The Music Industry: Two Steps Forward, One Step Back
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It has taken the music business a while to realize that alienating your potential customers might not be the best way to boast performance in difficult times. For years, music lovers have complained about the high prices of compact discs. The six majors – Universal Music Group (UMG), Sony, Warner Music Group, EMI, Bertelsman music Group and PolyGram (now part of UMG) – used their power over the distribution of music to control the channel and capture most of the value created in the business. The Internet turned this lucrative business model on its head by completely bypassing the traditional distribution chain. All too eager for alternatives, consumers embraced this opportunity for access to free – but illegal – music downloads.

Rather than rethink their business model leveraging the new technology to expand their market reach and reduce transaction costs in the value chain, the music industry decided to fight these new developments in an attempt to salvage their control over the distribution of music. Not only did they upset many music fans by their actions but, more importantly, they lost an opportunity to lead and guide the transformation of their industry, now being forced into a reactive role, responding to new threats that surface daily. Sometimes these reactions are just defensive – as the 261 lawsuits filed against individuals by the RIAA – but other times they try to adapt to the new situation and offer users what they want.

Universal Music Group, the largest of the majors with 24.4% market share, seems to have made a first step in reversing the trend with last week’s announcement. In addition to slashing compact disc prices by 30% it will increase direct-to-consumer advertising to improve awareness about artists and their music. Bringing the value to consumers of legally acquired music more in line with other alternatives available such as Internet downloads and pirate copies might persuade customers to return to the retail music stores. However, this can only be a first step in a strategy to counter the effects of piracy and the Internet, which the music business blames for its hardship. Unfortunately for them, by now music lovers have educated themselves in the peer-to-peer technology and have got a taste for free downloads, which will be hard to reverse.

Sony, another of the majors, is betting on a very different model. The consumer electronics giant is trying to make their hardware – computers to digital music players – the centrepieces of digitally networked homes, and they hope that providing content directly to consumers through their recently announced net music service will also drive demand for their hardware.

The other majors are also struggling to define their new business strategies, which will include some form of on-line presence. Which model will eventually prevail is still unclear, but what is clear is that there is no easy fix for the woes of the music business and music fans can only hope to gain from these new developments.