2 Shaping Forces

Introduction

As an ‘industry’, the music business can be analysed in terms of its micro-economic structure, conduct and performance (Anand and Peterson, 2000; Power and Hallencreutz, 2007; Asai, 2008), infrastructure (Burkart and McCourt, 2004) and restructuring process (Hardy, 1999). This kind of approach tends to lead us to focus fairly narrowly on the dominant players in the production side of the industry, such as the ‘big three’ record labels in the commercial music market (Universal Music Group, Sony Music Entertainment and Warner Music Group). However, it does not deal so clearly with non-mainstream and publicly funded music (Hesmondhalgh, 1997; Fonarow, 2006), and therefore blinkers our view of the many and various actors and actions that comprise the music market. In addition to the record labels and the management they provide, other actors include regulators, copyright owners, publishers, policy makers, sponsors, promoters, musicians, media, critics, audiences, social activists and researchers. A multitude of different and important relationships exist between these actors, most of which are not yet well understood in the marketing literature. The purpose of this chapter is to briefly introduce the key shaping forces behind the contemporary music industry. It first outlines the economic system of music activities, and then explores the role of cultural policy in the music business. It concludes with a review of technology as a significant driving force behind the change in the music industry.

Economics of music

At the beginning of the 21st century, Payne (2000) optimistically maintained that the whole music industry would continue to grow, along with the significance of music in human life. While her prediction remains as valid as it was 13 years ago, the digital revolution and declining album sales have fuelled drastic changes in the business and economic structures of the music industry, influencing the ways music is being produced and consumed today. The dominant trend has been driven by technological developments, the most visible aspect of which is the rise of digital music formats and the relocation of music distribution, storage and consumption to online sources.

Yet despite the rapid growth in digital downloads, their value has not been able to compensate for the loss of revenue from sales of CDs. According to the latest estimates, 2011 was the first year in which the sales of digital music topped the sales of physical music (Segall, 2012). The emerging music consumer is less interested in owning a physical product like a CD, than in having access to music everywhere through a portable music player, smartphone, tablet, or laptop, thereby fuelling the proliferation of new types of music businesses, such as online stores offering a-la-carte downloads (e.g. iTunes, Amazon.com), online streaming, downloading or file-sharing services (e.g. Napster, AOL Music, Yahoo! Music, Spotify), and online videos (e.g. YouTube). The changes have also impacted on the traditional bricks-and-mortar music retailers, with many closing their doors or, like Tower Records in the US or Virgin Megastores in the UK and several other countries, moving online. Furthermore, traditional record deals which so many musicians used to aspire to, are also disappearing. They are frequently being replaced by so-called '360 deals', where artists, in return for financial support, and especially at the beginning of their careers, offer a share of their future earnings. It is important to observe this major trend in the music industry; such contracts recognize that musicians' revenue streams have diversified. Musicians nowadays have to engage in a wide range of musical activities in order to be profitable, including recording albums, performing live and licensing their music to be used in marketing, film and broadcasting. This is why the contemporary music industry shares many of its products with other members of the broad entertainment family. For example, music is used in the gaming industry, film industry, services industry, marketing, retailing, broadcast entertainment and as mobile phone ringtones. Music has therefore become a much more important part of wider national and global economies.

The economic system of music activities is influenced by its funding model – with popular music relying primarily on market sales, and other genres, such as classical music and jazz, often having to rely on public funding. Music economics depends on a number of factors, including the nature and extent of economic rewards resulting from music activity, the extent to which professional music activity is possible (with varying degrees of professionalization in different genres), the control of any necessary technologies for recording and performing music (given the oligopolistic nature of the recording industry), and last but not least, the marketing and sale of music activity and products (Booth and Kuhn, 1990). All of these economic activities are performed by the many members of the music industry, including composers, musicians and other artists, producers, managers, music publishers, record companies, live music promoters, music entrepreneurs, media organizations, other creative industries, music education, music retailers, music industry organizations, manufacturers and distributors (Williamson *et al.*, 2003; Williamson and Cloonan, 2007).

History of the music industry

Looking back at the history of music production and consumption in western Europe, Hull *et al.* (2010) identify three ages of the music industry.

First, in the agricultural age, music was only available in live form; it was created and consumed at the same time, and performed mostly by folk musicians and amateurs. The only professional musicians were employed by the church and wealthy aristocrats. The early medieval musicians, for example *troubadours* and *trouvères* in France and *minnesingers* in Germany, often travelled extensively from place to place and from patron to patron, entertaining wealthy aristocratic families