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Ryan Brown  
*Coastal Carolina University*

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## **Remixing Business Models: Technology and the Future of the Modern Music Industry**

**--Ryan Brown--**



Ryan Brown graduated *magna cum laude* with Honors from Coastal Carolina University in December 2011 with dual BSBA degrees in management and marketing. Ryan is currently enrolled in the MBA graduate school program at Coastal Carolina, with plans to graduate in December 2012. He is also beginning to explore potential career opportunities in the business field.

### **ABSTRACT**

*The music industry has undergone significant changes over the past decade. The growth of the Internet has caused record labels to reevaluate the ways in which they obtain revenue, market their products, and compensate their artists. However, the industry as a whole has been very slow to adapt to new technology, which has caused widespread industry problems such as music piracy and reduced revenues. In addition, new forums for showcasing new artists, such as YouTube and other social media outlets, have given new artists increasing power to market themselves and achieve success with a reduced reliance on the resources and guidance of record labels. This article will give a brief overview of the scholarly research on the topic, examine the specific ways in which technology is changing the music industry, and provide suggestions as to how record labels can continue to adapt and remain successful for many decades to come.*

## **Introduction**

The year was 2008. A young 14-year-old Canadian teenager had been posting videos of himself covering popular pop and R&B songs on YouTube for a few months, primarily to entertain his family and friends. One day, a marketing executive at a major record label accidentally came across one of his YouTube videos, saw his raw abilities, and immediately set out to track down this young talent. Over the next few months, he would be flown to Atlanta to record demo songs, meet his singing idol, and sign a recording deal with his record label. Just one year later, this teen would record and release his debut single to major pop radio stations across the United States. This led to immediate fame, popularity, and a cult following from tween girls that would continue to grow exponentially over the next couple of years. His debut album would go on to be certified Platinum, he would headline his own concert tour, and he would permanently change a generation, all in just a three year span (Hoffman, 2009). His name is Justin Bieber, and he is a poster child for how the music industry has changed from the rapid influx of new technologies over the past decade.

The music industry has undergone significant changes throughout the past few decades, ranging from the way in which artists are discovered to the way in which their music is distributed and sold. The primary basis of these changes is technology, which has impacted everything from finding artists to distributing music. However, record labels have been slow to adapt to these changes, which has led to serious problems such as illegal music downloading. Illegal downloading, also known as “music piracy,” has radically changed the entire business and distribution structures within the music industry in that record labels are experiencing reduced revenue from music sales. Although lawsuits and other strategies have been undertaken to attempt to combat this particular issue, the incessant evolution of technology will continue to affect the music industry for the foreseeable future.

Advances in technology are having a profound and lasting impact on all aspects of the modern music industry. There are five primary aspects to this impact. First, the Internet and social media have radically changed how new artists enter the music industry, as artists are now being self-marketed and discovered by fans via YouTube and social media websites. Second, the growth of online distribution is a significant opportunity for both record labels and artists, as they have the ability to reach a larger market and fan base at a reduced cost. Third, the music piracy problem has been significantly impacted by technology, as it has become much easier to distribute illegal copies of the music on a larger scale. Fourth, record labels should embrace online distribution to effectively curb piracy behavior and provide simpler, legal means to obtain music online. Finally, the music industry must embrace technology in order to continue to grow and prosper in the future by anticipating and leading the movement to tailor its products to meet the needs of its customer base.

## **Methodology**

The scholarly research utilized in this article comes from several databases specializing in academic journal searches, including Academic Search Premier, EBSCO, ScienceDirect, JSTOR,

and Gale General OneFile. These searches covered a wide variety of academic fields, including economics, marketing, management, performing arts, computer science, psychology, and sociology. Most of the authors of the scholarly research are either university professors or have extensive field experience in their respective disciplines.

Due to the current nature of this topic, other non-academic sources will also be used throughout the thesis. In particular, the information regarding the ways in which new artists enter the market will primarily consist of media sources, as thorough scholarly research regarding this topic has yet to be published. The media sources to be used will consist of various respected industry and business trade magazines, including *Billboard* and *BusinessWeek*.

There are four primary sections that will encompass the remainder of this thesis. First, there will be a lengthy analysis of the scholarly research and findings as they relate to each individual research question. Second, the scholarly research will be synthesized in support of the conclusions of each research question. Third, all of these findings will be summarized and related to the thesis statement that advances in technology are having a profound and lasting impact on all aspects of the modern music industry. Finally, limitations and potential areas of future research will be discussed. This thesis will be beneficial because it will pull together several smaller issues, which have been studied extensively, with new concerns and information to provide a comprehensive and up-to-date analysis of the current state of the modern music industry.

### **Literature Review**

There are four primary scholarly debates on this topic. First, there are several strong arguments as to whether the growth of online music distribution is good or bad for both artists and record labels. Second, there is a debate as to how the music piracy problem has been impacted by technology. Third, several authors suggest unique solutions as to whether or not record labels should undertake strategies to curb this illegal downloading behavior. Finally, there are several theories as to how the music industry will continue to grow in this environment.

The first area of debate is whether the growth of online music distribution is good or bad for both individual artists and record labels. Anita Elberse argues that record labels and artists should focus on marketing their music by individual songs, rather than entire albums, to better compete in the online marketplace. By pricing their individual songs at a significantly lower price than the album, the record labels are misrepresenting the value of their album as a whole. Also, with the current economic struggles facing most consumers, they are also much more likely to only purchase the song(s) that they like the most, as opposed to purchasing an entire album solely for a couple of hit songs (Elberse, 2010).

Thierry Rayna and Ludmila Striukova believe that the Internet helps record labels by exposing more artists to the marketplace, which allows the labels to only sign those artists who become the most popular. This is because better music artists are able to be discovered by the general public before they are signed by record labels, which reduces their economic risk. However, the individual artists are at a disadvantage because they will be unable to become successful in the

mainstream media without the marketing and promotion that a major record label can offer (Rayna and Striukova, 2009).

Armen Boyajian feels that although record labels consider illegal music downloading to be a major problem, it can actually lead to increased innovation by artists and increased customer awareness of their products. Their main argument is that record labels should be willing to be less stringent on enforcing copyright laws. This is because the impact of piracy on profits is not as strong as the impacts caused by the costs of pursuing legal action and the subsequent negative publicity on the record label (Boyajian, 2010).

Nicolas Curien and Francois Moreau argue that the Internet and illegal online downloading can actually lead to increased profits for record labels in other areas, such as concert and merchandise sales. They found that many individuals that illegally download music would not have been exposed to the music had they been required to pay for it. Subsequently, this leads to increased concert ticket sales and stimulates future consumption of the music of an individual artist. Also, record labels need to renegotiate their contracts with the artists in order to put less of an emphasis on record sales. Instead, they should focus on total revenue generated by individual artists across all forms of distribution (Curien and Moreau, 2009).

Finally, Calvin K.M. Lam, and Bernard C.Y. Tan believe that online music distribution will lead to increased consumer power in the marketplace. The authors provide three main suggestions as to how the record labels can adapt their current business practices. First, record labels need to reduce their emphasis on using lawsuits and the threat of legal actions to curb illegal downloading behavior, as this is only prolonging the inevitable transition in power. Second, all record labels need to embrace the use of technology into their current business practices. Finally, the entire music industry must adapt new pricing strategies and marketing practices in order to successfully promote their products in the future (Lam and Tan, 2001).

All of these authors seem to agree that the growth of online music distribution is good for the music industry as a whole. However, there seems to be a debate as to which group within the music industry benefits the most from this growth. Anita Elberse, Calvin K.M. Lam, and Bernard C.Y. Tan all argue that the consumers will benefit most from the increase in online music distribution. This argument stresses the importance of selling music by individual songs in order to increase customer convenience and willingness to purchase their products. On the other hand, Thierry Rayna, Ludmila Striukova, Nicolas Curien, and Francois Moreau believe that record labels will receive the strongest benefits. This belief is justified by citing the increased exposure that the artists and record labels will receive, which will lead to increases in concert and merchandise sales.

The second area of debate is how the music piracy problem has been impacted by technology. Birgitte Andersen argues that the piracy problem is a result of the high fixed cost to develop the music, as opposed to a low marginal cost to make copies of the music. Therefore, the distribution and reselling of pirated material is a very attractive industry to enter, as the profit margins are significantly larger than those of record labels. Due to this motive, and the availability of the technology to execute this motive, many individuals willingly participate in pirating music (Andersen et al., 2007).

Valerie L. Vaccaro and Deborah Y. Cohn argue that this problem has been facilitated by a failure of record labels to adapt to the growing technological environment. This is because modern customers desire convenience and ease of purchasing goods, which is in direct opposition to the selling of CDs in brick-and-mortar retailers that the record labels endorse and promote. They argue that the music market is changing from a product industry to a service industry, and record labels must be more adaptable to changes in consumer wants and demands (Vaccaro and Cohn, 2004).

Anita Elberse believes that the weakening demand of customers to purchase entire albums has led to the significant increase in both legal and illegal music downloading. After conducting the study, the author found that record labels are currently losing approximately one-third of their potential revenue by following their mixed-bundling strategy. She feels that the main component of this decline is the current pricing structure, as the market value that consumers place on an individual song or album is not equivalent to the prices set by record labels (Elberse, 2010).

Thierry Rayna and Ludmila Striukova feel that the significant increase in new artists entering the market has made customers less willing to purchase all of their music through the traditional channels of distribution. Their main argument is that record labels are actually better off in the modern technological era, as better artists are able to be discovered by the general public before they are signed by record labels, which reduces their economic risk. However, the individual artists are at a disadvantage because they will be unable to become successful in the mainstream media without the marketing and promotion that a major record label can offer (Rayna and Striukova, 2009).

Des Freedman argues that record labels have been focusing too much on using legal action to curtail this behavior, as opposed to finding new solutions to satisfy the needs of their customers. His main argument is that record labels have successfully overcome previous threats, such as the evolution of the radio and the illegal copying of vinyl albums. Therefore, instead of focusing its efforts on attempting to minimize this threat, they need to embrace the new technologies and adjust their business models to become even more profitable (Freedman, 2003).

Finally, Chia-Chen Wang believes that the high computer literacy of teenagers and adolescents has caused the music piracy problem to grow significantly faster than other previous threats to record labels and the music industry as a whole. There are three factors that support this conclusion. First, their attitude towards illegally downloading music is significantly influenced by their peers. Therefore, if their peers find the behavior acceptable, the individual is much more likely to perform the action as well. Second, young people are willing to legally purchase music, but only if the music industry can meet their needs in regards to availability and variety. Finally, adolescents are significantly influenced by the prices of the music, as they are usually economically dependent and lack the financial strength to make expensive purchases (Wang et al., 2009).

The impacts of technology on the music piracy problem are up for significant debate amongst these authors. Valerie L. Vaccaro, Deborah Y. Cohn, Thierry Rayna, Ludmila Striukova, and Chia-Chen Wang all argue that illegal music downloading is significantly harming record labels

and the music industry as a whole. This is because music piracy has drastically cut into the album sales of the most profitable artists within the record label. Birgitte Andersen also views the music piracy problem as a threat, although they blame the overall industry structure for causing this problem. However, Anita Elberse and Des Freedman believe that record labels need to view this problem as an opportunity rather than a threat, as it provides a significant increase in legal downloading and allows record labels to co-exist in the online music distribution environment.

The third area of debate is whether or not record labels should undertake strategies to curb this illegal music downloading behavior. Nancy Kim believes that the current use of explicit or implicit copyright statements regarding the illegal copying of music is not affective. Therefore, instead of pursuing legal action or other sanctions, record labels need to develop an alternative method to gather their royalties (Kim, 2008). Fred Von Lohmann also argues that, similar to the radio revolution, the record labels should set up a collective agreement to obtain usage rights fees from illegal downloaders in exchange for the right to share the music. This compensation would be evenly distributed amongst all record labels based on the popularity of their music offerings (Von Lohmann, 2004).

Valerie L. Vaccaro and Deborah Y. Cohn argue that the music industry is changing from a product industry to a service industry and, therefore, record labels must begin to embrace technology to curb this behavior (Vaccaro and Cohn, 2004). Des Freedman believes that record labels need to view the music piracy problem as a growth opportunity and learn to co-exist in order to remain profitable (Freedman, 2003). Steven Seidenberg feels that record labels should ignore the problem of illegal downloading and focus on other areas of their business to grow their profits, such as concerts and merchandise sales (Seidenberg, 2010). Armen Boyajian argues that most individuals who illegally download music would not have otherwise purchased the music and, therefore, are not a significant threat to record labels (Boyajian, 2010). Nicolas Curien and Francois Moreau believe that music piracy is actually beneficial to record labels, as it leads to increased artist exposure and profits in other areas such as concert sales and personal appearances (Curien and Moreau, 2009). G. Prem Premkumar feels that record labels need to focus on developing a strong intermediary retailer between the artists and customers in order to discourage individuals from illegally downloading music (Premkumar, 2003). Finally, Chia-Chen Wang argues that the most effective way to discourage music piracy is to build a strong negative attitude to the behavior, especially among the influential teenage and adolescent markets (Wang et al., 2009).

There is a significant debate amongst the authors as to whether or not record labels should undertake strategies to curb music piracy. Valerie L. Vaccaro, Deborah Y. Chon, G. Prem Premkumar, and Chia-Chen Wang all argue that record labels need to take significant action to curb illegal music downloading behavior. They feel that ignoring the problem and failing to take corrective action will result in many long-term, irreversible consequences to the profitability of the music industry as a whole. On the other hand, Des Freedman, Steven Seidenberg, Armen Boyajian, Nicolas Curien, and Francois Moreau believe that music piracy should be viewed as a growth opportunity by the record labels. In addition, Nancy Kim and Fred Von Lohmann believe that record labels should work together and share royalty collections in order to survive and grow their businesses. Therefore, the music industry should attempt to co-exist with illegal music

downloading websites and primarily focus on areas where record labels can continue to grow their profits, such as concert and merchandise sales.

The final area of debate is over the extent to which the music industry will continue to grow in the new online business environment. W. Glynn Mangold and David Faulds argue that record labels must accept and adapt to the use of social media to promote their artists and music, along with frequently soliciting feedback from their customers (Mangold and Faulds, 2009). Calvin K.M. Lam and Bernard C.Y. Tan believe that record labels need to continue to utilize the Internet in order to control the increase in the power of consumers in the music industry (Lam and Tan, 2001). Patrick O'Donnell and Steven McClung feel that music blogs are a powerful tool for introducing new artists to consumers and receiving feedback as well (O'Donnell and McClung, 2008). Mark A. Fox and Paul Kochanowski argue that record labels need to focus their marketing efforts on their most popular artists and encourage entire album sales in order to remain profitable in the new business environment (Fox and Kochanowski, 2007). Maria Styvén believes that record labels need to sell their music as intangible services instead of tangible goods in order to most effectively fit into the online marketplace (Styvén, 2007). Finally, Evan Lieberman feels that individual artists will benefit most from increased exposure in the new online business environment (Lieberman et al., 2010).

In general, the authors agree that the music industry must be willing to adapt their business practices in order to effectively and sustainably grow their profits. However, the recommended approaches that each author suggests are somewhat unique. W. Glynn Mangold, David Faulds, Calvin K.M. Lam, and Bernard C.Y. Tan all argue that record labels must diversify their approaches in order to continue to grow and market their products. Some potential methods for achieving this diversification are to utilize social media to promote their products, expand their presence on the Internet, and utilize music blogs to receive important customer feedback. On the other hand, Mark A. Fox, Paul Kochanowski, Maria Styvén, and Evan Lieberman all believe that record labels should instead focus on rebranding their existing products to stimulate future sales. These authors suggest that record labels should market their most popular artists, encourage entire album sales, sell their music as intangible services, and increase exposure for individual artists in order to ensure future profitability.

Overall, the research of these authors has led to several broad conclusions. First, online music distribution has provided a fresh and significant opportunity for the music industry as a whole to grow and prosper. Second, the illegal music downloading problem has grown significantly as technology continues to grow and develop. Third, the music piracy problem is both a significant threat and a strong growth opportunity for both record labels and individual artists. Finally, the music industry must continue to embrace and utilize technology in new and creative ways in order to ensure future growth and profitability.

### **Findings**

The scholarly research conducted by these authors does leave some gaps in providing a complete analysis of how technology is impacting the modern music industry. First, it is unclear whether individual artists benefit from online music distribution. Second, no predictions have been made in regards to whether the trend to illegally download music is likely to continue or diminish in

the foreseeable future. Third, it is unclear how record labels can attempt to remarket their products in order to ensure sustainable profits for the foreseeable future. Fourth, there are no direct suggestions as to how social media can be utilized to promote new artists who are entering the marketplace. Fifth, the specific ways in which the Internet can be used to promote and market the music of record labels could be analyzed and discussed further. Finally, there is no direct analysis as to how individual artists will be affected by the significant changes in the music industry.

### **Evolving Structure of the Music Industry**

For the past several decades, record labels have had a monumental task in trying to discover and evaluate potential artists. Record labels often had to employ a large number of talent scouts to travel across the country to attend live performances of potential artists, and then had to invite desired artists to subsequent auditions. This process was very costly and time consuming, with no guarantee of finding successful artists. However, the current use of YouTube and other social media websites allows record labels to view potential artists without traveling expenses, and they also benefit from seeing comments from the general public.

When potential artists are discovered, the way in which they are signed and developed has also changed significantly. In the past, artists were simply employed to produce music and perform concerts, of which record labels would profit from the revenue from record and concert ticket sales. However, modern artists are being signed to broader contracts that allow labels to collect revenue from a larger variety of sources, including merchandise sales and social media marketing platforms. Therefore, it is evident that the way in which modern artists are being utilized and compensated is becoming much more dynamic and complex, just like the music industry as a whole in the current era of technology.

### **Technology & New Artist Entry**

The Internet and social media have radically changed how new artists enter the industry. Historically, artists had to travel to record labels for the opportunity to get signed, which was very costly with limited success. In addition, bribes and other promotional methods were a common method to attempt to get commercial radio airplay. However, new methods have emerged for aspiring artists. As noted in the opening vignette, YouTube was the primary form of discovery for Justin Bieber, along with many other aspiring artists (Hoffman, 2009). Social media has also helped in other aspects of the music industry, such as finding band members and further promoting artists that are already successful in the commercial music industry.

In addition, television and other multimedia platforms are also helping artists grow and develop in the music industry. The largest example is American Idol, which has generated numerous top-quality artists such as Kelly Clarkson, Carrie Underwood, and Jordin Sparks. However, the Disney franchise also effectively uses these forms of media to promote its artists. For example, Miley Cyrus used the Hannah Montana franchise to become an icon for tween girls around the world, which has allowed her to launch into a successful solo career after getting older and breaking away from the Disney franchise (Donahue, 2009). Subsequently, the Jonas Brothers

were introduced to the world on a Hannah Montana concert tour and television appearance, which has led to their own successful concert tour and television show as well (Grover, 2008).

### **Growth of Online Distribution**

The growth of online distribution is a significant opportunity for both record labels and individual artists in several ways. First, labels should market music by individual songs to satisfy customer demands (Elberse, 2010). Traditionally, record labels have compiled approximately 10-12 songs from an individual artist before releasing a full album of the public. This was beneficial due to the high costs of production and distribution of physical albums or CDs. However, the current online distribution structure allows record labels to quickly and efficiently provide individual songs to customers at a relatively low cost. In addition, customers will be more motivated to purchase the one song they enjoy, as opposed to spending their money on other songs of which they have little to no interest.

Second, the Internet is helping record labels by exposing them to more artists, which increases the talent pool (Rayna and Striukova, 2009). As shown in the Justin Bieber example, YouTube and other social media websites are quickly becoming important and efficient avenues which new artists can utilize to penetrate the market. From the perspective of the record labels, the Internet is beneficial because they can more effectively estimate the potential popularity of a particular artist based on his or her following on social media websites. Also, record labels save time and money by searching through free social media websites as opposed to employing traveling talent scouts to seek out potential artists or bringing potential artists to the record label offices for a formal audition.

Third, illegal downloading actually leads to increased innovation and awareness in the music industry, as more consumers are exposed to music (Boyajian, 2010). Although this may sound counterintuitive, most people who illegally download music would not have otherwise purchased or interacted with the music. In the past, people could only learn about popular songs through either purchasing the record or hearing the song on the radio. However, in the Internet age, songs have the opportunity to increase in popularity and spread around the world more quickly than ever before. Therefore, without the increased awareness caused by illegal downloading, these songs would not have spread to actual legal purchasers or garner the level of popularity in the mainstream media.

Also, record labels and individual artists can obtain additional profits in concerts and merchandise sales to offset the losses in song and album sales (Curien and Moreau, 2009). As discussed in the previous point, songs and artists can gather popularity very quickly through the Internet and mainstream media. Although many individuals may not have the desire to purchase a particular song, they will obtain an interest towards a particular artist. Therefore, they are much more likely to attend concerts or purchase merchandise from that particular artist. Since concerts and merchandise sales have a significantly larger profit margin than song and album sales, this actually provides a significant revenue boost for record labels and individual artists.

Finally, this growth will lead to increased consumer power in the marketplace, which means that labels must view this as a growth opportunity to reposition themselves in the marketplace (Lam

and Tan, 2001). Traditionally, record labels have had significant power in terms of album distribution and pricing. However, with the advent of the Internet and online music distribution, there has been a significant increase in competition among both intermediary distributors and record labels. Since the customer has many more choices now than ever before, record labels must utilize free social media websites and other forms of online communication to ensure that potential customers are aware of their products at a minimal cost to the labels.

### **Technology & Music Piracy**

The music piracy problem has been significantly impacted by technology. These impacts have been intensified in several ways. First, record labels simply failed to adapt to the changing technological environment (Vaccaro and Cohn, 2004). In its initial stages, online music distribution was solely viewed as a threat to the profitability of record labels, as opposed to a significant growth opportunity. Therefore, when customers went to the Internet in an attempt to download music, there were not any legal avenues for which they could obtain their desired music. Since there was still a significant demand for online music, illegal distributors (such as Napster) came about to provide an arena for music file sharing, with their revenues coming from advertisement sales and premium subscriptions. However, if record labels had simply embraced online distribution and technology from its inception, it is highly likely that the illegal downloading companies would not have become so large and powerful.

Second, weaker demand to purchase entire albums has led to increased illegal downloading (Elberse, 2010). As discussed before, many individuals solely want to purchase the single hit song that is playing on mainstream radio, as opposed to an entire album of mostly unknown music. Before the start of legal online music stores such as iTunes, the only avenue to obtain individual songs was through illegal music downloading. Although this action is obviously illegal, customers psychologically justified this behavior based on groupthink and the belief that there were too many people illegally downloading music for themselves to ever be caught and prosecuted.

Third, having more new artists in the music market has made customers less eager to purchase individual songs and albums (Rayna and Striukova, 2009). The ability of new artists to quickly rise to fame has also significantly increased turnover on mainstream pop radio, as new songs can replace others on the music playlist on a monthly (or even weekly) basis. Since popular songs tend to fade out of mainstream culture very quickly, many customers are less willing to invest their money into permanently purchasing that particular song. Thus, the number of customers who are willing to purchase an entire album of music in modern culture has also decreased significantly.

Fourth, labels need to focus on finding new solutions to the music piracy problem instead of wasting time and money on pursuing legal action against offenders (Freedman, 2003). Over the past decade, record labels have primarily utilized a defensive approach to music piracy. For example, labels were very slow to embrace and sell their products in the online marketplace. Instead, they thought that they could save their traditional structure of selling physical albums by using legal action to prosecute copyright violators and scare the other people who were illegally downloading music. However, this strategy was unsuccessful due to the massive size of the

music piracy market. Therefore, record labels need to focus on growing the legal online music marketplace in order to further combat the illegal music downloading problem.

Finally, teen computer literacy has caused the problem to grow even faster, as teens are a primary source of illegal downloading (Wang et al., 2009). Since current teenagers are the first generation to grow up having computers and the Internet, they have a much better understanding of the intricacies of the online world. Therefore, they are able to successfully copy and share music files without catching the attention of record labels and other legal enforcement groups. Since younger generations will continue to grow up in the Internet age, this problem is not likely to go away unless education and legal distribution outlets can be significantly enhanced.

### **Strategies to Curb Piracy**

Record labels should embrace online distribution to curb piracy behavior. This can be accomplished using several techniques. First, record labels must embrace the shift of album sales from a product to a service industry and adjust their business strategies accordingly (Vaccaro and Cohn, 2004). In the past, music sales have consisted of purchasing a physical product, such as a record or a CD, from a physical store. However, the Internet age has caused a shift to selling digital music files which, unlike records or CDs, cannot be touched or felt. Since the retailers do not have a direct opportunity to interact with the customers, they must focus on providing excellent and reliable service in order to assure customer satisfaction and build long-term customer loyalty.

Second, labels must view this as a growth opportunity and co-exist with other downloading sites to remain profitable (Freedman, 2003). There is currently a large and expanding market for online music distribution. Although many individuals will continue to use free illegal music downloading websites, increased customer awareness will also continue to grow the legal online music marketplace. Therefore, instead of combating illegal downloading websites, record labels need to focus on growing its own online presence and legal distribution channels.

Third, they must focus on growth opportunities such as concert and merchandise sales (Seindenberg, 2010). As discussed before, the Internet and social media have made customers much more aware of the current popular songs and artists. Even though many consumers may not want to purchase individual songs or albums, interest in popular culture will entice many customers to check out a live performance by a particular artist or purchase other merchandise related to that artist. Since concerts continue to sell out amid a weak economy, this arena is a significant growth opportunity for record labels.

Fourth, labels must realize that illegal downloaders are not a significant threat, as most of these individuals would not have otherwise purchased the music (Boyajian, 2010). Instead, as previously discussed, exposure to new artists and songs by people who illegally download music can lead to increased popularity among legal music purchasers. Therefore, instead of a threat, illegal music downloading should be viewed as a free marketing opportunity that can enhance the popularity of an individual artist or song.

Fifth, the Internet and illegal downloading has led to increased exposure for individual artists, which can lead to additional revenue from increased concert attendance and other appearance fees (Curien and Moreau, 2009). Based on the same reasoning as the record labels, artists also benefit from the increased attention they receive from concerts and other events in the form of incentives and appearance fees. In addition, social media has also led to a significant increase in the popularity of individual artists. Therefore, artists will continue to benefit from the Internet and illegal downloading in the foreseeable future.

Also, labels must build a strong distribution network in order to dominate the online marketplace (Premkumar, 2003). Since most record labels lack the expertise to create their own direct distribution structures, labels need to partner with other distribution websites such as iTunes and Amazon. By selecting outlets that already have a strong Internet presence and loyal customer base, record labels can assure that their products are legally and successfully reaching large numbers of potential customers.

Finally, labels must encourage teens to utilize these new distribution strategies in order to increase their long-term profitability potential (Wang et al., 2009). Since teens and tweens are the future long-term customers of the music industry, a significant educational effort needs to be undertaken to ensure that they are aware of the long-term negative impacts that their illegal downloading behavior will have on its growth and success. In addition, concert attendance and merchandise sales should also be oriented towards the younger generation in order to build industry loyalty and long-term interest in purchasing and consuming music.

### **Future Industry Growth**

The music industry must embrace technology in order to continue to grow and prosper for the foreseeable future. This can be accomplished in several ways. First, labels must be willing to utilize social media to promote their artists and solicit feedback from consumers in regard to the quality of their products (Mangold and Faulds, 2009). Since it is a free and widely-used tool, social media is critical to the successful marketing plan of record labels. This is because record labels can promote anything from song release dates to concert information to millions of interested consumers without having to undertake expensive strategies that have a long lead time. In addition, this forum allows fans to post comments and questions, which helps artists and labels appear more outgoing and friendly while providing important and relevant feedback to the artists and labels.

Second, they must use the power of the Internet to control the inevitable increase in consumer power (Lam and Tan, 2001). The Internet is the future of most forms of major commerce, including the distribution of music. While record labels have been lagging in putting their products for sale in the online marketplace, consumers have gained enormous power through illegal music downloading websites and the rapid growth of social media. Therefore, record labels must be willing to continue to grow their online presence in order to minimize the growth of consumer power, which leads to a demand for lower prices and, thus, lower profit margins.

Third, labels should use blogs to introduce new artists, as this is a popular information source for many consumers. Although information posted on blogs is not always factually accurate, many

consumers are not aware of this when attempting to find information and discuss it with other people. In addition, the use of blogs helps position artists as normal people in the eyes of consumers, as opposed to glorified or superficial stars. Therefore, the use of blogs is critical to the continued growth and success of new artists entering the industry.

Fourth, they should focus on promoting their most popular and profitable artists to maximize revenue while reducing expenses as much as possible (Fox and Kochanowski, 2007). As discussed before, an effective deduction in expenses can be obtained by using and exploiting free social media websites. However, these resources should be primarily focused on the most popular and profitable artists, as they have the potential to expand into global markets and obtain a sustained revenue stream for the record labels. Although the promotion of new artists on social media is also important, long-term growth potential is directly tied to the success of the most profitable artists at a particular record label.

Fifth, labels should sell their music as an intangible service instead of a tangible good in order to match the expectations of consumers (Styvén, 2007). Customers expect to be able to use online marketplaces to obtain most of their desired goods and services, including music distribution. Since the sale of music files does not involve an exchange of tangible goods, providing excellent customer service is critical to the success and growth of online music distribution.

Also, labels must be willing to negotiate with distributors to ensure that their artists are receiving a fair percentage of compensation for utilizing these methods of distribution (Harding, 2008). In the past, record labels typically received about 85-90% of revenue from album sales. Recoupment was also a major concern, as artists would have to pay back any cash advances from record labels before claiming their share of the album's profits. However, due to the significant decrease in inventory costs from the sale of online music files, artists are now demanding an increased share of profits from these sales. If record labels are unwilling to give their artists an increased percentage of profits, they are much more likely to find other means to put their music online, such as posting music files and marketing themselves through free social media sources.

Finally, they must realize that artists will benefit the most from increased exposure online (Lieberman, 2010). Individual artists are the face of record labels and the music industry as a whole, as they receive the most public exposure and credit for their work. As customers are able to interact more with individual artists through the Internet and social media, they are only going to grow in popularity. Therefore, record labels need to assure that all of their focus remains on promoting and enhancing the image of their artists in order to sustain growth and profitability.

### **Discussion**

The Internet and social media are exciting new opportunities for record labels and artists to continue to market and sell their products and services. As more new generations of technologically-savvy individuals continue to come, these forms of media are critical to capturing the attention and interest of these young consumers. In addition, record labels have been slow to adapt to the technological changes in the marketplace. Although it is debatable as to whether record labels should simply ignore the illegal downloading problem, it is clear that they

should primarily focus on improving their long-term business model in order to sustain long-term growth and profitability.

The existing scholarship benefits from this information in several ways. First, it provides a synthesis of all of the major technological impacts on the modern music industry. The major forms of technology impacting the music industry consist of legal avenues of online music distribution, YouTube, social media websites such as Facebook and Twitter, and the use of blogs. Although several of these forms of media have been analyzed individually, this research incorporates the intertwining effects of all forms of technology on the music industry.

Second, it updates the current literature by providing up-to-date information in regards to social media and the development of young artists in the music industry. Since scholarly research has a significant time delay, there has been very little research published in regards to social media in general, much less in regards to social media and the music industry. In addition, the information about young artists in this research is up-to-date and relevant to current popular music culture.

Third, it provides several practical suggestions as to how record labels and individual artists can successfully utilize technology to improve their exposure and profitability potential. While the business-related aspects of how technology has impacted record labels has been analyzed in the past, this research also considers the positive and negative impacts of technology on individual artists within the music industry.

Finally, it organizes the scholarship by individual issues to showcase the similarities and differences that qualified authors have on this research topic. While many scholarly authors have conducted their own individual research on various topics related to the music industry, this research brings forth the opinions and conclusions of several different researchers to present a logical argument in regards to the impacts of technology on the modern music industry.

## **Conclusions**

Technology is having a profound and lasting impact on all aspects of the modern music industry. This research is informative for management and marketing industries, as well as the general public, in several ways. First, it provides a relevant and real-life example about how technology is continuing to drastically change the world in which we live. Second, it provides practical guidelines as to how marketers can promote goods and services using the Internet and social media. Third, it showcases strategies that managers can undertake in order to sell their products in the online marketplace. Finally, it enlightens the public as to the underlying negative impacts that illegal downloading can have on both individual record labels and the music industry as a whole.

While this thesis attempted to encompass all aspects of the modern music industry, there are some areas in which additional research should be conducted. First, as new forms of social media continue to emerge and develop, the continuing impacts of these communication mediums should continue to be examined. In addition, the current generation of artists, the first to enter the industry using the Internet and social media, should continue to be tracked to determine the long-

term effects of technology on the length and quality of their careers. Finally, as technology continues to grow and develop, its effects on the music industry should continue to be examined and assessed in terms of industry health and overall profitability.

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