



A critical evaluation of how new technology has turned the music industry from a product to a service sector.

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Introduction

Nowhere in the music industry has the impact of new technologies and their application been felt more than in the recorded music sector. The continually changing consumption methods have seen a once booming physical product industry move towards a digital service model. As a result, the music industry has seen a sharp rise in the number of consumers opting to stream their music as opposed to purchasing (IFPI, 2018). At the music industry's relative peak during the mid-1990s, it is estimated that approximately 2.4 billion compact discs (CDs) were being sold annually (Lynskey, 2015). Today, that figure is markedly lower – a sobering reminder of how quickly things can change in a constantly evolving environment such as the music industry. The changes in consumption methods have, of course, ultimately led to a decline in revenue: The International Federation of the Phonographic Industry, better known as the IFPI, reports that in 2017, physical sales revenue had fallen to USD \$5.2 billion, or just 30% of global recorded music revenue (IFPI, 2018). In more recent years, this decline has been marginally offset due to an uplift in the number of “silent vinyl” collectors (BBC, 2016). Although many don't actually *own* a record player, the nostalgic element of owning a physical record has allowed the product sector of the industry to continue to exist. Nevertheless, the wider music industry has continued to move towards a digital service model and is showing no sign of decline in this pattern.

This essay will firstly examine the changes in the music industry, in particular the recorded music sector, and what caused these changes. Following this, this project will explore markets that have yet to feel these changes on the same level, as well as examining the consumer habits in the world's emerging markets. Lastly, this essay will critically evaluate the working models, technologies, applications, platforms and services that have the potential to disruptively impact consumer behaviour and the consumption of music and entertainment across the market, some of which are already at work. It is put forward that these new technologies will further hasten the shift in the music industry from a product to a service sector.

Changes in the industry

Evolution

The music industry is an ever-changing economy. From what could be described as humble beginnings, the recorded music industry has grown into an economic force that has arguably put “much more focus on the musicians themselves, and away from the composers” (Smith, 2012). The physical product has long been at the centre of this industry; from sheet music to gramophone, from vinyl records to 8-track tapes, and from cassettes to compact discs. At its peak in 1999, global revenue generated by the sales of recordings stood at a mammoth USD\$25.2 billion – notably, the entirety of this amount was made up by physical sales (IFPI, 2018). The opening of the iTunes Music store on April 28, 2003 did little to quell the continuing decline in revenues (Chen, 2010). Hull (et al., 2011, p 29) notes that the major labels felt these effects most harshly – “laying off employees, cutting rosters, downsizing, and even closing at a frantic pace” whilst “trying desperately to come up with a business model for successfully distributing recordings via the Internet and other means that would restore the “good old days.””

Disruptive Innovators

Meanwhile, other industries were also seeing similar changes take place. Companies such as Lovefilm, Wikipedia and Amazon are all examples of *disruptive innovators*; a term coined by the American marketing figure Clayton Christensen (2018) describing “the process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors.” Film-rental industry giant Blockbuster, who in 2000 rejected the opportunity to purchase the burgeoning online film platform Netflix for \$50 million (Satell, 2014), was one such company who felt the effects of this disruptive innovation. However, despite the introduction and adoption of new technologies and changing consumption methods, many of the companies most threatened by technological innovation still chose to remain heavily product focused, ultimately leading to their demise.

Music streaming services

Hull (et al., 2011, p 29) determines the entertainment industry to be “the monetized function of leisure time”. Industrial developments in the Western World have undoubtedly created a pressure for companies to create multi-functional products. It is noted that the flagship device for music consumption in the 21st century, Apple’s iPhone, is “not only a mobile telephone; it is an MP3 player, games console, GPS, video player, and more” (Hull, et al., 2011, p 2). The widespread global adoption of interactive mobile devices has undeniably enabled the transformation of the recorded music industry from a product into a service sector to hasten. Music streaming has now become the industries largest revenue driver, with digital revenues now accounting for more than half (54%) of those within the global recorded music market (IFPI, 2018). In 2014, chart companies took the decision to incorporate streaming numbers into their single and album sales certifications (Billboard, 2014). Spotify, the industry leader in the music streaming market with approximately 40% of the global audience, has most effectively capitalised on the changing consumption methods of modern consumers (Pullen, 2015). The Swedish music streaming service now holds more than 60m paid subscribers and over 140m active users (Spotify, 2017). And with consumers now able to choose from almost 30 different major music streaming services (Wikipedia, 2018), the signs seem to point towards the industry’s product aspect only further diminishing.

Emerging markets

Japan

As briefly mentioned earlier, not all global markets have been as drastically affected by the overall shift in the recorded music industry from a product to a service sector. In fact, Japan, the world's second biggest music market (IFPI, 2018), is still largely dominated by sales in the physical format. Whilst global music revenues from physical formats declined by 5.4% in 2017 across the majority of markets, Japan's physical revenue still accounted for 30% of the global market and a higher percentage of market share – 72% to be precise. Comparatively, this figure stands at 43% in Germany, the third biggest global music market (IFPI 2018). Although this figure has fallen slightly over the past few years, it is still markedly higher than the other major markets in the global recorded music industry.

In an attempt to understand this anomaly, commenters such as Looi (2016) have noted the country's affection for nostalgia and "love for a technology that the rest of the world has all but forgotten". This feeling is further highlighted by the Recording Industry Association of Japan's (RIAJ) estimate that the country contains approximately 6,000 "old-fashioned" music stores, compared with the 1,900 and 700 stores in the USA and Germany respectively (Looi, 2016). Another explanation for this sizeable difference may lie in the initial hesitation of many streaming services to rollout in some emerging or untapped markets – for example, Spotify did not launch in Japan until 2016, by which time they had already amassed over 40m subscribers (Russell, 2016). This stance is reinforced by the news that in 2017, Japan saw its smallest annual rise in subscription streaming revenues since 2013 (Music Business Worldwide, 2018). Whatever the reason for the Japanese consumer's preference, the Asian nation continues to thrive as a colossus in the global physical revenue market.

Africa and Latin America

Emerging music markets have huge potential to shape the overall direction of the wider music industry. Whilst many of these markets are seeing a rise in the number of consumers using digital platforms to access music, they are still largely dominated by physical product. This is due, in part, to "undeveloped payment systems and low credit card usage" but also down to a lack of licensing protection in these countries (IFPI, 2014). Negus (2004, p 157) is of the

belief that the “so-called ‘global markets’ tend to be those which have strictly enforced copyright legislation and highly priced CDs rather than cheaply priced cassettes”, making regions such as Japan more important in the global music market than those with less intellectual property legislation, such as India. However, despite the overwhelming dominance of physical product, a number of territories outside of the global top 10 markets, ranging from Argentina to Russia and South Africa, are seeing significant increases in digital revenue – in particular, Latin America experienced 27.6% digital growth in 2013 (IFPI, 2014). It is therefore clear that the industry has placed a focus on developing the digital music sphere in these emerging markets, further reinforcing the view that the wider music industry is moving towards a service model.

The future of the industry

The Gig Economy

It is clear that the music industry has shifted from a product into a service sector. This swing has created an opportunity for independent creatives to capitalise in what is often referred to as 'the gig economy' – "a labour market characterised by the prevalence of short-term contracts or freelance work, as opposed to permanent jobs" (Wilson, 2017). Whilst the negative aspects of contracted work are apparent, the flexibility and freedom of working pattern provided by the gig economy mean its structure has many proponents. Zozzaro (2018) highlights the change in recent years, in which the music industry has leaned heavily towards outsourced contracted workers as opposed to full-time employees. The ability for companies to not provide any product, but merely offer a service on a business to business (B2B) level, has allowed start-ups in the music industry to flourish. Cool Company, a Sweden-based external workforce management company founded in 2008, has utilised this business model. The company allows freelancers to work without having to manage the administrative side of things and now boasts over 24,000 members across Scandinavia (Sandström, 2018). Cool Company research also found approximately 20% of the workforce in the UK to be freelance and, on average, earning more than 35% more per day than full-time employees (Sandström, 2018). It can therefore be stated that the ability to "utilise your network" (Sandström, 2018) means that it is now possible for those who may not necessarily possess a creative talent for developing products, but are organised and resourceful enough to act as intermediaries, to maintain profitable business models.

New technology

The recorded music industry's change from a product to a service sector is largely evidenced through the surge in playlists amongst the major streaming platforms. As noted earlier, traditional physical album sales have declined in recent years. In turn, an increasing number of consumers prefer to have their music listening experience specially tailored for them by a team of professional 'curators'. Streaming platforms such as Spotify and Apple Music have moved to develop these personalised playlists based on user listening habits. Spotify have even gone one step further with the introduction of DJ-style mixing into their playlists (Musically, 2018); a move which will undoubtedly impact the DJ community that is already at

risk. The increase in the number of playlists has also impacted the compilation album, which has fallen in overall sales in recent years (Music Week, 2018). When coupled with virtual/augmented-reality, digital currencies and other burgeoning forms of technological innovations, it is clear that “technology is changing the way that music is experienced, and it will continue to do so with the help of innovative start-ups and consumer demand” (Cox, 2016). It can therefore be stated that the demand for product is being overtaken by the ease of use and accessibility of service-based business models.

Summary

It has been concluded that the global recorded music industry is shifting towards a service sector from what was once a heavily dominated product-based market. This change has been facilitated, and largely initiated, by the advent of new technology and disruptive innovations. The most impactful and prominent of these technological advancements has been the smartphone – more than just a communication device, but a tool that can be utilised in infinite ways. The mobile device has allowed streaming platforms and applications to adapt to consumer demands and user habits in ways that were previously unimaginable. Whilst not all markets have been as quick to adopt these services, those that have are seeing a small but welcome resurgence in global music revenue, which had previously been in decline for almost two decades. Emerging markets are now moving towards a digital service model; a welcome adjustment for the copyright holders who until now had been missing out on significant revenues as a result of the archaic licensing structures in place. The so-called 'gig economy' is providing new businesses and freelance creatives the opportunity to build a platform for themselves, despite its drawbacks. It is therefore clear that new technology and reimagined working models have transformed the recorded music industry from a product to a service sector.

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