

**How has technology turned music into a service industry?**

**New Technology in Music and Creative Entertainment**

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## **Introduction**

Over the last twenty years, the impact of technology on the music industry has been significant and has changed the landscape of the industry massively. In some ways, this revolution has helped create a fairer and more accessible market, but progress often brings challenges. Technology has had a profound effect on the entire world including the way we operate and consume information. It has changed the music industry forever, and many changes are still to come. This essay will explore how technology has changed the music industry from a product to a service sector. Firstly, by delving into the history of the product-driven music industry. Then, investigating why, and how, the changes occurred, including reviewing different opinions and arguments for both the positive and negative impact of this transition. Finally, this essay will consider where technology will take the music industry in the next ten years and into the future.

## **A brief history**

This section will briefly discuss the history of the pre-digital music industry with particular attention given to consumption and focusing primarily on the decades after the second world war. The music industry had been purely product-based. Before the war, there was vinyl, then in the decades that followed there were cassettes and Compact Disc's (CDs). Alongside radio and several TV shows, these mediums were the mainstream ways of consuming music outside of live performances. People had to purchase their copy of an artist's single or album from their local record store, and once they had purchased their copy, they could use it forever (Albright,2015). The cassette was far easier to create and cheaper than vinyl, whilst offering a much higher audio quality than vinyl. For the industry, this was a win. And to add to this, new devices were being created to allow for far more straightforward and accessible personal listening. By the late 1960s, all Ford cars were available with tape players as standard (Albright, 2015), which prompted a massive surge in the sale of cassettes. Furthermore, the invention of the Walkman, released by Sony in 1979, was an incredibly significant development which completely revolutionised the way people were able to consume music. Music

could now be listened to efficiently and portably for the first time. In 1983, the cassette overtook vinyl in sales (Albright,2015). These new and exciting technologies allowed the music industry to boom and in the late 80s, the CD market exploded, increasing profits and lowering costs even further. As the 1990s began, digital technologies were beginning to spring up around the music industry. CDs were now by far the most popular form of music consumption. In 1993 Pro Tools, in what resembled the digital audio workstation (DAWs) of today, was launched. Recording studios increasingly began to use these digital audio workstations, pushing the music industry further towards the digital age (Future Music,2011). Moreover, by 2000, as the digital age began to take hold, music industry sales in product-based formats peaked.

Now dawned the digital age, with the release of the iPod and iTunes by Apple in 2001, "the world's best and easiest to use 'jukebox' software." Then, in 2003, iTunes 4 arrived, which included the iTunes Music Store, Apple's entry into the music sales business. Apple's iTunes grew from an idea to the largest music retailer on the planet in just seven years (Griggs & Leopold, 2013). By 2013, the service had provided over 435 million people in 119 countries and distributed nearly 25 billion songs across the globe. Around this time, a software called Napster was launched. This peer to peer (P2P) technology allowed users to download and share music without compensating the recognised rights holders (Wikström,2013). Napster was quickly sued and shut down, but the cat was out of the bag, and many more highly sophisticated P2P services began to appear. This technology would form the fundamental base for how streaming service would evolve and operate. Nevertheless, with CD sales in decline as digital sales via online distributors like iTunes began to gather momentum, profits were falling hard.

In 2008 Spotify was launched after finalising agreements with the music industry and became the first legal streaming service. It would be a slow road, but by 2015, streaming services would begin to become the mainstream way of consuming music with the release of Apple Music.

### **The service-based industry**

The question that must be answered is whether technology has turned the music industry into a service-based industry? The answer is yes; the technology that has been created and implemented within the music industry in the last twenty years has fundamentally changed the way the industry functions. The music industry, and many other industries, have moved further and further away from a product-based economy to a service-based economy. A prominent example of this revolution is how people consume music and other forms of media using streaming services.

Streaming services have revolutionised the way that we purchase and listen to music. We have gone from purchasing an artist's single or album from a record store to being able to pay £9.99 per month on Spotify or Apple Music and receiving millions of tracks on demand. Spotify is the oldest and currently the largest, music streaming service, followed not too far behind by Apple Music. Spotify offers a slightly different model than Apple. Spotify's model has two or more different services, where the most basic version is free. The more advanced versions are offered on a subscription basis which are usually called "freemium" —a play on the words free and premium. Apple offers a similar paid subscriptions system but do not offer a free version. Instead, they only offer a three-month trial. Spotify has 320 million users overall, of which 144 million are paid users, Spotify has the largest market share with 32%, and Apple Music, with 18% market share (Mulligan, M,2020). They recorded 60 million users as of June 2019. However, MIDiA Research estimates that Apple, as of Q1 2020, has reached 72 million users, as per their last official statement.

Another beast of a platform is YouTube which offers a platform where people can upload and share all different content types for free. In 2016 a survey conducted by Statista stated that 38.4% of those in the UK who answered had listened to or watched music videos daily. This percentage is likely to have dramatically increased if one considers the size of YouTube in 2020 along with the phenomenal increase in the use of streaming services. Unfortunately, no comparative data could be found to support this.

There are obviously pros and cons to streaming music, from many different perspectives. To your average music listener, these services allow for a wide range of music to be instantly available at a low price. Music consumers can pick and choose; if they do not like something, they can delete it from their library without having to pay for the music. This is a clear positive.

The music business is strongly challenging the low royalty payments to musicians. This obvious negative has led to the downfall of many major record labels and has made it increasingly hard for small artists to generate money via their music consumption on these streaming services.

“During the 15 years that has passed since Napster was launched, the music industry has been completely transformed and the model that ruled the industry during most of the past century has been largely abandoned.” (Wikström, 2013).

It is not just streaming services that have transformed the music industry into a service sector. It is the most prominent factor, but not the only one. From distribution to marketing to mixing and mastering, all of these are now offered via online paid services for relatively affordable prices. Technology has allowed many different companies to offer these services that were once only available through labels and connections. Ditto Music, a digital aggregator, has several excellent alternatives, including AWAL and Tune Core. Ditto Music offers three different subscription packages: Artist, which includes an unlimited release for a single artist for £19 a year. Professional, which includes an unlimited release for a two-artist for £29 a year and then Label, which offer five artists for £69 a year but can vary with maximum 40 artists for £299 per year. Alongside this, they also offer promotional packages, including a special bundle currently worth £399.99 which is a PR and Social Media Campaign (Ditto Music 2021)

In a recent Music Business Worldwide article by Justin Kalifowitz, CEO, Downtown Music Holdings, he discusses the impact of these changes:

“GCA Capital issued its latest quarterly trend report on the music industry, noting that the creator platforms and services sector “is a critical part of the digital music market driving the broader theme of democratisation in the music industry” and is “underpinning the secular trends and growth in the market.” (Music Business Worldwide,2021)

The vast range of companies offering similar services illustrates the real and significant impact that technology has had on the music industry and how so much is now offered through paid subscription services, making them flexible and attractive to the consumer.

The rapid transformation and development of digital technology within the music industry is a classic example of how innovation can disrupt an entire industry. The power of the music industry before the internet was based mainly on the ability to control physical distribution. The Internet and other technologies make physical music distribution increasingly irrelevant, and the existing music businesses has been required to reinvent themselves to survive.

### **The impact of Covid-19**

Significant disruption can occur at any moment and going into 2020 the music industry was continuing to grow and thrive; the streaming figures had been impressive into 2019 and were predicted to increase. Data from a Deloitte Insight article states that from 2015 to 2019, the recorded music revenues showed a compound annual growth rate (CAGR) of 13%, reaching \$11.1 billion in annual revenue. In 2019, streaming accounted for 80% of revenues (Downs,2020).

However, Covid-19 struck and impacted the music industry incredibly. The pandemic restricted travel and forced all live shows to be cancelled indefinitely, and live performance makes up most of the income for musicians at all levels. Now the artist is even more reliant on digital technology including streaming services and online video streaming websites like YouTube and Twitch. These services offer the ability for fans to follow, subscribe via payment and donate. But over the past few years, anger has grown within the community about the unfair payment regarding streaming

services. However, due to Covid-19, these subscription services and online platforms found a massive uptake in interactions (Downs,2020).

The impact of the first lockdown can be seen in the increase in streaming services in Q1 2020; Spotify paid subscribers grew, increasing by 31% from Q1 2019 (PWC,2020). Spotify had outperformed predictions and remained resilient as the world markets began to crash. They were showing that even in these dire circumstances the digital service industries would continue to thrive and allow the music business to hold up despite the short term hit due to individual deals falling through.

“Recording rights should benefit most from the streaming trends; publishing rights have historically been stable even in economic downturns but may be negatively impacted in the short term by reductions in synch and performance revenues.” (PwC,2020)

The impact of Covid-19 has affected the music industry's future and further distances it from its past. In the next section, the future of the music industry will be examined in depth.

### **What does the future look like?**

Over the last six years, and with the pandemic, we have seen the acceleration of technology's influence on the services-based industries within the music world, which has brought the future closer and faster. One could argue that technology's most significant impact was not in the early 2000s, but in the mid-2010s, when technologies finally started to become widely used and accepted within the industry mainstream. The importance of streaming is supported by this market growing rapidly from 9% to 47% of total industry revenues in just six years (Hall,2020). There are concerns the subscriptions services could fail if the prices were to climb and this might bring the possibility of people resorting to piracy, and if labels and publishers pull their music from the services. These risks would fundamentally kill companies like Spotify, who have recently considered raising their subscription as highlighted by a Goldman Sachs report (Goldman Sachs). Additionally, increasing

subscription fees would push people towards YouTube and then to illegal downloading websites.

Goldman Sachs also predicts that streaming will be the fundamental reason for the music industry revenues to reach record highs, even overtaking the peak in 2000. By 2030 recorded music being worth over \$80 billion and publishing \$12.5 billion. All thanks to the changing trends and the increase in streaming services and technology.

“THE RATIO OF ARTISTS “DOING IT THEMSELVES” EXCEEDED THE OUTPUT OF THE THREE MAJOR LABELS BY A RATIO OF 8 TO 1 [IN 2020].” (Music Business Worldwide,2021)

Distribution and label services are likely to continue to develop and evolve over the coming decade, with more independent artists using digital aggregators. The rise of companies offering label services and promotion and marketing on a subscription’s services will grow. This will make it even harder for the existing major labels. The labels have begun to protect their interests, such as Sony announcing its purchase of AWAL and Kobalt Neighbouring Rights for \$430 million. AWAL being the largest independent distribution service available (Music Business Worldwide,2021). These trends will continue as these services become more prominent and more mainstream as the younger generations progress.

## **Conclusion**

In conclusion, the effects of technology on the music industry have been massive. These impacts have entirely changed how the music industry functions consolidating the shift to a service sector coming to centre stage over the last six years. Add to this the impact of Covid-19 which has accelerated the transition. These changes and innovations are for the better, allowing the industry to reach new heights by the next decade. These service-based companies have allowed more access and choice to consumers and more straightforward and cheaper methods of creating careers for independent artists. None of this would be possible without the technology which has come to define the 21<sup>st</sup> century, and the future is limitless.

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