Boom is Coming*. [online] The Journal of Music. Available at: <<https://journalofmusic.com/focus/2021-music-boom-coming>> [Accessed 11 July 2021].

- Naveed, K., Watanabe, C., Neittaanmaki, P. 2017. *Co-evolution between streaming and live music leads a way to the sustainable growth of music industry – Lessons from the US experiences*. [online] Available at:
<<https://www.sciencedirect.com/science/article/abs/pii/S0160791X17300118>>
[Accessed 11 July 2021].
- Pew Research Center: Internet, Science & Tech. 2021. *Demographics of Social Media Users and Adoption in the United States*. [online] Available at:
<<https://www.pewresearch.org/internet/fact-sheet/social-media/?menulitem=4abfc543-4bd1-4b1f-bd4a-e7c67728ab76>> [Accessed 12 July 2021].
- ReverbNation Blog. 2019. *Do You Need Social Media As An Artist?*. [online] Available at:
<<https://blog.reverbnation.com/2019/03/27/need-social-media-artist/#:~:text=Social%20media%20allows%20you%20to,music%20career%20you%20always%20wanted.>> [Accessed 12 July 2021].
- Richter, F., 2021. *Infographic: The Rise and Fall of the Compact Disc*. [online] Statista Infographics. Available at: <<https://www.statista.com/chart/12950/cd-sales-in-the-us/>> [Accessed 12 July 2021].
- Sandi, Z. and Triastuti, E., 2020. *Fandom as a reward industry in Indonesia: Pleasures in pop music fan engagement and participation within online social networking*. [online] Universitas Indonesia. Available at:
<<https://scholar.ui.ac.id/en/publications/fandom-as-a-reward-industry-in-indonesia-pleasures-in-pop-music-f>> [Accessed 12 July 2021].
- Spotify for Artists. n.d. *Help - Listing concerts and festivals – Spotify for Artists*. [online] Available at: <<https://artists.spotify.com/help/article/listing-concerts-and-festivals>> [Accessed 11 July 2021].
- Statista. 2021. *Google: ad revenue 2001-2018 | Statista*. [online] Available at:
<<https://www.statista.com/statistics/266249/advertising-revenue-of-google/>> [Accessed 12 July 2021].
- Statista. 2021. *Live music industry revenue worldwide 2014-2024 | Statista*. [online] Available at: <<https://www.statista.com/statistics/1096424/live-music-industry-revenue-worldwide/>> [Accessed 10 July 2021].

- Statista. 2021. *Spotify users - subscribers in 2020* | Statista. [online] Available at: <<https://www.statista.com/statistics/244995/number-of-paying-spotify-subscribers/>> [Accessed 10 July 2021].
- Swensson, A., 2021. *40 years of album sales data in two handy charts*. [online] Local Current Blog | The Current from Minnesota Public Radio. Available at: <<https://blog.thecurrent.org/2014/02/40-years-of-album-sales-data-in-one-handy-chart/>> [Accessed 10 July 2021].
- Trendjackers. 2017. *5 Outstanding Examples of Modern Music Marketing*. [online] Available at: <<https://trendjackers.com/outstanding-examples-modern-music-marketing/>> [Accessed 13 July 2021].
- Weber, M., 2019. „*Make it faster...fewer clicks!*“. [online] Medium. Available at: <<https://medium.com/ux-usability/make-it-faster-fewer-clicks-ad7c91a37223>> [Accessed 11 July 2021].