

CIM CASE STUDY – JUNE 2007

Strategic Marketing in Practice

The Furze

Analysis prepared by David Kilburn

Brief

You are a newly appointed Marketing Manager for a small record label in the U.K. that records, produces and distributes music in a number of formats, including CDs, vinyl and downloadable digital files via the internet.

C.D's	Vinyl	Downloadable digital files via the internet
Still popular	Popularity has waned considerably	Very up to date, represents the future

This is reflected in how people spend their leisure time. C.D's and computers are integrated. Vinyl is a stand alone entity!

The music industry has changed considerably with many recording companies suffering revenue losses. Have to now look for innovative approaches to recording, marketing and distribution. (cf. Arctic Monkeys).

Produce a synopsis of the challenges facing music promotion and distribution, and consider the potential of the approach adopted by The Furze.

The Music Industry

The origins of recorded music

Edison invented the phonograph in 1877. The device was technically crude but it represented a major breakthrough and was very popular at the time. In the early 1900s the gramophone was invented - used flat 12 inch discs that rotated at 78 rpm. First made in the USA by AT & T and Bell Laboratories. Initial sales were limited due to free availability of music broadcast by radio stations (same situation today with music downloads – consumers can listen to their favourite songs when they want to)

Also disputes with recording artists over royalties (same today!) and also a shortfall of raw materials during the thirties and forties limiting the production of discs (War years).

Jukeboxes became very popular especially when in 1927 an electronic version with amplification was introduced. Jukebox soon established its popularity with youth culture (cf. MP3 players today).

After WW2 in 1945, people enjoyed more disposable income and Americans enjoyed pre

recorded music in their homes. Innovations changed the music industry. In 1948, vinyl LP was introduced by Columbia record label (U.S.) It rotated at 33 $\frac{1}{3}$ rpm and was capable of storing up to 20 minutes of recorded sound on each side. After that 7" records were introduced rotating at 45 rpm. These 2 formats competed for the market, confusing the customers.(cf. Betamax/VHS video scenario years later – cycle of retailing).

This required record players that could spin at two different speeds. In the Fifties the industry agreed to use LP's for albums and 45rpm for individual songs (singles).

Record sales almost tripled in the decade following the introduction of the LP, whilst 7s quickly declined.

A number of key innovations were introduced in the 1950s, including stereo recording techniques for quality sound and reel to reel tapes.1966 saw the introduction of blank and pre- recorded cassette tapes. Blank tapes allowed consumers to record music cheaply and easily, thereby allowing piracy of copyright materials for personal use (or financial gain). (Top 20 – everyone recorded them on a Sunday afternoon – D.J's often cut in towards the end of the song – was this to spoil the 'perfect recording' so that consumers would have to buy the record?).

The invention of the Sony Walkman was a great technical advance. (Price originally £50 then £30 and then £20) Music had become personal and portable (c1980)

For a long time music was sold in 3 formats-vinyl LP's, 7" and 12" singles and cassettes, until Philips and Sony produced CDs in the early 80s.(Digital age had arrived) Key advantages – sound quality, robust, held music for 80 minutes.

Rise of the CD coincided with growing interest in home computing and CD Rom formats for personal computers were introduced in 1986.The growth of the internet in the nineties meant that digital formats could be sent anywhere in the world. The way was prepared for quick, reliable, accurate and cheap duplication of recordings.

Napster

In 1999 18 year old Shawn Fanning changed the habits of the music buying public with his file sharing programme called Napster which enabled people to share and exchange music files so they did not need to go out and buy the CD. As soon as young people discovered the site Napster became a global phenomenon and created a lasting impact on the music industry. Appendix 1 illustrates the impact of the changing music industry on EMI.

Lots of record companies were prepared to sue Napster. However, because the downloads were undertaken by many individuals across the world it was difficult for companies to take decisive legal action. Appendices 2 and 3 illustrate the problems that the music industry is facing against piracy.

Appendix 2 – attempts by European parliament made to overcome piracy.

Appendix 3 – I.S.Ps are attempting to block users' access to sites all around the world- examples given

Digital stream ripping – this is reminiscent of teenagers recording top 20 songs from the radio in the 1960s (wheel of retailing).

Napster has merged with German media giant, Bertelsmann, a company involved in attempts at legal action against Napster (if you can't beat them, join them!).

Napster is moving towards a service whereby users can download music and artists

are still compensated (the fee for downloads paid to Napster by individuals would fund royalty payments).

Napster is likely to offer a subscription based service but is currently facing a number of lawsuits. Litigious territory but the rewards are high!

MP3 and iPods

MP3 technology was first developed in the late 80's. MP3 players were available through the nineties but the Apple iPod made the format really popular.

In 2000, the sound engineer Tony Fadell approached Steve Jobs, CEO of Apple, with an idea – the iPod after being turned down by Philips. Jobs saw the potential and asked Fadell to become a consultant for the iPod production.

Critical Success Factor – iTunes software availability, initially only viable on Apple Mac computers as a way of arranging music on the computer

First generation iPod had memory for 1,000 songs.

In 2002, second generation iPod was launched – compatible with all computers and could store 2,000 songs (similar to VHS format dominance in video)

April 2003 – 3rd generation launched. 4th generation – 30gb and 40gb capabilities (4,000 and 8,000 songs).

Cheaper iPods were also launched (reminiscent of Sony Walkman- cyclical industry)

iPod video launched in December 2005, allowing music, video and movies to be downloaded.

Over the years the popularity of MP3 players and the use of the internet to download songs officially and for a fee have actually revived a declining record industry.

There is a wide range of music available which encourages diversity in music.

The internet has created a revolution in the distribution of music allowing lesser known and new bands to offer their music directly online to the public, on a paid or

non paid basis.

Arctic Monkeys and Lily Allen (Apps 4 and 5) both launched their careers by offering music on the net, building on the following created through live performances. Arctic Monkeys – fastest selling debut album of all time – ‘Whatever people say I am, that’s what I am not’. Sold more than 360,000 copies in its first week, outselling the next 20 best selling records combined.

Sharing music through social networking and virtual communities

2006 Ofcom survey – people are more likely to use their mobile phones and internet to access music than traditional sources. Broadband – 24 hour access to the internet has created virtual communities and social networking via sites such as Myspace, Friends reunited, Bebo, and Second Life. More people are clicking on to MySpace than Google. The sites in MySpace can be used for file sharing, MP3 and movie downloads and videoclips.

www.bebo.com – American based. www.secondlife.com – site has more than 1 million members who can create their own avatar (character), site also hosts exclusive music concerts for members.

Blogs are very popular for networking and communicating. A new blog is created somewhere in the world every second!

Emails are out, social networking via sites is in, blogs are in, photo albums are out.

Welcome to the Myspace generation.

70% of internet users between 16 and 24 use social networking sites, compared to 46% of the general population

37% of 18-24 year olds have posted material online, compared with 14% across all age groups
One in five 18-24 year olds have their own website or blog.

Blogs and sites such as MySpace have become part of daily life for many individuals.

85% of 18-24 year olds say that they would use a mobile text or call as the preferred method of arranging to meet a friend, compared to 48% across all age groups.

Bebo is the number one site in the UK with 25 million members. There is a huge audience that can be reached that is keen to exchange music, photos, images, videos and films. (An up and coming site is www.facebook.com which is the latest flavour of the month – social networking but no file sharing for music)

Google has bought MySpace but is not taking a firm stance against music and film downloads from the site.

Kid Galahad and The Furze

British band – used progressive and innovative techniques in marketing and communications. The band has adopted a range of interesting and thought provoking marketing strategies to improve its position in the music industry. Four teenagers met at School and recorded songs in their bedrooms. They produced a demo that helped them to play gigs and build a fan base. Their aim was to have a loyal following so when they started playing bigger and more important venues they would already have a following of loyal fans. It was assumed that this would impress the venue promoters and help them to secure even more gigs in the future.

Band management, recording contracts and publishing deals

The band needed a good manager with strong music promotion credentials. Kid Galahad entered and won a national competition for new talent. This generated interest from experienced promoters. They appointed a new manager and started to play bigger venues. They signed a record deal with Rough Trade Records, a British

company famous for discovering the Smiths and Aztec Camera. Kid Galahad's single was acclaimed by various music papers and this attracted the interest of other larger record companies. Kid Galahad signed a second record contract with Ignition Records (a subsidiary of Sony). The owner of Ignition was Marcus Russell, famed for managing Oasis. The deal was relatively small financially so they signed away 50% of their publishing rights to Chrysalis music. The total of the two deals made them enough money to give up their day jobs and concentrate fully on their music.

Debut album 'Gold Dust Noise'

The debut album was recorded in a well known studio with a big name producer. Four singles were released followed by the album. The album and singles were rated by all the major music papers and internet fanzines. The singles were played on regional radio stations and the videos to the singles were played extensively on MTV. The band did several national tours and UK festivals. However, without the backing of major music radio stations such as BBC Radio 1 and 2 all of this activity made little impact on record sales.

Ignition records was struggling financially and ceased trading in 2003, leaving Kid Galahad without a record deal. They did however have a sound understanding of the industry itself.

The birth of The Furze

The band wanted a fresh start so called themselves the Furze after the area they lived in. They decided that they would record and promote themselves using the tools and knowledge that they had gathered from their last album deal.

Crucially, the internet was putting the power back into the hands of bands by cutting

out overheads such as CD manufacturing, production and distribution. Also new regulations meant that downloads from the internet would be included in calculations on which the charts of music sales are compiled.

A web site was designed (www.thefurze.net) that could play videos, snippets of new songs and information on forthcoming gigs. The site also includes video clips from TV personalities who endorse the band's music (very powerful), and a funky cartoon serialisation. The band members also designed a comic that told the story of The Furze and is sold at gigs.

The bass player's brother was now managing the band in the USA and signed a deal with iTunes which meant that the new album could be sold worldwide. The band just had to direct people to online shops where The Furze album could be downloaded.

This was done via their own website, through online communities such as MySpace and YouTube, and by getting their songs put on adverts, films and computer games.

The band recognises that National radio is still the most powerful promotional tool so a well known radio plugger is needed to take the singles to the radio show producers.

This cost £1,800. (Appendix 6).

The Furze: Challenges from the Music Industry

Many new bands like The Furze believe that the power has shifted away from the record companies. Worldwide exposure can be gained using online sites but apart from the creation of awareness it does not necessarily generate income. It does demonstrate to record companies that a band has a huge following which may result in a contract at a later date.

Arctic Monkeys were successful by using MySpace effectively.

(They have just won the Ivor Novello music award – great honour for a new band)

However, recognition and royalties are another matter. Musicians are paid for downloads because their song has a unique code that enables the web operator to track the number of plays a song has had to determine who the royalties belong to.

The problem is that it is only when a band is signed up to a record company that a song is given its unique identifying code.

For smaller bands it can be difficult to obtain such a code, making it virtually impossible to earn royalties or even to have sales counted for the purpose of compiling charts.

Success for The Furze is dependent on getting as many individuals as possible to access their website and sample their music. It could be argued that record companies attempt to set the fashion but the arrival of the internet has spoiled this trend.

Interview with radio presenter

Independent labels use the services of a plugger.

New bands can pay to play at gigs to promote their bands and build an established fan base. In the U.K. Radios 1 and 2 are still very influential because the public tune in to them if they are interested in pop music.

Radio 2 has an official play list which is determined by a panel of producers. They decide on the music to be played making it harder for new bands to gain recognition.

However, there is always hope for a band that makes enough noise via the internet as record labels will eventually take notice and offer a band a contract if they show enough promise of generating profits through sales.

Figure 9 shows the different platforms for accessing music.

Mobile phones will possibly represent the new frontier and feature prominently in the download charts.

Interview with recording engineer

‘The industry will respond to what people choose’ - A greater marketing approach.

Bands had to conform in the past to get on. Record companies were less willing to take a chance on promoting new bands because of the costs of promotion, recording and distribution. Pop Idol and X Factor have given previously unknown artists an unfair advantage as regards media coverage.

Nowadays record companies are having to compete with websites and people sharing music. So it is the fans that are driving the music scene with record labels following behind so it is an optimistic time for bands.

Sales and Marketing in the Music industry

Current trends

- Digital music sales doubled in 2006. 5.5% in 2005 to 10% of industry sales in 2006
- Single track downloads up 89% in 2005
- Number of tracks available online doubled to reach over 4 million
- 498 online music services across 40 companies
- Portable music players – sales totalled 120 million in 2006, an increase of 43% on 2005
- New revenue streams and business models emerge such as video licensing on Yahoo
- Lawsuits are beginning to slow down the rise in illegal downloads and piracy

D.R.M. (Digital Rights Management) is being emphasised a lot by the record industry. However, consumers want freedom to select their own music.

Marketing in the Digital Age

As the music market develops further, it is clear that new ways of reaching audiences will be important. Current media channels still dominate the dissemination of new music which limits opportunities for bands that are not considered suitable for

playlists that are considered the norm.

Summary

As the music market continues to change, record companies are struggling with the best ways of reaching audiences and receiving royalties. It is good for the consumer to have more choice at a cheaper price! The modern consumer is savvy and has the skills and knowledge of technology to access file sharing sites to download music. iTunes/YouTube etc. do not guarantee that royalties are safe. Record companies are looking closely at mobile technology. Appendix 17 reveals that downloads to mobiles, computers and music players now account for a tenth of global music sales as CD sales fall. The legality of downloading is still an issue. For The Furze opportunities are only limited by resources and imagination. There will continue to be a fragmentation of the distribution and consumption of music. Will radio networks and governments take a marketing approach and recognise the way consumer demands are changing, and encourage more diversity?

Appendices review

Appendix 1

EMI may sell music division as defence against takeover.

EMI has had a second profits warning within a month leaving it vulnerable to a takeover.

Shares have plunged on the back of poor sales in the USA. Retailers have been returning more unwanted CDs than the company had expected. Large retail companies often operate on a Sale or Return basis.

Head of the business, Alain Levy has been fired – sacrificial lamb.

Appendix 2

Music industry seeks access to private data to fight piracy.

The music and film industries are demanding that the European Parliament extends the scope of proposed anti terror laws to help them prosecute illegal downloaders.

Sony, EMI and Disney have asked for details of phone calls, emails and internet surfing so they can prosecute illegal pirates and file sharers. This is a sledgehammer to crack a walnut.

It is impossible to police everyone and file sharing is so popular it is unlikely that every individual involved will be prosecuted. However, large file sharing services such as Kazaa are a different story and have been forced to curtail some of its activities.

Appendix 3

Progress against pirate operations around the world

Courts create new legal landscape for digital music

Kazaa – forced to pay US\$115 million in compensation to the record companies that took legal action to stop copyright infringement on its network.

Alofmp3.com- Russian based company who offered music for sale around the world without the licenses to do so. Danish ISP's voluntarily blocked users' access to the site.

Zoekmp3- A Dutch court made a landmark ruling against Zoekmp3 enforcing rules to prevent illegal downloading in the Netherlands.

Bearshare – American operators ceased to operate any music or film download services and sold on its assets.

KuroIn – Taiwan's best known unauthorised P2P file sharing service settled with the recording industry.

Mp3s4free – the Court of Australia rejected an appeal from this company who had earlier been found guilty of copyright infringement. The website provided access to illegal music files.

Commentary – individuals can still share files by using software such as Azureus and web sites such as www.thepiratebay.org. Individuals with Bluetooth mobiles can also exchange video music clips, etc. Files can still be transferred from computer to mobile or iPod's.

A growing form of piracy – digital stream ripping.

Stream ripping undermines the growing market for legal, paid for download services. The threat of stream ripping is potentially even greater where unprotected digital streams are transmitted over the internet.

Appendix 4

Did Lily Allen send you a note to tell you it was her birthday?

The way record labels and artists communicate with fans is changing fast.

EMI's official websites allow fans to buy music, videos and concert tickets. Marketing expert John Leahy believes that EMI's deal with Robbie Williams by which they share revenue from such sales is the future of marketing artists.

There is a lot of music video clips played on people's mobiles so maybe directors may have to think about the quality of the images when they are downloaded to a handset.

Record labels now have online pluggers as well as radio pluggers.

A combination of new technology and database management is making marketing much more targeted. One can target fans in the area where a band will play a concert, tours, TV performances and new releases.

Consumers have a rapacious appetite for information and companies have to meet that demand.

It is now common to sell USB memory sticks with tracks, videos, screensavers and web links. A US mobile operator sent fans two 30 second clips and asked them to vote which should be released on John Legend's next single. The important thing here is relationship marketing – the fans feel involved, important and most of all wanted. Powerful stuff!

Interestingly although broadband has grown from 7% to 40% penetration, the incidence of internet users regularly file sharing unauthorised music has slowed from 18% to 14% perhaps reflecting the growing attempts to curb this illegal practice.

Appendix 5

Online music comes of age

As downloads soar, social networking sites are increasingly giving artists their first break.

Lily Allen had more than 40,000 friends even before she launched her first single.

Radiohead's Thom Yorke helped to pioneer the use of the web to interact directly with fans.

The internet has allowed some artists to independently create live followings and forge closer bonds with fans.

Music fans are becoming increasingly involved in generating content, through blogging, making recommendations to friends, building playlists, posting photos from concerts, and even creating their own videos.

Digital downloads now outsell physical singles with weekly sales topping 1 million, against 14,000 two years ago. It is expected that 50m downloads will be sold this year.

Music is seen by mobile networks, media companies and advertisers as the way to target the 16-25 demographic that is becoming harder to reach through traditional means.

Appendix 6

The Furze: Analysis of income and expenditure

Revenue = 11,457.74

Expenditure = 5,790

Profit = 5,867.74

Expenditure does not include promotional costs and the band does not take a salary. Other associated costs are not listed. The income is annual so in reality they are making a huge loss. The costs are necessary to build a profile and eventually hopefully make it big.

The income from signing away 50% of their publishing rights to Chrysalis remains undisclosed. The sum was however sufficient for the band to give up their day jobs and concentrate on their music career.

Appendix 7
No suit required

Terry McBride, CEO of Nettwerk Music Group suggests a creative idea – allow fans to have ProTools files on MySpace so they can mix their own music.

The traditional music industry is suffering – CD sales have fallen 20% in the US. However, the market for music is thriving via digital technologies. The industry now has more sources of revenue- ringtones, concert tickets, licence agreements with TV shows and videogames than ever before.

The record labels make most of their money from recorded music, much of the money spent marketing an artist benefits third parties like concert promoters and music publishing companies. Copyrights to a piece of music are usually divided between a label and a publisher.

‘The future of the business is not selling records it is in selling music, in every form imaginable.’ (McBride)

Some of the most promising new bands owe their success to online word of mouth and grassroots marketing.

Nettwerk offer prizes to fans who sell a certain number of CDs to friends and use software to keep tabs on its extensive network of volunteer marketers, formerly known as fans.

The intellectual property remains with the artists and they could leave Nettwerk for another management company. It is a risk but one worth taking.

Mc Bride used micromarketing techniques to push BNL’s album.
Radically, McBride is trying to monetize the P2P networks.

McBride is trying to create a winning formula whereby bands retain their own copyright and are built up on the back of a loyal following using viral marketing techniques.

Appendix 8
Warner music videos to be free on YouTube

Music videos from artists are to be made available free on YouTube, as part of a deal with Warner Music. Peter Jenner, ex manager of Pink Floyd, Clash and Marc Bolan accuses the recording industry of failing to embrace new technologies.

Appendix 9
Deal or no deal?

Koopa made chart history by being unsigned and yet got in to the top 40 on downloads alone. To get airtime on the mainstream radios 1 and 2 you need a plugger or a manager with contacts.

Britain's biggest unsigned act, Enter Shikari sold out the Astoria on the back of their MySpace following. They took on a Manager who helped them get to the next level.

A venture capital firm Ingenious has started getting involved with the music industry by funding Brighton based Passenger. The music business is changing!

Appendix 10

'Dissing' the discmen

Sales of singles both physical and downloads are up by 88% on last year reflecting a buoyant industry.

Downloads have given the industry a shot in the arm. There are anomalies at the moment between what is seen as legal or illegal downloads or recordings. Some people have been prosecuted which is done largely as a scare tactic. It is impossible to stop some pirating so why bother? In countries where piracy is widespread many musicians just regard illegal downloads as part of the marketing for their shows. If fans really like the music many of them will buy the CD in addition.

Appendix 11

Growth of digital downloads in UK singles charts

Digital downloads have increased by 64% in 14 months. It is the customer who is choosing what music to listen to rather than record companies choosing to release and promote a single. The industry will respond to what people choose.

So the more fans that clamour to hear music from emerging bands like the Furze the greater likelihood that music promoters and record companies will sit up and take notice.

Digital downloads in the UK have tripled in the past year to account for 78% of all single sales. 2006 – landmark year – Gnarles Barkley became the first act to reach the UK number one on downloads alone. 20% of sales of 'Crazy' were sold by a single mobile operator, 3 which now sells over 1 million music videos and audio tracks per month. Track downloads to mobile phones are the fastest growing format in the UK.

Recent number one 'I don't feel like dancin' by Scissor Sisters sold 45,000 digital copies before its physical CD cousin was made available. Digital, whether online or via a mobile phone has become the consumer's retail channel of choice.

The convenient way to save the planet (CSR)

- 85% said downloading would help save the planet by reducing packaging and waste associated with CDs. Less CD production equals less carbon emissions.
- Almost half the sample said they would be more likely to download music/music videos on their mobile if it helped the environment
- Ecological reasons were cited as downloading's second biggest benefit, after the

convenience of not having to travel to a music shop.

Analysis

Today's pop consumers consume with a conscience. CDs have always been seen as disposable, plastic and ultimately wasteful. Now digital has made it plain that the CD was just the cheap housing for songs. Consumers continue to be proactive in their attempts to save the world and reduce the carbon footprint in all areas of life so cutting out the mass production of millions of plastic CDs within a digital world is seen as packaging that is literally superfluous and a no brainer.

Vinyl – tactile – placing it on the turntable after removing the sleeve .Emotional investment in sleeve art – Santana ,Beatles – Sgt. Pepper's lonely hearts club band.

Appendix 12

From 2005- 2006 single track downloads, 3G mobile subscription and portable player sales have all gone up. In Europe, single track downloads , 3G subscriptions and Broadband lines have all gone up . In USA, single track downloads, 3G mobile subscriptions and album downloads are all up.

Digital sales volume bar chart, online album and mobile single have had the greatest growth in UK/Germany/France/Italy/Spain.

3G penetration – very high in Japan and South Korea, less so elsewhere

Appendix 13

Guardian article

Steve Jobs – trying to abandon DRM – is up against the big 4 major labels – Sony, Universal, EMI, Warner Music.

'Lack of interoperability between a rapidly expanding range of platforms and devices is definitely becoming more and more of an issue with music fans'.

Appendix 14

The future of music

A brief history of radio regulation (in USA)

Since the 1930s, the federal government has limited the number of radio stations that one entity could own or control. In 1980's and 90's Federal Communication Commission (FCC) began gradually to relax these limits. In 1996 Congress eliminated the cap on station ownership, allowing unlimited national consolidation.

The future of music

Executive Summary

National radio consolidation/local radio consolidation/radio programming

Emergence of nationwide radio companies

Fewer radio companies

Why? Industry consolidation and hundreds of new licences issued since 1995 have gone to a handful of companies.

Larger radio companies

Radio -station holdings for the 10 largest companies in the industry increased by almost 15 times from 1985 to 2005. Holdings of the 50 largest companies increased by almost sevenfold

Increasing revenue contribution

National concentration of advertising revenue increased from 12% market share for the top 4 companies in 2004

Increasing ratings concentration

In 2005 – top 4 firms have 48% of listeners. Top 10 have two thirds of listeners -65%

Declining listenership

Across 155 markets, radio listenership has declined over the past 14 years for which data available, 22% drop since its peak in 1989.

Consolidation in local markets

The largest local owners got larger.

Has been increasing since 1992 in local market. Increased considerably since 1996

More markets with owners over the local cap.

More companies were allowed to exceed local ownership caps in 104 markets.

Increasing local concentration

Concentration has increased dramatically

How lower caps can be justified

The FCC's local caps can be justified by analysing how the caps prevent excessive concentration of market share.

Restoration of local ownership is possible

FCC could license dozens of new full power and low power radio licences to new local entrants but it is very unlikely.

Appendix 15

Statistical tables show the decline of CD/CD single/cassette/cassette single/LP/EP, vinyl and rise of DVD audio and digital download single, download album

Dollar value table shows a similar picture. Digital single album plus kiosk are all doing well.

Total digital and mobile plus subscription all doing well

Appendix 16 – radio listening

Radio 2 has 15.8% share of listening

Radio 1 has 9.7%

Total - 25.5%

Appendix 17 Katie Allen (Guardian)

Digital is close to offsetting falling CD sales in USA and GB. The trend now is to have downloads by phone as well as web. Impulse purchases – internet buyers buy a song as soon as they hear it.

Appendix 18 – The way the music business was

1979

The Specials broke even with their first single release – Gangsters sold in excess of 250,000 copies in the UK alone. The band was paid royalties straight away. All the Specials still make money from royalties today.

2007

Enter Shakira – MySpace page has been viewed 1.5 million times. It seemed easier in the past. Nowadays, the climate has changed. There are lots of unsigned bands that prefer independence and want ownership of their own copyright.

‘I have never met a band who hasn’t gained from running a MySpace page’.

Peter Jenner – pop group manager of Pink Floyd, TRex, Ian Dury and Billy Bragg

Peter has been in the Music Industry for around 40 years.

He states that the record industry attempts to curb digital growth are futile.

Large record companies go for volume and this makes them money. They want multi million hit albums and have made a lot of money from this approach.

Digital distribution – zero distribution costs so no advantage in terms of volume.

Digital – advantage of volume sales are much lower than the previous large record label approach pre the digital age.

In the Sixties and Seventies if you could get your record on Top of the Pops it was a sure fire success. Massive exposure led to mass buying of records.

Now Top of the Pops has been cut.

Large retailers use mass marketing. In the Eighties, record labels front loaded recordings – produced 3 singles before releasing an album. If the record was in the charts the Stores would buy them. Virgin and HMV, latterly the supermarkets, have destroyed small independent stores. (Tesco sell records as ‘lost leaders’ to gain more market share – mass production model)

Traditional discovery of music has been eroded. John Peel was the guy who helped people to ‘discover’ music. Now this has been replaced by playlists. The market went for big worldwide hits – costs of entry escalated – and small labels could not compete. Island records (Label from sixties to nineties) sold out. Why? The founder said ‘I am too big to be small, and too small to be big’. A lot of labels went to the wall. This is still happening today – Warner wants to buy EMI.

Internet – S.D.M.I. – secure digital musical initiative – protected and controlled the record industry, which lasted 10 days. The code was broken by a Professor. The large record companies never recovered from this – they thought the code could not be broken! They wanted to control access to the market and control the competition.

Napster – P2P – reduces distribution costs at a stroke. Dispersed so it is harder to close everyone down and very hard to litigate.

Bundle – 12 songs for £10. £1 for digital and you can select your own tracks. Time and place of your choosing. Using MP3 and Apple iPods.

Record companies were very negative. YouTube were successful because the 2 founders could never license the site.(they would then have been liable to pay out vast sums of money for copyright infringement).They have about 300 million songs on the site.

MySpace just ignore copyright.

The big question for record labels today is ‘how can we leverage revenue from what is happening?’ For example, ask Youtube for a slice of advertising revenue.!

In the digital world it is impossible to protect copyright. Using computers, fans can copy and distribute very easily.

The consumer can become the distributor, the manufacturer and the promoter.

How can we make a business model on the internet which works?

Remuneration rights – in terms of application. T.V. –uses blanket licences. The same should apply to the internet – this will improve things.

One could charge the networks for the use of the music. Blanket licence – it is like selling insurance – we won't sue you!

Transaction costs are too expensive to collect. £2 a month would be sufficient, 30m broadband customers and 35 broadband companies = $1050m \times £2 = £2.1$ billion.

Consumers would be able to use music all the time. Value added. ISP's – it is advantageous to them as it may reduce churn.

Lots of large record companies will be bought and sold within the next 2 years.

The next development will be broadcasting to narrowcasting to nichecasting.

Lastfm – digital quality, 1000's of songs.

Enormous changes in music are going to happen. Musicians don't make money from recording, they make money from publishing. Large record label marketing is declining, tour support is declining which is why bands/small record labels have to do it themselves.

Mass market will become a spread of niche players making a living. The internet favours niche markets.

Visual imagery, combined with music on the internet will be very interesting! (cf. the Furze)

Small record labels/bands are more flexible, agile, will have niches, promote their own music. New gatekeepers will come along, small record labels can work well. Investment could come from Banks, investment companies and venture capitalists.

Some groups have turned down major labels. Large record companies could become venture capitalists and licensors.

Possible questions

- 1. What branding strategy should the Furze adopt to maximise sales and profitability?**
- 2. Prepare a communications plan which will increase sales and profitability for the Furze across all its target markets**
- 3. What branding and positioning strategy should the Furze adopt to improve its appeal to music fans?**
- 4. Devise a marketing plan to make the Furze a leading player in the music business**
- 5. Prepare a relationship marketing campaign which will effectively increase the Furze's customer loyalty and their lifetime value.**
- 6. The Furze is at a critical point in its development and growth. Produce a strategic marketing plan which will ensure increased revenue and negate the marketing strategies of domestic and international competitors within the music business.**
- 7. Prepare a corporate social responsibility charter for the Furze in the light of environmental issues and the recent tightening of legal action taken against piracy and illegal downloads.**

David Kilburn
Chartered Marketer