# Shaping an industry in your favor

## Managers may be familiar with the idea that "shocks" brought on by technological and regulatory changes can trigger the emergence of novel industry structures.

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**By Fabrizio Ferraro**

In 1999, Hilary Rosen, then chief executive of the Recording Industry Association of America (RIAA), gathered the heads of the major music labels in the United States around a table at the Four Seasons Hotel in Los Angeles to discuss what to do about digital music. Instead of rehearsing legal arguments, she simply asked those present to name songs – anything from their latest hits to their back catalogs – and with a computer in front of her, she proceeded to show them that every single song they could think of was already available on Napster, the online file-sharing service. The music executives were stunned – and not just a little worried. What would this mean for their bottom lines?

Ten years later, the music industry is still in a quandary – and their bottom lines are still shrinking, from $13 billion in sales in 1999 to $8 billion last year. The only thing clear is that the traditional distribution model cannot hold, yet large music companies are clinging on, waging an unpopular and ultimately self-defeating battle against illegal downloads. Yes, the RIAA sued Napster and shut it down, but, as many companies are learning the hard way, you can win a battle and still lose the war, especially when the rules of the battlefield have changed so completely.

In recent interviews, Hilary Rosen has expressed regret over Napster's demise, seeing it as a lost opportunity: the industry was too slow to take advantage of it, to embrace it, and now new entrants, such as Apple, are taking a leading role in the industry by providing a user-friendly platform for legally downloading copyrighted material. Other players are

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experimenting with radically different business models, such as free ad-supported music (MySpace, YouTube, Imeem), music-as-service (Rhapsody) or a mix of the two (Spotify).

Regardless of which dominant model emerges, the traditional music labels are now in a much tougher position. According to Tim Quirk, vice president of music programming for Rhapsody, they only have themselves to blame. In an NPR interview in October 2009, he described it this way: “They know what their catalog was worth in the past. They know what it’s worth today. They do not know what its future value will be, so their job is to maximize its present-day value. The big fear is not so much a loss of money as a loss of control. MTV was a huge success. Labels still hate MTV because they felt like MTV was building a business on their backs. You hear a lot of the same kind of talk with the success of iTunes. Even though it’s putting big paychecks in the record company coffers, they’re still upset that it’s got so much power over them.”

So what should RIAA members have done? What should any business leader do when the whole architecture of their industry is suddenly up for grabs? When all the players are experimenting with vastly different roles, and the distribution of value across players is far from being settled, the key may be to become the bottleneck in the chain, thereby keeping more of any value created. A novel industry architecture, as we shall explore in this article, is not necessarily a bad thing – if you can succeed in reshaping it to your advantage.

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**Fabrizio Ferraro**

Professor and Head of the Strategic Management Department at IESE Business School.



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