

DIGITAL MUSIC DISTRIBUTION

An analysis into the contemporary consumption patterns of recorded music and their influence over the music marketing implemented on the Internet.

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DECLARATION

I, Gerald TREPY, declare that this dissertation and the work presented in it are my own and has been generated by me as the result of my own original research.

I confirm that:

1. This work was done wholly while in candidature for a Bachelor of Arts Degree in Audio Production at SAE Institute, Oxford;
2. Where I have consulted the published work of others, this is always clearly attributed;
3. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
4. I have acknowledged all main sources of help;
5. None of this work has been published before submission.

Date, Place, Signature.

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ABSTRACT

With the digital music distribution as a framework, the dissertation examines the marketing of recorded music on the Internet. From this perspective, it sheds light on the issues, notably the crisis, that the recording industry sector has been facing since the development of the Internet and digital technologies.

To understand why the issues have arisen, the dissertation primarily focuses on the recording industry sector's characteristics and functioning. It particularly emphasises the fact that the traditional music distribution's paradigm is based on the record companies control over the recorded music and the artificially-implemented scarce aspect of it.

Then, the dissertation explains how such a paradigm has been challenged by the advent of the Internet and the development of digital technologies. Under a digital format such as the MP3 and on a digital medium such as the Internet, the controllable and scarce aspect of recorded music completely disappears. The dissertation explains that this critical shift has a significant impact on the music consumption behaviours. The dissertation proceeds to analyse these behaviours.

The emergence of a new music economy is then put forward. Owing to a traditional distribution system now obsolete, the dissertation investigates how the marketing of recorded music is adapted to the Internet and the contemporary music consumption behaviours alike. It sheds light on the promotion of recorded music on the various online media outlets with a particular focus on the emergence of less traditional promotion strategies.

Finally, the dissertation analyses the online digital music distribution and digital music retailing systems which are notably characterised by the advent of new players and new business models in the market. The dissertation eventually asserts that, if successful, these new participants and new models can completely revolutionise the recording industry sector altogether.

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1. INTRODUCTION

"You need to keep up with the way people consume music. Give the consumers what they want and make the most out of it" (Parsons, 2010)

The recording industry is facing an economic downturn (IFPI, 2010b). The sales of recorded music have been plummeting for ten years. Many, notably the major record companies, blame the Internet and the file-sharing networks for that. According to the IFPI, the International Federation of the Phonographic Industry, 95 percent of recorded music online is traded illegally (2009b). Since then, major record companies have taken merciless legal actions against these networks and their users (Electronic Frontier Foundation, 2010).

On the other hand, since the advent of the first digital music services such as iTunes, leader in this market, the digital sales of music have kept increasing (IFPI, 2010a). The growing digital market now accounts for 27 percent of the whole recording industry sector (ibid). Various forecasting reports foresee the predominance of digital music sales over physical sales in the coming two to four years (Bylin, 2010b, 2010c; Forrester, 2010, Emarketer, 2010). Although the future is unpredictable, a clear and apparent shift in recorded music consumption is occurring.

Seemingly, the legal actions taken by the major record companies do not prevent users to illegally download music online (IFPI, 2010a; Wikström, 2009: 154). The costly and unsuccessful legal deterrents implemented by the leading record companies arguably show that they are not the solution to a problem that turns out more social than economic (P2Pnet, 2010). Thereby, one is entitled to doubt that the reasons why the record industry sector is in crisis have probably little to do with the advent of file-sharing per se. The way that recorded music has been marketed and distributed so far probably plays a part. One may assume that the traditional distribution paradigm just does not respond to the consumer needs anymore. In this instance, the file-sharing practice may arguably be seen as one of this paradigm's artefacts rather than the actual cause of the downturn.

As developed further, people are consuming recorded music in a way that is different from that expected by the incumbent record companies. The advent of the internet as well as the development of digital technologies have brought about more profound changes than the addition of promotional tools for music marketing. The Internet has completely revolutionised the media consumption habits, including music. The distribution paradigm implemented by the record industry a hundred years ago does not fit in the twenty-first century. Thereby, this question arises: what is it to sell records nowadays?

This concept is interesting. Fundamentally an intangible and living art form, music has turned into a physical product. In an industrial society where mass reproduction prevails, such a product can then be more easily marketed for its sale. Clearly, the question needs to be dealt with further; nevertheless it sheds light on a notion just as important: Marketing.

According to Hutchison, marketer and professor in media marketing at the Middle Tennessee State University, Marketing describes the various business strategies that direct the product, whether a service or a good, from the producer to the consumer (Hutchison et al, 2006: 1). Product marketing accounts for the promotion and distribution of a product. It raises the notion of a product and a consumer within a market. The primary logic of marketing is the understanding of consumer needs and the development of products to satisfy those needs. In the recording industry sector, the A&R people, artists and producers take on the product development, this being the recorded music. Then, marketing departments or independent marketing firms undertake the implementation of a marketing plan for the promotion and distribution of the product (Hutchison et al, 2006: pp53-62).

This implementation calls upon the application of what is called the Marketing Mix. Similar to a program, the Marketing Mix consists in setting up the four elementary components of a marketing strategy also referred to as the four P's: Product, Price, Place, and Promotion. The Product describes the activities related to it such as its development, its quality compared to the competition, and its packaging. The Price is defined as the product's suggested retail price. It is fixed with regard to its production cost, the competition, and its positioning within the market. The Place describes the retail store and the Product's availability to the consumer. In other word, it describes the distribution of the Product. Finally, the Promotion refers to the strategy implemented to increase the consumer's awareness and perception value of the Product. Promotion is used to encourage the consumer to buy the Product (Hutchison et al, 2006: pp2-14, Lathrop, 2003: pp24-5).

To maximise the implementation of a marketing strategy and the application of the Marketing Mix, a target market has to be defined. To do so, marketing research is carried out by means of sociological and behavioural surveys as well as statistical researches (Brace, 2004; Hutchison et al, 2006: pp327-8). The target market constitutes the portion of the population the most likely to buy the product. It is determined by the recouplement of different segmentations of the overall population. Such segmentations describe the distinction of the consumer population in accordance with their respective attributes such as demographic, geographic, psychographic as well as their consumption behaviour

characteristics. Thus, marketing strategies are set up with respect to the target market (Kotler, 1980; Evans and Berman, 1992 cited in Hutchison et al., 2006: pp19-34).

From a sociological perspective, marketing is an interesting concept because it responds to consumption needs and social trends. In turn, when on the market, the product affects consumers' lives. It can create new consumption and social trends. This aspect describes a feedback loop whereby consumption patterns and the use of a product affect each other. Products reflect consumption trends and social behaviours that they respond to.

Such an occurrence is the commercialisation of the Ipod in 2001 by the computing-hardware manufacturer Apple. Primarily responding to the growing consumer's demand for MP3 players, in the wake of the popularisation of MP3 downloading, the product has set the standard. The famous motto of the Apple's Itunes music store 'Rip, Mix, Burn' only nodded to that new consumption behaviour, this being the downloading of recorded music on the Internet. The huge commercial success of the product, of which the sales have been still strong since the release of the first Ipod in 2001, proves it (Hughes, 2010).

Because the issue is so complex and would deserve an entire tome to be properly dealt with, the dissertation will approach it from a marketing perspective. This point of view seems the most appropriate since it concerns the promotion and most importantly, the distribution of recorded music, this being the crux of the functioning of the sector. Thus, from this standpoint, the dissertation will arguably be able to account for the contemporary music consumption patterns that will probably change the music industry as it has been known for the past hundred years.

The music consumption digital shift has shown that the Internet is now an unquestionable medium for the promotion and the distribution of music. This is the reason why this dissertation focuses on the marketing of recorded music on the Internet. Most interestingly, the steady growth of digital music sales shows that digital distribution platforms will have a predominant role for the sales of recorded music in the future. This aspect is an additional and viable reason for this paper to particularly focus on the digital distribution of music.

The Internet has created new marketing opportunities for the recording industry. While the incumbent record companies are adjusting their strategy to survive, new players have entered the music distribution channel. They are coming up with new promotion and distribution concepts that are significantly changing the recording industry sector. These new participants are independent marketing firms, digital music distribution companies as well as digital music retailers among others.

Their roles will be accounted for in the form of interviews (see APPENDICES). Interviewees will be Jennifer Otter, CEO of JKO Media - an independent marketing firm - Matthew Parsons, CEO of DittoMusic - a digital music distribution company - and Gareth Reakes, CTO of We7 - a digital music retailing company. In light of the subject, their insights regarding the recording industry sector will be valuable and complementary to the dissertation research.

During the research, many questions arose. Why is the recording industry sector in crisis? Is the Internet to be blamed for that? To what extent have contemporary music consumption behaviours affected the music distribution channel? How is the industry adjusting to these consumption patterns? To what extent will the digital revolution affect the recording sector? Will it recover from it?

The subsequent parts of the dissertation as well as the interviews will attempt to answer these questions. The dissertation will be divided into two parts. The first part will introduce the recording industry sector, its characteristics, and its functioning. Then, it will contextualise the sector in a changing environment wherein the digital technologies are deeply affecting the media consumption behaviours. The emergence of a new music economy will be emphasised.

The second part of the dissertation will turn the attention to the marketing of music in this new environment with a particular focus on the Internet. The fundamental aspect of a marketing strategy will be discussed but most interestingly, the new promotion and distribution strategies of digital music will be analysed.

2. THE MARKETPLACE

2.1. THE RECORDING INDUSTRY

“The record company’s traditional business model involves the production of intellectual properties by recording artists’ studio or live performances. The record company then markets and distributes these records to consumers around the world” (Wikström, 2009: 53).

An industry may refer to a specific part of the economy which deals with the large production of a specific product aimed at mass consumption (Wikström, 2009: 46). Thereby, the music industry corresponds to the large production and distribution of music. The definition may refer to the production of recorded music. In that case, it concerns the recording industry sector. Indeed, often mistaken with the music industry as a whole, the recording industry is only but one of its components (BPI, 2010; Hesmondhalgh, 2007: 12; Wikström, 2009: pp46-60).

The music industry can be considered a copyright industry. Copyright and its legislation are the fundamental elements that enable the music industry to monetise the creation of music. All the economics is based on the principle of licensing copyrighted works; be it to record companies, to digital music service companies or even to consumers whom have only the license to listen to the music, not its ownership (Gordon, 2008: pp1-2; Lessig, 2004; Wikström, 2009: 17).

Although structural definitions of the music industry diverge from one another, depending on the various studies implemented, the music industry is commonly broken down into three main sectors: the publishing sector, the live performance sector and the aforementioned recording sector (Hesmondhalgh, 2007: 12; Wikström, 2009: pp46-60). Historically, the publishing sector deals with the publishing and the licensing of copyrighted compositions. The live performance sector deals with the organisation and the promotion of live music events. Finally and most interestingly, the recording industry deals with the production and the distribution of music in the form of records. From the recording industry’s perspective, all three sectors work in synergy for the production and the promotion of recorded music whereby songs to be recorded are licensed by publishing companies to recording companies, and whereby the organisation of live music events such as concerts takes the opportunity to promote records. Thereby, the music industry describes complex and interrelated industry sectors (ibid).

However, in consideration of the dissertation’s scope, this being the marketing of recorded music, only aspects of the recording industry are addressed.

2.1.1. History

Through the development of music as a business, the economic balance between the three sectors - this being by chronological appearance order: the live music sector, the music publishing sector and the music recording sector - has changed many times (Suisman, 2009: pp90-124; Wikström, 2009: pp61-5). The reasons lie in the successive technological breakthroughs that the music industry has undergone and the resulting impact over music consumption.

Primarily, music could only be listened to during live events. However, during the nineteenth century, the music publishing sector significantly developed as the reinforcement of copyright laws and the development of print technology throughout that period show. The trade of music started to industrialise, and for the first time in history, music has been turned into a countable and scarce good in the form of printed sheets (Suisman, 2009: pp18-55). Music publishing popularised the use of sheet music that became the first means of music consumption till the advent of the records (Suisman, 2009: pp18-55; Wikström, 2009: pp61-5).

The music recording industry sector appeared in the wake of the then-new sound-recording technology at the end of the nineteenth century. Popularised by the music-player manufacturers, records started to flood the market from the twenties, especially in the American market. Primarily manufacturers of record players, the companies Edison, Columbia, and Victor focused on the production of records over time. Existing under the name of Universal UMG, Warner WMG and Sony SME nowadays, these companies laid the groundwork of the value-chain of networks and the functioning of the music recording sector as it is known nowadays (ibid).

By creating a new consumption need - the actual record - the music recording sector reconsidered the established order then led by the music publishers. Since then, it has become the vehicle of the music industry (ibid).

2.1.2. Size And Structure

According to the IFPI, the recording industry sector accounted for an estimated \$17 billion in trade values worldwide in 2009, a decline of 8 percent on 2008 (IFPI, 2010b). To put the value in perspective, a company such as Exxon Mobil, specialised in the oil and gas industry, accounted for annual profits estimated at \$19 billion the same year (CNNMoney, 2010). One company appears more profitable than an industry sector altogether. Thereby, the recording industry is a relatively small sector within the worldwide trade landscape.

The biggest markets for recorded music are The USA, the UK, Japan, Germany and France. Altogether, they account for more than 75% of the worldwide market in 2008 (IFPI, 2009a). A dynamic and vibrant sector in the past, the music recording industry has turned into a static oligopoly driven by successive consolidations throughout the twentieth century (Hesmondhalgh, 2007; Wikström, 2009: pp71-81).

Since 2000, unlike the two other sectors of the music industry that are thriving, the music recording industry sector has been undermined by a ten-year economic downturn. Worth \$37.6 billion in 1999, a record still held, the trade value of the sector has gone down 45 percent since then (The Economist, 2010; IFPI, 2000; IFPI, 2010b).

Dominated by four multinational companies that represented around 70 percent of the worldwide market in 2007, the recording industry sector is characterised by a high level of corporate concentration. It is an actual oligopolistic industry as previously said. These companies are Universal Music Group, Sony Music Entertainment, Warner Music Group, and EMI Group (IFPI, 2008).

As Hesmondhalgh explains, professor in media and cultural studies at the University of Leeds, this aspect sheds light on the politics of integration implemented by these companies in order to increase their influence on the market. Integration consists in buying out other companies established in the same industry sector in order to reduce the competition. Integration comes in two forms: the horizontal integration that involves companies operating in the same stage of the process of production and/or distribution, and the vertical integration that involves companies operating in a different stage of the said-process (2007: 22).

Thus, the main difference between the major and independent record companies is based on the fact that the major firms have developed strong vertically-integrated structures that enable them to control the distribution of most recorded music nowadays. On the other hand, independent record companies have to deal with actual distribution firms - either independent or owned by the majors - for the release of their catalogues. Strong relationships have developed between the major and independent companies of which the main stakes are the promotion and the distribution of the independent record firms' catalogues (Wikström, 2009: pp129-30).

Furthermore, independent labels have historically taken more risks to produce new artists and new genres than the major firms. When successful, the small companies are often offered stronger partnership deals with the major companies. Prevailing since the fifties, this upstream strategy, enables the majors to rely on the most profitable acts. Hence, the independent record companies almost entirely hold the artist development capability while

the major firms typically hold the promotion and distribution force of the recording industry. Thereby, owing to these affiliations, actual independent companies, not dealing with the major record and distribution companies at all, are fewer than commonly thought (Hesmondhalgh, 2007: pp174-8; Wikström, 2009: pp66-9).

2.1.3. Value-Chain Structure

As Wikström, scholar in media management at the Jönköping Business School, notes, many specialists have tried to explain the logic and dynamics of the recording industry sector (2009: pp49-77). One of them, Andrew Leyshon, professor of Economic Geography and Social Sciences at the University of Nottingham, has defined a four-part value-chain model describing the production, reproduction and distribution of recorded music (**see Figure 1**) (2001: pp49-77). The first part describes the network of creativity wherein the music is created, performed and recorded. Participants of this network are songwriters, audio engineers, producers and musicians of which the creative inputs in the production of music are emphasised (Leyshon, 2001: pp49-7 cited in Wikström, 2009: pp46-57).

Then, follow the network of reproduction wherein the role of the record companies is predominant. At this stage, the recorded music is manufactured and duplicated. Furthermore, the record companies develop a marketing strategy for the promotion and the distribution of the recorded music (*ibid*).

The third part of the value-chain model describes the network of distribution whereby the recorded music is distributed through various distribution channels until it reaches the audience. The participants include the record companies, the distributors, the wholesalers and the retailers (*ibid*).

The final part of Leyshon's value-chain model is the consumption network. It describes the various ways that the consumer gets the recorded music for an eventual consumption of it. As developed further, the recorded music is distributed in various retail outlets such as brick-and-mortar music stores or through digital music retailers (*ibid*).

As a result of the impact of the Internet distribution systems, Leyshon eventually asserts that the established interaction between all the participants is reconsidered (2001).

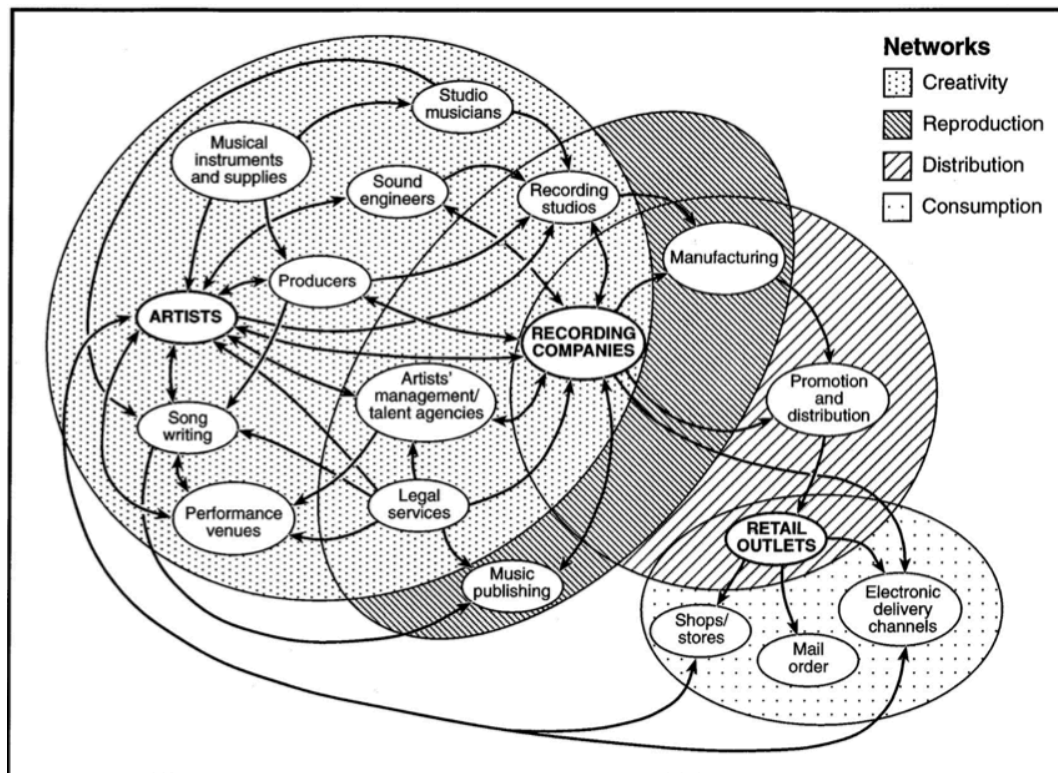


Figure 1. The musical network. (Leyshon, 2001)

Hirsch, former professor in social sciences at the University of Michigan and one of the first scholars to have addressed the dynamics of the recording industry sector, defined a different value-chain model which focuses on the key stages of the promotion of recorded music rather than the actual circulation of the latter within the market (see Figure 2) (1970; Wikström, 2009: pp46-56). He described a system wherein the role of gatekeepers, present at each stage of the value-chain, is predominant for the promotion and distribution of recorded music. Hirsch asserts that in an industry wherein the production of music faces the physical constraints of distribution - that will be addressed further - these gatekeepers are vital (1970: 5). These gatekeepers, in high demand within the industry and described as A&R people, music distribution companies, music retailers, and most interestingly radio programmers, affect the dissemination and popularisation of culture. This sheds light on a system wherein only a few artists can reach substantial exposure necessary for financial success (ibid).

Hirsch particularly emphasised the fundamental role of the radio promotion and the interdependence between major record companies and mainstream radio stations. In the traditional value-chain of music promotion and distribution, radio exposure is a prerequisite for the financial success of recorded music. Thus, an idiosyncratic relationship between the record labels and the radio quickly developed. Radio stations, subject to airtime constraints and driven by financial imperatives, have historically promoted the sole most appealing records within the market.

Being historically the most important medium for music discovery, this paradigm has led to much criticism towards terrestrial radio and major record labels as for the cultural diversity of music within industrialised countries (*Before The Music Dies*, 2006; Hirsch, 1970: 61). Indeed, the fierce competition and the financial barriers have enabled only the major labels, more wealthy, to access the medium. This situation only but reinforced their control over the music industry value-chain (Hirsch, 1970: 9).

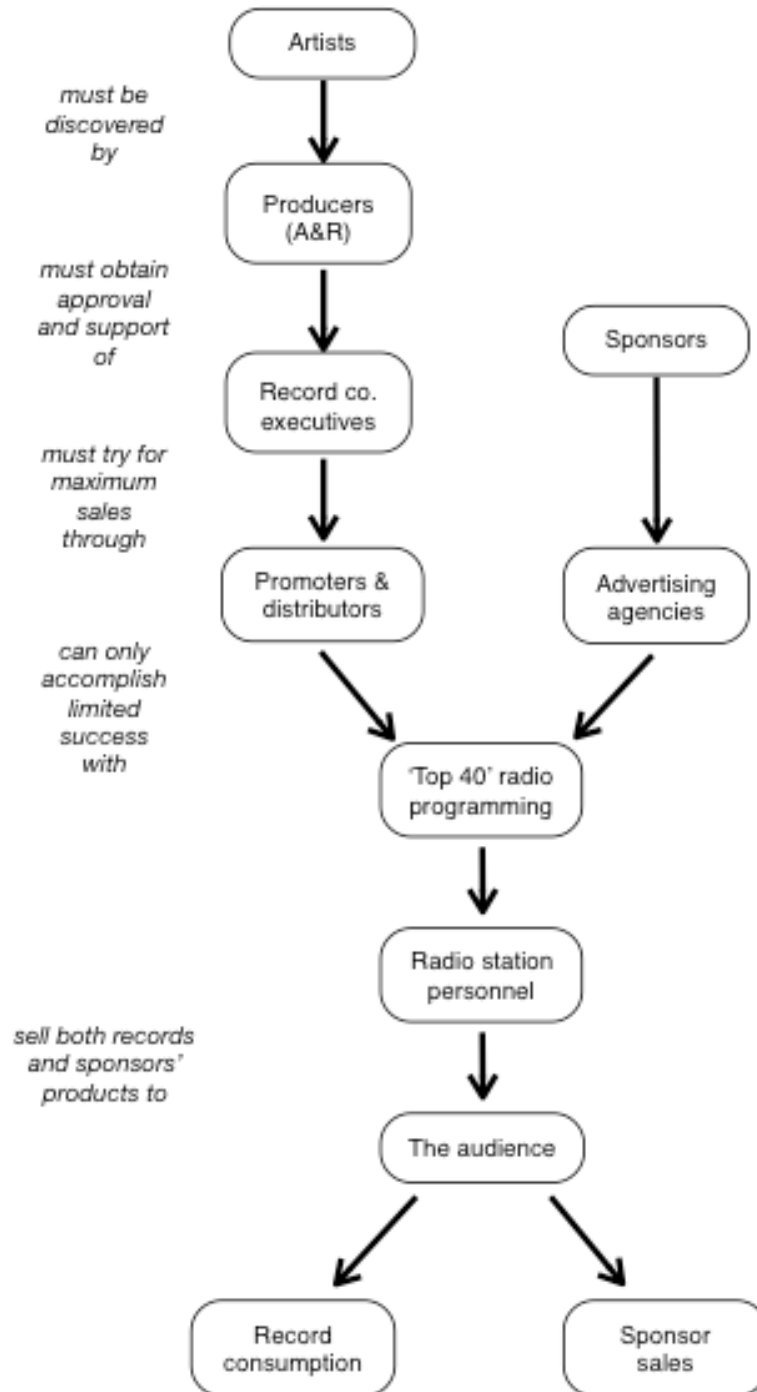


Figure 2. The organisation of the music industry. (Hirsch, 1970)

2.1.4. Control And Artificial Scarcity

As previously mentioned, the major companies in the recording industry sector have been determined to keep control over the industry's key features in order to maximise their revenues from the sale of recorded music (Wikström, 2009: pp60-3).

Similarly to the music publishing companies in their prime, they managed to turn a fundamental intangible art form into a tangible product. Music has appeared in the form of countable and scarce physically-formatted goods such as vinyls and compact discs of which the production and circulation can be easily controllable (Garnham, 1990: pp38-9 cited in Hesmondhalgh, 2007: 23). This paradigm turns music into a rival good whereby its consumption by one person diminishes the possibility of consumption by another one (Hesmondhalgh, 2007: pp21-2; Wikström, 2009: 88).

The vertical integration strategy is also an efficient control means. Indeed, by controlling the different stages of the process of production and distribution, the companies involved control the availability of the product (*ibid*). A good example is the conglomerate EMI Group which, at the time of the writing, is the parent company of the record label Virgin Records, the distribution company EMI distribution, and the music retail store HMV alike (EMI, 2010). An entire distribution chain is owned or partly owned by one company.

Nevertheless, the uppermost and most efficient control means used by the major record companies is copyright and its legislation. They have made use of it to prevent people from copying recorded music and to limit access to means of reproduction (Garnham, 1990: pp38-9, cited in Hesmondhalgh, 2007: 23; Knopper, 2009: pp75-9).

Most importantly, the technological and communication structures of the traditional media have been largely responsible for the recording companies' control over the product.

Primarily mentioned by McLuhan in many of his works (McLuhan, 1962, 2001, McLuhan and Fiore, 1967), and developed by Van Dijk and Watt in other forms (Van Dijk, 2006; Watt, 2003), the traditional media such as the Press, Television, and Radio, are fundamentally based on a one-way communication basis. Inherently, the information is transmitted from the media outlets such as a magazine, a TV or a radio show, to the audience - not conversely. This sheds light on another structural aspect of such media. Indeed, these media are developed on a one-to-many communication basis as well, that is to say that the transmitted information is conveyed to one point - the media outlet - to these countless receivers that constitute the audience; hence the term mass-media. Thereby, considering such structures as networks, one finally realises that it does not exist any connectivity between the audience of such media. By limiting connectivity between the audience members and by controlling the production and circulation value-chain of

recorded music, the major record companies had a complete control over the product (Van Dijk, 2006: pp1-16; Watt, 2003; Wikström, 2009: pp5-7).

Throughout the twentieth century, the record industry sector spearheaded the music industry. They created a system of production and distribution only sustainable through the application of a paradigm based on control and artificial scarcity. By popularising the mass consumption of recorded music, they highlighted a society of mass production and mass duplication.

However, the current shift from an industrial society toward a society of information has shown the limit of such a system which is now obsolete. No longer do the traditional services offered by the record labels respond to the consumer needs. Since the advent of the Internet, music has not been consumed or simply experienced the same way (Kusek and Leonhard, 2005; Wikström, 2009; McLuhan, 2001).

2.2. A NEW MARKET STRUCTURE

“The only constant in the music business is that it’s always changing. Always.” (Lathrop, 2003).

As developed earlier, the music industry has always been characterised by its evolving aspect. The recording industry sector itself has been subject to interrelated political, economic, sociological and technological factors that have affected its functioning (Hesmondhalgh, 2007).

As it happens, the music format implemented for the terrestrial radio programming - resulted from the advent of the television in the fifties - as well as the popularisation of the music video format from the eighties, have been determining for the promotion of recorded music (Hirsch, 1970; Hutchison et al, 2006: pp267-8; Kusek and Leonhard, 2005: pp63-4; Wikström, 2009: 4).

In the USA, the deregulation of media company ownership throughout the eighties also led to the oligopolistic nature of the industry. This upheaval had a tremendous impact on the organisational and structural logic of the music industry in the global market (Hesmondhalgh, 2007).

Finally, the advent of the cassette and compact disc as media supports in the eighties has affected the way that music is consumed, and therefore the way it is promoted and distributed as well (Kusek and Leonhard, 2005).

Nevertheless, while these significant changes only but reinforced the distribution paradigm established by the major record companies a hundred years ago, the advent of a new media format, the MP3, and that of a new telecommunication medium, the Internet as well as the evolution of digital technologies have completely challenged the music industry as a whole. The actual distribution model has been thrown back into doubt (Knopper, 2009: pp115-2; Kusek and Leonhard, 2005: 140).

2.2.1. Technological Breakthroughs

2.2.1.1. A New Media format: the MP3

MP3, standing for MPEG-1 Audio Layer 3, is a digital media format published in 1993. As Fraunhofer - one of the founding companies - explains, the MP3 format aims at reducing the size of digital audio data particularly the PCM format used for the audio CD. Based on

psychoacoustic studies, it enables to compress data up to 92.5 percent of the original size while preserving the relative integrity of the listening quality (Fraunhofer, 2009; Knopper, 2009: pp115-21). Thereby, the relative small size of MP3 audio files provides convenience of use, circulation and storage that will have a significant impact as for its diffusion on the Internet (Knopper: 2009: 118).

2.2.1.2. A New Telecommunication Medium: The Internet

Developed in the sixties but only available to the public until the middle of the nineties, the Internet is a new kind of telecommunication medium. Unlike traditional communication media such as the Telephone, the Television, and the Radio, the Internet is a medium based on global and complex networks of interrelated communication terminals such as computers, servers, and more recently mobile phones (Levine and Levine Young, 2010; Van Dijk, 2006: pp1-16; Wikström, 2009: pp5-6). As the mass media are characterised by the centralised aspect of their functioning, the Internet works on a many-to-many basis allowing a high level of connectivity and interactivity between the users (ibid). This aspect will have a significant impact on the circulation of media content through the medium.

2.2.1.3. Digital Technologies

Most interestingly, digital technologies such as computers and servers, enable the perfect copy of any kind of digital content ad infinitum. Such an occurrence was the advent of the CD burner in the beginning of the nineties (Starrett, 2000). As a result, through a digital telecommunication medium such as the Internet, a virtual unlimited flow of information is now possible. This aspect underlines the intangible nature of digital content. Such digital content may as well be MP3 audio files.

Indeed, when they marketed the CD format as the main format for the reproduction of records as of the eighties, the record companies didn't think about such an evolution for the digital technologies. They didn't fit out audio CDs with copy protection features to prevent audio CD users from copying CDs. This omission has enabled the copy of thousands of CDs into MP3 format (Gordon, 2008: XX, Knopper, 2009: 118).

Thereby, in the digital realm, records under the digital format have lost the rival nature artificially implemented by the record companies. In addition, because of the high connectivity between Internet users, the Internet can be seen as a powerful distribution medium while getting round the traditional distribution channel implemented by the record firms.

As it happens, Internet users started to trade music at a global scale in 1999, with the advent of Napster, the first peer-to-peer network (Knopper, 2009: pp121-7). Also referred to as file-sharing networks, these networks are the very artefact of the aforementioned capabilities that the Internet and the digital technologies provide: high connectivity and high interactivity between the users. They connect to these networks to share any kind of content for free such as audio CDs ripped into MP3 audio files (knopper, 2009: 118). Although it implies the illegal sharing of copyrighted content such as music, music has become abundant on the Internet. Consumers do not have to pay for records anymore. The record companies have lost control over music distribution (Anderson, 2009b). As a result, the record industry sector has faced a ten-year economic downturn characterised notably by successive lawsuits against file-sharing sites and their users for copyright infringement charges (IFPI, 2009a, 2010b). The record industry sector is in crisis.

2.2.2. New Media Consumption Patterns

The development of digital technologies led to the emergence of a multimedia industry. This industry was formed from the integration of primarily separated industries such as the telecommunication, the Information Technology, the broadcast and the entertainment industries (Bhuiyan, 2006; Yoffie, 1997: 160). The actual symbol of this media convergence is the Internet through which networks, services, and markets converge on one terminal, this being the computer, and more recently the mobile phone. Hence, media consumers don't consume media content the same way (ibid).

2.2.2.1. Media Audience Shift

The Internet has not simply changed music consumption patterns. Not only has it completely affected the audience's relationship with the traditional media outlets such as television channels, radio station and newspapers, but the position of these mass media in our society as well (Bagdikian, 2004: pp55-73).

As the Internet developed, traditional media outlets tended to use the medium as an additional outlet for their already existing contents. As a matter of fact, these outlets made use of the interactive aspect of the Internet as a promotional tool for their content primarily produced for the mass media. As the Internet bandwidth developed and broadband

penetration increased, the medium experienced an audience increase. Media content on the Internet also expanded. More and more media content is now specifically produced for the Internet. As a result, since 2002 the Internet has experienced a significant increase in audience at the expense of the mass-media audience. As it happens, in 2005, American online consumers spent as much time online as they did watching television (Peitz and Waelbroeck, 2004; WebMediaBrands, 2006). The Internet is progressively taking over a leading position within the media landscape. The society is experiencing a shift from a centralised, industrial society to an information society based on a networking logic (Van Dijk, 2006).

As the IFPI stated, broadband penetration and the growing amount of outlets online have played a significant part in the development of digital music consumption, whether legal or illegal (IFPI, 2003).

2.2.2.2. Audience Fragmentation

As the Internet expands, a significant amount of media outlets are appearing on the medium. The costs of production and distribution have decreased so much since the advent of the Internet and the digital technologies that the access to the production and circulation of recorded music value-chain is not allotted to the sole incumbent record and distribution companies anymore (Wikström, 2009: 89). The increased access to the audience, made easier by the Internet networks, provides more visibility for independent content providers and even amateurs. As developed later, new kinds of media outlets such as music blogs, webzines, digital music services and digital music distributors have appeared, giving valuable exposure to all music artists (Anderson, 2009b: pp180-2; Wikström, 2009: pp89-90).

Nevertheless, lowering the entry barriers to the distribution chain has given an outlet to an overwhelming amount of content providers. As Chris Anderson - editor at the technology and media magazine *Wired* - put forward, this situation has resulted in an abundant, virtually unlimited choice of music for the consumers. Yet, the time and resources that they spend online have not increased to the same extent. Unlike the mass media, the audience's attention is scattering on the Internet. Online outlets only reach small parts of the total online audience (Anderson, 2009b; Wikström, 2009: 91).

Most interestingly, this large amount of choice as well as the decreasing amount of time spent on the mass media has resulted in a shift from a mass culture to a massive culture of niches (Anderson, 2009b: pp183-4). Now, online consumers turn to more specific interests. This phenomenon has considerable effects on music consumption. Interests in

non-mainstream music now can easily be satisfied (Anderson, 2009b: pp183-4; Lathrop, 2003: 123; Peitz and Waelbroeck, 2004).

The audience fragmentation is also characterised by the emergence of the multimedia industry. Although the twenty-first century has seen an increase of spending in media consumption, this expenditure is scattered (Kusek and Leonhard, 2005: pp81-2). Indeed, consumers' revenues have not increased at the same rate as the supply of media content. Media platforms such as video games and DVDs have grown in number. Owing to the popularisation of these different forms of entertainment, the music industry has had to face a significant competition from these media. Respectively accounting for \$32 billion and \$29 billion in 2008 whereas the recording industry sector accounted for \$18.4 the same year, the video game and the movie industries show that recorded music is far from being a leading form of entertainment for consumers, at least in terms of perception value regarding the price. Indeed, it has also been noted that the pricing strategy implemented for the sale of CDs was not adjusted in accordance with the perception value and the pricing strategies implemented for the other product competitors, notably DVDs (Connors, 2009; IFPI 2009a; Kusek and Leonhard, 2005: pp81-2).

As developed further, record firms had to adjust their marketing strategy to these new consumption patterns (Wikström, 2009: 90).

2.2.2.3. Web 2.0

The Internet has often been described as a cloud. This designation directly refers to the growing cluster of information formed within the network. The term is still used nowadays but has taken on a new meaning. It now refers to the new ways that Internet users approach the medium (Wikström, 2009: 3).

Owing to a growing demand of software-compatibility for the existing operating systems such as Windows, Linux and Mac OSX, the Internet has seen the increasing development of more universally-compatible web-based applications. Such applications do not have to be set up on personal computers. The users' desktop has actually moved into the cloud and are accessible via web browsers. This is Web 2.0 (Anderson, 2009a: 121, 2009b: 238; Wikström, 2009: pp3-4).

Google, the leading Internet company, has pioneered in this market and now offers office-suite softwares such as Google Docs, and storage for the creation of personal and virtual media libraries such as YouTube for videos, Blogspot for blogs, and Flickr for photographs; all of them free of use.

When it comes to music, the cloud concept has often been referred to as a celestial jukebox (Gordon, 2008: 37). Besides listening to music from their computers and MP3 players, media consumers increasingly listen to music from the cloud on outlets such as YouTube, Spotify and We7 (Spotify, 2010; We7, 2010; YouTube, 2010; Wikström, 2009: pp3-4).

Most interestingly, Web 2.0 emphasises the social aspect that the Internet can bring to the network. The Internet is increasingly used as a tool for Internet users to extend their social lives onto the medium. The advent of the social networking sites has been critical for the increasing consumer's online activity. Nielsen, the leading market research company, reported that the use of those networks is the fourth most popular activity online, ahead of consulting one's personal mail account (2010b). An average of 22 percent of total time online is spent on those sites per month (ibid). A considerable amount of social networking sites such as Facebook and Twitter have emerged since the last decade. With 500 million users worldwide, Facebook is to date the most popular social networking site. According to the same Nielsen's report, an average of 6 hours per user were spent on Facebook in April 2010 (ibid).

These Internet platforms' user-oriented approach as well as the development of digital and media technology has significantly increased the users' interactivity with the medium. The logic and dynamic of Web 2.0 led the Internet users to create media content and consume it from the cloud (Anderson, 2009a: pp121-3; Wikström, 2009: pp7-9).

In his controversial essay, Don Tapscott, professor of Management at the University of Toronto, talks about a 'Net generation that organises its life in accordance with digital media and digital technologies. Mobile phones, video games, DVDs and the Internet are digital tools integrally part of their lives. Computer-literate, this generation creates media content such as videos, music and animations that are published online. Its constituents actively use online social networks and blogs to communicate. They surf the Internet and absorb huge amounts of news and information that circulate on the medium. Unlike the baby boom generation that grew up with the mass media, the 'Net generation interacts with their environment. In other words, this generation lives in today's information age. Born between 1976 and 1998, this population segment constitutes a sizeable part of the target audience for the marketing of recorded music (Tapscott, 2009).

As developed further, the media audience's contemporary behaviours will have a considerable impact over music promotion on the Internet.

2.2.2.4. Free Culture

The aforementioned technological breakthroughs have had such a significant impact over the cost of production and distribution that they completely affect the way that online companies run their businesses (Anderson, 2009a).

First of all, the relative affordability of running an online business has made the Internet the most competitive marketplace that the world has ever known. As a result, prices tend to fall to the marginal cost in such circumstances, as the nineteenth century's economist Joseph Bertrand demonstrated (1883, cited in Anderson, 2009a: pp171-7). Yet, online, owing to the capabilities that digital technologies enable, the cost of providing services is near zero. This characteristic, rather unique, led to a situation wherein most of the online service companies lure their customers with an abundance of free products (Anderson, 2009a: pp75-93).

Because it is now so cheap to distribute products, a company such as Google that owns the web-based applications Gmail, Flickr and Youtube, provides most of their services for free.

The Internet have produced an abundance of media content. This content is so plenteous and easy to access that online media outlets such as the media-sharing websites, online newspapers, music and video sites, and various peer-to-peer networks are giving it for free, whether it is legal or not. An entire generation is growing up in an environment wherein free is an aspect taken for granted (Anderson, 2009a: 140; Kusek and Leonhard, 2005: 169; Otter, 2010; Reakes, 2010; Wikström, 2009: pp85-8). Financial value for media content, notably music, has decreased (Anderson, 2009a: 140; Kusek and Leonhard, 2005: 29; Otter, 2010; Reakes, 2010; Wikström, 2009: pp85-8).

Seemingly free, from the online consumer's perspective, online services are still subject to the costs of processing, bandwidth and storage, even though those costs decreases over years (Anderson, 2009a: pp91-3). Online companies provide most of their services for free as a marketing incentive to attract new audiences while implementing clever methods to capitalise on them (Anderson, 2009a: pp75-168).

Most of these firms use two business models called Three-Party Market and Freemium. The former comprises a market of which trade involves a third party incumbent paying for the free exchange between the service providers and the customer. The most common third party in the media industry has always been the advertising companies. Estimated at approximatively \$300 billion worldwide in 2008, the advertising industry sustains all the media sectors such as Television, Radio, the Press, and now the Internet (Anderson, 2009a: 137). In this system, media outlets capitalise on their audiences' attention rather than their willingness to pay for the content (Anderson, 2009a: pp24-5). However, the

main drawback lies in the limited capability of the advertising industry to financially support such significant media sectors especially when the overall economy slows (Anderson, 2009a: 142; Reakes, 2010).

The latter model consists in segmenting the customer audience by implementing a tiered-pricing system for their services. In this system, the companies provide the most basic service for free while offering better versions of it at a cost for the customers willing to pay for a premium. This model relies on the few paying customers that can support the cost of running the whole business. Owing to the decreasing cost of production and distribution of digital products, this model is even more sustainable online (Anderson, 2009a: pp26-7).

Seemingly, as developed further, these two popular business models online will have an impact on music distribution.

2.2.3. A New Music Economy

The technological breakthroughs and the resulting consumption behaviours that the media industry has seen have deeply affected the whole music industry's functioning. Although it is yet too early to assess whether the digital music market will generate as much revenue as the physical music distribution, the viability of the recording industry sector's old paradigm based on control and scarcity is at least reconsidered (Reakes, 2010).

This paradigm no longer suits the way that music consumers respond to marketing messages. Historically, audiences used to respond by buying the music. Nowadays, the audience's action does not turn into financial profits (Wikström, 2009: pp85-8). The tools that digital technologies have provided to the audience allow them to respond in completely different ways. Nowadays, it is arguably said that the audience's action manifests itself on the cloud: at its most, the audience goes on various media-sharing websites such as YouTube to consume the music, they communicate their fondness for such and such song or artist on fan-sites, music blogs and social networking sites such as Facebook and Tweeter. Some of them make videos and remixes of their favourite music and post them on the cloud. At its worst, they illegally download the music on peer-to-peer networks. More often than not, they do both (Kusek and Leonhard, 2005; Kot, 2009; Tapscott, 2009; Wikström, 2009).

Though, this response to the marketing messages, appearing on such a powerful medium, creates a feedback loop reinforcing marketing messages. It can play a critical

role in the music marketing dynamics. As Wikström notes, this loop can give rise to fads, trends, exposure of artists which are critical for the success of artists (Wikström, 2009: pp85-8). By manipulating the medium, as the traditional media outlets have manipulated the mass media, the audience is now an active player in trendsetting.

The ability to control the audience's action by targeting various marketing messages is at the core of music marketing. More than ever, many questions arise. What should media outlets be focused on? What kind of marketing messages bring about the most positive response from the targeted audience? How to generate revenues from online audiences' action whereas their possibilities are not limited to the purchase of music?

As Wikström notes, in a new music economy wherein connectivity, interactivity and little control prevail, these question are even more difficult to answer (Wikström, 2009: 88).

The user-centred functioning of the Internet and the growing devaluated perception of media content on behalf of the Internet consumers have led the entire record industry sector to rethink its value-chain altogether. The major record companies' reluctance to enter the digital market have left room for new players that were beforehand external to the music industry. Such companies are Apple that has implemented the iTunes music store, and Google that is about to enter the music distribution market while extending its cloud-based model to music content (Apple, 2010; Lindvall, 2010). These new major players as well as numerous other innovative companies such as JKO Media, We7 and DittoMusic, came up with new marketing strategies that lead to think about the record industry sector in another way. These players are simply redefining the recording sector in accordance with the market.

3. MARKETING

3.1. Marketing Plan

“A marketing plan is a fluid, living guide to help you focus all of your marketing efforts towards a single goal. No two are alike” (King, 2009: 3)

A Marketing plan is the implementation of definite tasks tied to a specific timing and schedule, in order to serve particular objectives (Hutchison et al, 2006: pp361-4). In the recording industry, the primary objectives of marketing endeavours are the promotion of artists and the music related to them (Hutchison et al, 2006: 1). The objectives' scope is liable to the financial and human resources available for the marketing campaign (Hutchison, 2008: pp31-2). For instance, the strategy of a superstar artist is to address a broad audience and will use more substantial resources than an intimate local band (ibid). For the recording industry, planning a marketing campaign entails the coordination of all the aspects related to the promotion and the distribution of records such as the budget and the schedule. Each release has its unique, tailored marketing plan based on the expectation of performance within the market. Marketing budgets are typically set as a percentage of expected sales. During the nineties, marketing budgets used to commonly amount to 10 percent of the expected sales' gross revenue of an album project (Hutchison et al, 2006; Wikström, 2009: pp90-2).

A marketing plan is aimed at two kinds of audience: the trade and the consumers. The trade consists of all the professionals within the industry which can reinforce the promotional structure of marketing efforts aimed at the primary target market, this being the consumers. As it happens, music retailers, music distributors and music publications are particularly in demand. Thereby, besides the production quality, the success of a record directly depends on the marketing plan as well (Hutchison, 2006: pp361-5).

The audience fragmentation, discussed earlier, has affected the approach used for the implementation of a marketing campaign.

Since a decade, while the industry has been facing a significant fragmentation of the market, the recording industry's companies have had to expose and promote their rosters in more outlets in order to keep the audience's awareness on a constant level (Wikström, 2009: pp90-2). This primary shift has resulted in a significant increase in marketing costs up to 20 percent of the expected sales' gross revenue of an album project - albeit the number is also put into perspective by the decreasing sales of recorded music (ibid). However, as the market has continued to evolve, the record companies have not been able to continually increase their marketing budgets.

As Wikström explains, they primarily revised their strategy by focusing their marketing endeavours on artists with a large audience, neglecting the artists having a smaller audience appeal (2009: 128). Nevertheless, as mentioned earlier, the record companies have realised that the Internet has improved the capability for the targeted audience to contribute to the overall exposure of the artists. This phenomenon, referred to as word-of-mouth, is currently bringing about a second shift in the approach employed by the record firms. It has incited the record companies to support the targeted audiences' contribution that sustains their rosters' media exposure on the Internet. As a result, the steady pressure exerted on marketing budget are loosening (Wikström, 2009: pp90-2).

Furthermore, because of the Internet's abundance of information and the resulting increase of competition within the market, it is significantly more difficult to keep the audience's attention. The Internet has considerably reduced the average life cycle of an album release (Kot, 2009: pp127-8). Primarily evaluated to twelve to eighteen months since the advent of the CD, the product life cycle of recorded music has considerably been reduced to a few weeks (Hutchison, 2006: 4; Kot, 2009: pp127-8). Thereby, within a reduced amount of time, the record companies have to adjust condensed schedules for their marketing strategy.

The advent of the Internet has deeply affected music consumption patterns.

Marketing structures in the recording industry have been completely redesigned. Marketing research has been implemented to determine the target audience's new behavioural consumption patterns. The whole process has led to the implementation of new kinds of marketing plans that particularly focus on the Internet market. Because of the decrease of marketing budgets and the lesser impact of the marketing campaigns on the audience, even the major record companies had to look to cheaper and more efficient ways to promote recorded music. Thereby, owing to the communication structures particular to the Internet, marketing strategies have shifted from a mass-appeal approach - illustrated by top-down targeted messages - to a peer-to-peer approach relying on the actual target audience to sustain the artists' media exposure (Wikström, 2009: pp90-2).

3.2. PROMOTION

“The name of the digital content game will always be to get exposure, be discovered, and then monetise the fan base” (Kusek, Leonhard, 2005: 159)

Promotion of recorded music is the primary aspect of marketing in the record industry. Promotion consists in getting exposure of the artists and their releases in as many outlets as possible. Without exposure in the media, there is no action on behalf of the target audience which is ultimately the purchase of the product. On the Internet, the promotional components includes publicity, advertising, webcast promotion, and one of the key elements of the marketing strategies implemented on the Internet, Grassroots Marketing (Hutchison, 2008: pp31-2).

3.2.1. Grassroots Marketing

Grassroots Marketing relates to the use of less traditional marketing tools in order to encourage the targeted audience to buy a product (Hutchison et al, 2006: pp231-40; Hutchison, 2008: pp37-9). Although many ways exist to apply Grassroots Marketing such as the use of social networks or mailing lists, all of them are based on the relationship developed and nurtured with the targeted audience by use of Viral Marketing and Direct Marketing (ibid).

3.2.1.1. Fan Base Development

First and foremost, the development of a fan base is the key element for the success of a promotional campaign (Anderson, 2009b: pp102-4; Otter, 2010). Beyond the revenue that the fan base can bring while buying the artists' released materials, it can bring support, credibility, influence, media coverage, new fans and ultimately a sustainable career (Cann, 2007). Most importantly, the recording industry, is one of these particular industries wherein a genuine relationship between the consumers and the artists - providers of the product - can apply. Unlike most products which mainly respond to utility's needs such as a pen or a bank account, music responds to the actual personal and emotional consumers' needs; music provides experiences. According to Hutchison, this need relates to the belonging needs referred to in Maslow's Hierarchy of Needs (Hutchison et al, 2006: pp32-3). Maslow's Hierarchy categorises the human beings' needs depending on their nature (Maslow, 1943). Music embodies one of the needs that

calls upon the desire of socialising and belonging (Hutchison et al, 2006: pp32-3). Thereby, the experience that the music brings to the fans, and the relationship - even fictitious and unilateral - that they are willing to develop with the artists are key elements for them to buy the music (Lathrop, 2003: pp41-5).

3.2.1.2. Social Networking

Owing to the mass-media communication structure which does not enable to communicate on a one-to-one basis (Mcluhan, 2001; Van Dijk, 2006), it is difficult for the artists to develop a two-way relationship with their audiences and directly promote themselves through these media. However, as developed earlier, it is possible online. New communication platforms better known as social networking websites have developed on the Internet. These sites enable the artists to support the target audience's interest and relationship with their fans virtually on a one-to-one basis (Kusek and Leonhard, 2005: pp67-8). As defined by Boyd and Ellison:

“Social networking sites are websites that allow members to construct a public or semi-public profile and formally articulate their relationship to other users on a way that is visible to anyone who can access their profile” (2007).

As developed in the first part of the dissertation, these websites are already unquestionable within the Internet landscape, making them essential for the artists to have exposure on the Internet (Bylin, 2010a; Nielsen, 2010b). The use of these websites implies what is called a 'friend request'. Once you are already a user, the request consists in asking other members to access their profiles and all the information related to them. Owing to the daily presence of the targeted audiences on them, these sites provide a great outlet for the promotion of music and may appear more useful than the artists' actual official websites. The artists can directly promote their activities to the targeted audience. They can interact with them and be directly contacted by their audiences (Wikström, pp160-5).

The social networking sites are also formidable tools for artists to analyse their fans' characteristics such as their demographic, geographic and psychographic attributes. Indeed, these websites usually provide statistical tools enabling their users to analyse the profiles of their pages' visitors and that of their networks' members.

Most interestingly, social network trends can now be used to assess coming selling trends (Woods, 2010a, 2010b). Indeed, a new type of statistical analysis implemented online, called 'Clustering' and similar to the keyword-based statistics measurement, has

underlined many times a strong correlation between record sales and social networks' activity (Wilmshurst, J. and Mackay A., 2002: pp72-105; Woods, 2010a, 2010b).

Thanks to the social networks, it is now possible to assess marketing efforts almost in realtime (Woods, 2010a, 2010b).

3.2.1.3. Direct Marketing

Accessing the information of the social networking sites' users, whom are members of the artists' networks, constitutes the ultimate aspect of marketing (Wikström, 2009: 161). Indeed, by this means, the marketing team that supports the artists' promotional campaign have access to the geographic, demographic and psychographic data of the networks' members. They know everything about their lifestyle, age, sex, location, occupation, and what their favourite music, movies and books are. In being close to the targeted audience, and in knowing everything about them, the artists and their marketing support are able to tailor and customise their marketing strategy on a one-to-one basis. This is Direct Marketing, also called Niche Marketing. The value of market segmentation has not been so emphasised (Lathrop, 2003: 45).

Direct Marketing can be as simple as keeping contact with the target audience. Thereby, besides the use of the social networks, gathering a mailing list can be an excellent tool to do so. The Internet has revolutionised the use of mailing lists. Now digital, they are virtually free of cost. In addition, subscription-incentives such as free giveaways, consisting in giving away digital music in return for an email address, have made mail listing a very cost-efficient promotional tool (Lathrop, 2003: pp43-4). The listing is commonly used for the mailing of periodic e-mail newsletters that accounts for the information related to the artists' recent activities such as the release of new music, touring or press releases (Hutchison, 2008: 171). Easily implementable, mailing lists remain the primary tool to build an audience (Hutchison, 2008: 171; Kusek and Leonhard, 2005: 14; Otter, 2010).

In addition, Direct Marketing establishes any purchase opportunity by providing the information about the product directly to the customers. A way for them to place an order is also included in the information (Lathrop, 2003: 107). Easily implementable in newsletters, Direct Marketing is therefore an actual combination of promotion and distribution (Ibid). Social networking profiles implemented by the artists and their marketing support are also good examples of Direct Marketing. Through the continual flow of information that they provide to their target audience, direct links to various points of purchase are also highlighted (ibid).

Direct Marketing calls upon the consumers' need to relate to a product - the artists and their music. This constitutes a significant shift from how music is marketed in the traditional distribution channel (Kusek and Leonhard, 2005: pp66-7). In the traditional distribution system, the primary record companies' clients are not directly the targeted audience but the physical distributors, the brick-and-mortar retailers and the radio programmers. This constraint does not enable them to directly respond to the audience's demand, but that of the middlemen who are inherently driven by the mass distribution paradigm. This marketing system entails to favour the production and distribution of one-size-fit-all products that limits the consumers' choice and therefore their satisfaction as well (Anderson, 2009b).

3.2.1.4. Viral Marketing

Viral Marketing describes the primary form of marketing, namely word-of-mouth (Hutchison, 2008: 188). As adequately defined by Hutchison:

"Viral marketing is any strategy that encourages individuals to pass on a marketing message to others, spreading exponentially as one group of people pass on the message to each of their friends" (2008: 188)

A 2002 marketing survey revealed that the consumers' primary incentive for them to try new products is, after the pricing factor, their friends and family recommendations (Haymarket Publishing Services, 2002 cited in Hutchison et al, 2006: 233). This clearly shows the importance of word-of-mouth in marketing. This explains why Viral Marketing has been used for a long time in the recording industry.

Nevertheless, owing to the mass-media's structure that enables only communication on a one-to-many basis, the recording industry's marketers had to call upon trendsetters. They are opinion leaders that have a privileged access to the media such as magazines, newspapers, and more precisely journalists and broadcasters that can easily pass on the word-of-mouth messages (Hutchison, 2008: pp231-5; McLuhan, 2001; Rogers, 1995: pp11-38; Van Dijk, 2006). Nowadays, since the advent of the Internet, Viral marketing has taken on a new meaning.

Unlike its primary implementation in the traditional media by means of top-down marketing messages, word-of-mouth on the Internet is subject to different communication structures that enable information to follow bottom-up patterns. As it happens, marketing messages can directly diffuse from the actual target markets. The reasons lie on the internet users' networks. These networks, such as those developed on the social

networking sites, have expanded so much that word-of-mouth is much more efficient on the Internet than by means of the traditional media (Wikström, 2009: pp147-69).

Top-down marketing messages no longer influence the consumers as they used to. Yet, consumers still need credible personalities to expose them to new products, new music and new artists. These primary tastemakers have always been friends and relatives (Anderson, 2009b: 98; Kusek and Leonhard, 2005: 57; Otter, 2010).

On the Internet, Viral Marketing benefits from the social networks and the internet users' inclination to communicate and share experiences with others. Dr. Wilson, an early expert in marketing on the Internet, identified the main elements of viral Marketing (2000).

The target audience has to perceive value in the marketing message. Turning the information into an experience is a way to draw the audience's attention. This is the value that they perceive that encourage them to share the information. In addition, the marketing message has to be easy to replicate and share. Finally, the information has to circulate on existing and popular communication networks (ibid).

Perfect illustrations of these Viral Marketing principles are the viral videos that are accessible on the video-sharing website YouTube, such as those made by OK Go, a band well-known for their viral video clips (Lefsetz, 2010), or those made by C-Mon & Kypski, a band that involves their fans in the video-making process by actually having them starred in their music videos (Oneframeofframe, 2010). This type of marketing message engages the target audience in some way or another. These promotional materials turn into actual experience for the audience, blurring the distinction between promotion and entertainment (Wikström, 2009: pp162-5).

Besides the use of the popular social networking sites, the implementation of Viral Marketing may also involve the use of peer-to-peer networks as promotional platforms (Lathrop, 2003: 129; Parsons, 2010; Peitz and Waelbroeck, 2004: 63, Prasad and Mahajan, 2003;). Several studies have concluded that, despite the proved copyright infringement and the relative role that it takes in the decrease of record sales, the trade of music on the peer-to-peer networks contributes to word-of-mouth and enables the record companies and the independent artists to establish an audience (ibid).

Easy to implement, Viral Marketing is the norm of online promotion nowadays. As developed earlier, the record companies and independent artists have been increasingly dependent on their audience to create a media presence. However, by relying on the actual target audiences to support their marketing efforts by means of Viral Marketing, they do not have to increase their marketing budgets in order to make up for the audience fragmentation (Wikström, 2009: pp162-5).

3.2.2. Advertising

Advertising is an important aspect of music promotion. It describes a form of media communication directed toward a target audience (Hutchison et al, 2006: pp181-94). Similar to publicity as for the motives and objectives, it is distinguished from it by the fact that the communication of the information is paid by the provider to the media outlet through which the information is conveyed (ibid).

Depending on the media formats, fees for advertising messages vary in accordance with their duration or size when it respectively comes to audio/visual contents or promotional inserts, as well as the visibility of the outlet within the market (ibid).

On the Internet, such outlets include music blogs, webzines or even search engines through which it is easier and cheaper to aim at a particular target audience than on any other mass media outlet (Hutchison, 2008: pp193-7).

A search engine such as Google have implemented automatic systems that advertisers can apply for to set advertising campaigns on the Web. They subscribe to advertising programs such as Google Ads whereby they submit their advertising messages as well as keywords related to them. Then, in accordance with the search engine results, the automatic advertising systems will display the corresponding and targeted advertising messages in the resulted ranking page in the form of inserts. On a pay-per-click basis, these advertising systems enable to cost-efficiently target an audience and precisely measure the impact of advertising in this particular media outlet (Google, 2010; Jacobson, 2009: pp9-37).

Most interestingly, such advertising systems seem to be particularly efficient to measure on social networking sites (White, 2010). As it happened, a band called All Smiles managed to increase the amount of friends on their Facebook profile by implementing an automatic advertising campaign by means of the program Facebook Ads. By targeting various geographic markets, at different periods, they could precisely measure the cost and impact of their campaign. In this case, they could convert 5,000 Facebook users into friends at a rate of \$0.33 per fan over a ten-day period. Not necessarily efficient every time, such tools still enable the measurement of a campaign's impact almost in realtime and to adjust the advertising strategy in accordance to it (ibid).

3.2.3. Publicity

Brought about by the Internet, the fragmentation of the market has been a significant element in the evolution of music marketing. Nonetheless, the tools made available by the Internet have enabled the music marketers to identify better their target audience and then, to tailor the adequate strategies as Direct Marketing and Viral Marketing have shown. However, it is virtually impossible to create a marketing message targeted to every individual consumer. Broadening the message's potential reachability by addressing the key people likely to influence the target audience is still an efficient strategy in music promotion (Anderson, 2009b: pp229-30; Rogers, 2003). This process, consisting in gaining free coverage of the marketed product by the media outlets, is called publicity (Lathrop, 2003: pp138-9).

Gaining exposure of a product through publicity balances against advertising. Because advertising involves paying for media coverage, it also implies less persuasive power and more suspicion on behalf of the prospective consumers (Haugtvedt et al, 2008; Hutchison et al, 2006: pp163-5). Because it appears in a non-commercial framework, getting the tastemakers' interest, such as a journalist writing about an album release, suggests more than the mere attempt to sell the product (Hutchison et al, 2006: 164).

However, in an era of market fragmentation and user-generated content, the Internet gatekeepers are not the mass-media outlets even if they have extended their presence on the Web. These unexpected opinion leaders are blogs, sometimes described as webzines. Hyper-specialised in music sub-genres or lifestyles as well as being often run by amateurs and semi-professionals, music blogs bring the insight and hindsight needed to ensure credibility with their audiences (ibid).

Webzines are becoming incredibly influential (King, 2009: pp140-1). As proof, Pitchfork Media, a music-reviewing website created in 1995, managed to gather 240,000 visitors per day in ten years (Kot, 2009: pp113-21). The popularity of artists such as Arcade Fire and Clap Your Hands Say Yeah, well-known for relying heavily on the Internet as a promotional tool, has been said to have largely benefitted from Pitchfork's coverage (Freedom Du lac, 2006; Kot, 2009: pp113-21). To a certain extent as influential as Pitchfork in terms of web traffic, The Hype Machine, a music blog aggregator, references more than 1,800 music blogs devoted to music reviewing, making it an incontrovertible platform for discovering music (Alexa, 2010a, 2010b; Kot, 2009: pp113-21; The Hype Machine, 2010).

Owing to the involvement of unauthorised file posting, the blogs were primarily charged by the record companies for cease-and-desist orders; yet, these new players appear of tremendous help for record labels to reach specific audiences and promote their music

(Kot, 2009: pp124-6). The record companies and independent artists now see these sites as a tool to create word-of-mouth and regularly send them MP3 files attached to Electronic Press Kits. Electronic Press Kits are promotional tools addressed to press people and gather all the information necessary for them to cover the artists and their music in the form of digital documents (Hutchison et al, 2006: pp168-9; Kot, 2009: pp124-6).

The development of an audience has always been the fundamental element that any promotional campaign builds on. Owing to the nature of the need that the music industry satisfies, the product that it sells establishes deep emotional connections with its audiences.

The Internet has significantly affected the promotion of recorded music. A complete new approach to music marketing has emerged. The medium's communication structure has increased the significance of the relationship developed with those audiences. Nowadays, they actively take part in the product's exposure - the artists and their music. The actual artists and their marketing supports only capitalise on this phenomenon.

The various promotional strategies that have been reviewed have shown that the triggering element of a marketing campaign online is no longer the product itself, but the relationship developed with the target audience. Able to attract their audiences' attention and enthusiasm, no longer do the record companies and independent artists monetise the sales of music. They monetise the relationship with the fans.

While making the most of the media convergence illustrated by the advent of the multimedia industry, the artists monetise the relationship that they develop with their audience by licensing their works to multimedia producers such as film makers, advertising agencies, TV producers and computer game makers willing to appeal to an even broader audience (Dwyer, 2010; Gordon, 2008: pp77-8; McLuhan, 2001; Wikström, 2009: pp92-5).

Encompassing all the media, music licensing for audiovisual contents, also called synchronisation or music placement, provides significant exposure for music and can be seen as a clever promotional tool for music promotion (Gordon, 2008: pp77-8; Wikström, 2009: 92-5).

3.2.4. Webcast Promotion

According to the traditional meaning of what radio is, Internet radio describes the non-interactive streaming of audio (Gordon, 2008: pp27-58). Steve Gordon, an attorney expert in music licensing for broadcasting, has determined two forms of Internet radio: the webcasters, referring to the Internet-only streaming services that allow custom-made and personalised streams depending on the listener's tastes, and the simulcasters referring to the traditional radio stations that simultaneously stream and broadcast the same signal both on the Internet and on the terrestrial radio (ibid).

Owing to the scope of the dissertation, limited to the Internet marketplace, and the fact that simulcasts are subject to the traditional form of radio promotion (Hutchison, 2008: pp34-5), only the promotion of recorded music on the webcasting services will be addressed.

These services are subject to the same technological structure as the medium allows to any digital content. This means that an unlimited amount of Internet radio stations can possibly exist. Literally, only the consumers' need is the limit (Kusek and Leonhard, 2005: pp61-2). Therefore, it is difficult to estimate the number of radio channels streaming music. On the other hand, companies providing such services comprise Yahoo Music Radio, Last.Fm and Pandora as far as the most well-known are concerned (Gordon, 2008: pp27-58).

Internet radio is as fragmented a market as the recording industry sector is nowadays. As previously mentioned, it exists as many Internet radio channels as the listeners' tastes, of which the selection criteria are categorised by genre or artist. Thereby, they are a perfect medium for established and new artists to get their music exposed. Unlike the traditional radio programmers that are subject to audience rating and airtime, the Internet radio programmers are more willing to stream music that appeal to niche markets, making the internet radio promotion process easier to achieve (Hutchison et al, 2006: pp123-61; Kusek and Leonhard, 2005: pp61-2).

3.3. DISTRIBUTION

“People don’t buy products, they buy benefits” (Hutchison, 2006: 27)

Distribution describes the process of making the music available to the public. It refers to the Place of the marketing mix previously mentioned (Hutchison et al, 2006: pp2-4; Lathrop, 2003: pp83-105).

Commonly, the Place is the actual music store. The store-based distribution model entails several stages that involve a chain of participants in its development. Each participant moves the product - the recorded music - one step further on its way to the final customer. The participants of this distribution channel are the record company - or the artists themselves when independent - the distribution company, the wholesaler and the retailer (Lathrop, 2003: 83). Usually, the content provider engages the services of the distribution company, a third-party middleman that provides a one-stop distribution service to wholesalers and retail outlets (Lathrop, 2003: pp31-2).

In addition, it also exists a less conventional approach, called direct-mail distribution, consisting in selling the music directly to the customers (Lathrop, 2003: 83).

These methods commonly involve the sale of music under the physical format such as the CD. However, owing to the scope of the dissertation - the digital music distribution - this chapter will only focus on a third distribution method, this being the sale of music through the digital music retail stores.

3.3.1. A New Distribution Paradigm

Music distribution used to be an intricate issue before the advent of digital distribution. The main obstacle was paradoxically the distribution companies and the retailers themselves (Lathrop, 2003: pp83-105). Subject to the limitation of shelf space and the cost and management of stock, brick-and-mortar retailers are forced to limit their offer to the best selling and most popular acts in order to make a profit (Anderson, 2009b: pp52-7). Similarly, given that they have to respond to the retailers’ demand, the traditional distribution firms are bound to the same constraints. Thereby, in consideration of the amount of records produced each year - not fewer than 100,000 in 2009 for the sole American market - it is difficult for a traditional distribution company and a traditional music retailer to deal with every act (Nielsen, 2010a; Peoples, 2010).

Although relevant in consideration of such constraints, this paradigm sheds light on two issues. From a cultural point of view, it is obvious that this model restricts regional and

international musical diversity (Anderson, 2009b: pp52-7). Moreover, from a marketing perspective, it clearly restrains customer satisfaction (Kusek and Leonhard, 2005: 86). Yet, any marketing effort is expected to meet the consumer's demand.

Thereby, the advent of the Internet and digital music retailing has revolutionised the music distribution (Gordon, 2008; Kusek and Leonhard, 2005; Wikström, 2009). Once again, the reasons lie in the much-cited technological and communication structure of the medium. The Internet fundamentally transmits digital data. Owing to its intangible aspect, digital information can be replicated indefinitely. When it comes to media content such as music, this arises copyright issues as previously mentioned (Lessig, 2004; Fisher, 2004); nevertheless, it also brings about new possibilities for music distribution. Indeed, music now can be duplicated and distributed for less without product shortage whatsoever (Anderson, 2009b).

The Internet has considerably decreased the cost of music distribution. It has removed the main drawback of music retailing, namely the cost and management of stock, the limited shelf space, and therefore - in consideration of the amount of music produced since the advent of recorded music - the limited aspect of the retailers' catalogues (Anderson, 2009b: 53).

Because of the Internet's technological and communication structures, online music retailers and online distribution companies are willing to distribute any music by any artists. Hence, they can be seen as aggregators of music rather than trendsetters as they are in the traditional distribution channel (Anderson, 2009b: 88).

In addition, the costs have been reduced so much that even artists with smaller audiences now can potentially become profitable to distribute (Peitz and Waelbroeck: 2004). Salutary to independent artists, digital music distribution on the Internet has provided all music artists with the distribution power that was beforehand controlled by the major record and distribution companies (Anderson, 2009b).

Digital music retailers are becoming so successful that they are now starting to challenge the existence of brick-and-mortar music stores. The IFPI reported that in 2009 the digital recorded music market accounts for 27 per cent of the entire recorded music market in terms of sales, up from 940 percent in 2003 when the first digital music services such as iTunes and Emusic settled into the market (2009a; 2010a). Increasingly popular among the consumers, digital music distribution is now at a tipping point in its existence.

3.3.2. Digital Music Distribution

Commonly, online music retailers do not directly deal with artists. In order to simplify their retailing operations, they prefer to work with distribution companies that provide them with recorded music in bulk. The primary roles of a music distribution company are the sale, the actual distribution, and the marketing of the music to the retailers. In reducing the amount of points of contact in the distribution channel, the digital distribution companies make the distribution process easier to implement both for the artists and the digital music retailers (see **Figure 3**) (Hutchison et al, 2006: pp195-6; King, 2009: pp46-56).

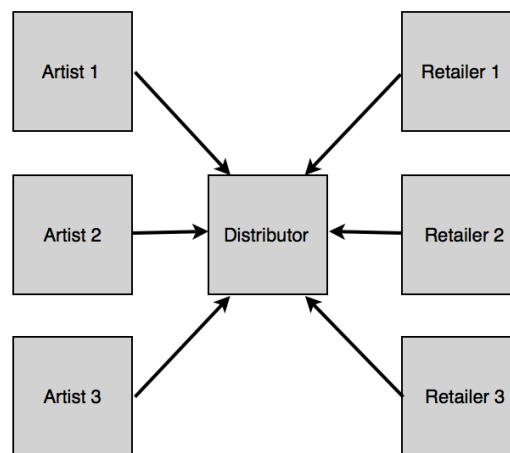


Figure 3. The distribution model. (Hutchison et al, 2006: 12)

Music distribution companies can be defined in accordance with their operational structures. For instance, the major labels have developed vertically-integrated distribution structures. Many independent distribution companies also exist of which the importance varies in terms of size and activity. However, two forms of these firms stand out (King, 2009: pp46-56).

The first group are the companies covering both the online and brick-and-mortar retailers such as the ADA, REDMusic, CDBaby as well as The Orchard. The second group are the companies covering only the digital market such as Tunecore, DittoMusic, and IODA (ibid). The former group mainly deals with record labels, except for CDBaby, whereas the latter group deals with both independent record labels and independent, unsigned artists (ibid).

Typically, for either independent, unsigned artists or record labels, these services deliver the music to and manage the relationship with the digital music retailers as well as collecting the earnings (ibid). Most importantly, one of the key roles of the music distribution companies is also to joint their marketing efforts with those of the record

company or the independent artist in order to enhance their visibility notably with the retailers (Hutchison et al, 2006: pp197-200). Nevertheless, the commitment is different depending on the distribution company involved. As it happens, the companies addressing their services to the record labels tend to provide more marketing force than their counterparts that focus on the digital market (ibid). The reasons lie on the fact that dealing with complex structures such as record labels - present on both the traditional and digital markets - requires more capital and marketing efforts than exclusive digital distribution owing to the technological reasons as previously evoked. Older, these firms are also more established than the digital distribution companies as well as benefiting from more capital. A good occurrence is the creation of the ADA - the Alternative Distribution Alliance - in joint venture with Warner Music Group in 1993 or CDBaby created in 1998 and now owned by the established holding company Corinthian Capital Group (Corinthian Capital Group, 2010; Warner Music Group, 2010).

Because of more costly overheads, these companies follow the traditional pricing model. They charge between 9 to 30 percent on a sales commission basis for their services (King, 2009: pp46-56).

On the other hand, some distribution companies prefer to take full advantage of the Internet's technological and communication structures. These companies exclusively focus on the digital music market. Tunecore and DittoMusic are two leading companies in this market. More recent and with lower capital than their aforementioned counterparts, these companies have dealt more with independent, unsigned artists rather than actual record labels (King, 2010: pp46-56; Parsons, 2010).

Most interestingly, because the Internet has substantially decreased the cost of music distribution, they can charge far less than their traditional counterparts for their services. As a matter of fact, they developed a completely new business model within the market. They do not take any commission on income sales and only charge a one-off fee for their services. Usually, the artists pay a flat fee which depends on the nature of the product, the distributed geographic markets and the number of eventual online retailers through which the music will be in supply (DittoMusic, 2010; King, 2010: pp46-56; Parsons, 2010; Tunecore, 2010). Their services are very flexible. These firms take no right from the content provider, they are non-exclusive and the artists can cancel the distribution of their materials at any time (ibid).

The advent of such an innovative business model, whereby the content providers keep all of their profits, sheds light on the reorganisation of the recording industry. As Matt Parsons, CEO of DittoMusic, explains, the exclusive digital music distribution companies are challenging the position of the major distribution firms (Parsons, 2010).

Indeed, primarily focused on the sole digital music distribution market, these companies have started to develop management deals, marketing deals as well as licensing and synchronisation deals to their clients.

These services are very similar to what their direct competitors - those independent firms present on both traditional and digital markets - are already developing for their clients. Nevertheless, their business model offers a significant advantage compared to the competition; especially as the idea of keeping one's artist career as independent as possible is increasingly popular amid the artist community, even among high-profile artists such as Prince and Radiohead (Kot, 2009; Wikström, 2009).

In light of a massive expansion of the digital music market in the coming years, if these firms continue to develop that way, they are likely to directly compete with the major record labels (Parsons, 2010).

3.3.3. Digital Music Retailing

Eventually, all the marketing efforts, implemented for the promotion and distribution of music, converge within the music retail environment. Ultimately, if the target audience positively responds to the promotion of the music, they will head to the music retailer and buy the music (Hutchison et al, 2006: 209). The retail environment is designed to help the customers make their purchasing decision in many ways depending on their needs.

A wide range of music and artists in supply is a primary incentive that digital retailers can now make use of. Similarly, in an era of abundance and unlimited choice of music, music recommendation systems can also help the customers navigate through the online store. On the other hand, because nowadays anyone can access music for free, the price, even if low, is no longer an asset itself to encourage customers to buy a record.

Seemingly, the way that music is delivered, the purchasing experience, in other words how the customer navigates through the online store, may be the key to draw the customers' attention to the stores (Anderson, 2009b; Lathrop, 2009). This is how the idea of giving the public maximum choice for maximum satisfaction came up. Indeed, the use of the digital format has been so flexible that the online retailers have developed new ways to distribute music, and new business models.

So far, more than 400 digital music services have been identified; each of them providing particular services to draw new customers (IFPI, 2010a). With almost a business model per digital music service company, the digital music retail landscape may seem chaotic. Yet, four of these models stand out (Gordon, 2008: pp63-72; Lathrop, 2003: pp123-8; Wikström, 2009: pp101-8).

3.3.3.1. Downloading

The first model to have appeared online, and to date the most popular one, is the a-la-carte business model (IFPI, 2009a, 2010a). This model consists in selling music as singles or track bundles such as albums.

3.3.3.1.1. One-Time Payment Model:

Two leading figures using this model are Amazon MP3 and iTunes. Amazon MP3 was launched in 2007 in reaction to the success of iTunes, implemented in 2003 by Apple (Wikström, 2009: pp101-8). At that time, iTunes was the only service to offer a plain single download system. Aware of this consumption issue, Apple managed to convince the record labels to unbundle songs from the album packaging. Beforehand, tracks were packaged into the traditional album and EP formats limiting the consumers choice. This strategy turned out to be shrewd. To date, iTunes has been the leader in the global digital music market with 70 percent of market share in 2008 (ibid).

The a-la-carte payment model directly takes inspiration from the old and traditional model of selling music through individual items such as vinyls and CDs. That model considers music as a good that can be countable and relies on the controlled scarcity of it to make a profit (Anderson, 2009b; Gordon, 2008: 243; Suisman, 2009: pp1-55).

Starting from a unique and clear pricing strategy fixed at an average \$0.99 per song - depending on the currency system - this model directly took inspiration from the former single pricing established in the fifties when the 45rpm vinyl came out (Kusek and Leonhard, 2005: 123). However, as of 2009, the digital music services employing this model have changed this pricing system for a more heterogeneous tiered-pricing system in response to the major record labels' pressure (Amazon MP3, 2010; iTunes, 2010; King, 2009: pp40-1; Wikström, 2009: pp101-8).

3.3.3.1.2. Subscription-Based Model:

The subscription-based model is slightly different from the traditional a-la-carte payment system. Users still download music from the online retailer's server. On the other hand, they are required to pay a monthly fee for downloading a certain amount of songs per month. Various tiered-prices exist of which the fees depend on the option chosen by the subscriber. The main disadvantage is that the fee is paid upfront and does not allow the subscriber to defer downloads to the following month if they do not take full advantage of the amount of download allowed during a cycle period. The main advantage of such a system is that because it relatively secures stable and predictable incomes for the retailers and the content providers, the retailer sets lower margin than a retailer following the a-la-carte payment system. Therefore, such a download is comparatively cheaper. The leader of this market segment is Emusic (Emusic, 2010; King, 2009: pp42-3, Wikström, 2009: pp101-8).

Another form of the subscription-based model exists. In this model, the digital music service provider allows unlimited music downloads. Yet seemingly attractive, such a service does not allow the subscribers to play the downloaded catalogue when they have terminated their subscription. The tethered aspect of this model is the main drawback of this model. Such service providers using this system comprises MusicStation by Omnifone (King, 2009: pp42-3; Omnifone, 2010).

3.3.3.2. Streaming

Since the advent of the digital music services in the early 2000s, a viable alternative to the downloading model has appeared. It is the streaming model.

Directly related to the much-talked cloud concept, streaming music consists in playing a song over the Internet. Unlike the a-la-carte payment model, this method takes into account the absence of scarcity and control over media content that results from the development of digital technologies. As previously discussed, music has become so abundant and accessible online that considering it a countable item will go against consumption trends (Anderson, 2009b).

The model is essentially the implementation of a database of songs that the users access after signing up for the music service provider that manages the said-database. Thereby, the user does not actually own the music since the digital data are on a server, somewhere on the Internet (Lathrop, 2003: 127). Thereby, providers of such services respond to this new consumption trend, discussed earlier, that consists in consuming media content directly on the cloud.

A music provider using such a model are often referred to as Internet radio because of its analogy to the way that broadcast radio works. Nevertheless, unlike webcasting, the user can directly interact with the music content that appears in the form of playlists. Relatively flexible, depending on the service provider, the playlists can be created in accordance with specific music genres, particular artists or songs depending on the users' choices (Reakes, 2010; Wikström, 2009: pp101-8).

The subscription for such services is based on two forms.

3.3.3.2.1. Subscription-Based Model:

As indicated, the user usually pays for a monthly subscription to the service. Depending on the service provider, the fees amount to £5 to £10 per month in the British market. Most often, the subscription is an alternative to the ad-funded model for consumers whom do not necessarily want to be subject to advertising messages (Napster, 2010; Rhapsody, 2010; Spotify, 2010; We7, 2010; Wikström, 2009: pp101-8). Such services comprise Rhapsody, Spotify and We7 (Ibid).

3.3.3.2.2. Ad-Based Model:

So far, all the models discussed above have relied on generating income directly from the audience's revenue often by means of the 'Freemium' strategy previously discussed. However, these services hardly compete with the free peer-to-peer networks. To respond to this issue, new music providers appeared with ad-funded music services. These companies provide the same services as any streaming-based music retailers except that they don't charge their customers for them. The services are funded by the advertising income made by the implementation of various advertising messages that appear either in the form of advertising banners on the actual service provider's website's pages or commercials regularly played amid the playlists (King, 2009: pp38-46; Wikström, 2010: pp101-8). Such services rely on the Third-Party Market strategy previously discussed. They include Spotify, Deezer and We7 (Deezer, 2010; Spotify, 2010; We7, 2010).

3.3.3.3. Downloading vs. Streaming

The main advantage of the downloading model is that the users listen to their music library offline, that is to say without the requirement of being connected to the Internet. Additionally, because the playback is not subject to the Internet bandwidth, the sound quality of the music is generally better than that of a streamed playback. Finally, this

model also implies the copy of music onto a personal hard-drive; this final aspect shows that the model is an ideal solution for the music consumers still attached to the ownership of music (Lathrop, 2003: 128).

On the other hand, relatively flexible, the music-streaming model virtually gives an unlimited access to any songs. For instance, a service provider such as We7 asserts to deal with a six million song database (Reakes, 2010). The user does not have to own the music as such and can simply carry a portable media player. Thereby, this system is particularly suitable for mobile phone users (Parsons, 2010; Wikström, 2010). The music retailing is experiencing a transitional time. The contemporary music consumption patterns suggest that a development of this distribution model is still ahead (King, 2009: 52).

Neither model is better than the other. They seemingly respond to contemporary music consumption patterns. Most interestingly, people are no longer limited to the narrow playlist of the album format. They can cherry pick the music that they want and have it downloaded or streamed to them. For more convenience, the service providers have also developed various recommendation systems based on aggregated usage data of their services. While these systems help the users navigate, they can also predict what they are likely to appreciate, enhancing the consumers' satisfaction (Reakes, 2010; Wikström, 2009: pp105-7).

The Internet has provided the users with a wide array of music services. From a marketing perspective, online music retailing has achieved what the traditional retailing has not been able to accomplish, this being the consumer's ultimate satisfaction, in terms of price, convenience and flexibility. An efficient digital distribution strategy should include all these options. As it happens, services such as We7 combines and offers all the aforementioned models to their customers for maximum flexibility (Lathrop, 2003: pp123-4; Reakes, 2010; Rhapsody, 2010; We7, 2010).

The digitisation of the music distribution channel has had a tremendous impact on music marketing. All the physical constraints, inherent to the traditional music retailing, have been overcome. Such constraints comprise the cost and management of stock, the limited shelf space and the inherent limited aspect of catalogues. The cost of music distribution has been so significantly lowered that new players have come into the music distribution market.

Whether they are digital music distribution companies or digital music service providers, they have developed clever and innovative ways to distribute music. The digital music distribution companies respond to the artists' needs in new and revolutionary ways that

are challenging the recording industry's dogmas. By adapting their retailing strategy in accordance with the contemporary consumption patterns of recorded music, the digital music retailers turn out to be more of service providers than actual retailers in the traditional meaning.

Owing to its abundance online and the way that it is distributed, music is no longer seen as a good as it has been for more than a hundred years in the physical world. Intangible online, as it is primarily, music can be seen as a service in the digital world (Wikström, 2009: 8).

The digital distribution companies and music service providers' roles are inherently different from the traditional counterparts. Their role as trendsetters has been considerably lowered, enabling the audience to set their own preferences through various recommendation tools.

Most interestingly, by emphasising the purchasing context rather than the actual content, the music service providers have maybe found a way to attract music consumers to the retail outlets again.

4. CONCLUSION

More than a hundred years of age, the recording industry appeared at the very end of the nineteenth century. Established in a context wherein the mass production of goods was becoming increasingly important in the eventual industrialised societies, the industry sector implemented a production system in accordance with the *Zeitgeist*.

Based on the exploitation of intellectual properties, the recording industry turned an intangible, momentary art form into a countable and durable product in the form of records. Throughout the twentieth century, a complex chain of production, reproduction and circulation of recorded music developed. The evolution of the industry, characterised by intricately-interrelated and integrated companies, led to the hegemony of a few major firms over the whole sector.

The oligopolistic nature of the industry sector, the scarce nature of the traditional music distribution as well as the limited aspect of the circulation of information on the mass-media that developed at the same time, have resulted in a limited circulation of recorded music throughout the twentieth century. These characteristics shed light on an industry sector wherein the main issue was the control over the music distribution channel. To solve the issue, the record companies created a system of production and distribution only sustainable through the application of a paradigm based on control and artificial scarcity of the product - the recorded music.

Owing to their control over the distribution channel and their use of the mass-media as promotional tools, the record companies were able to significantly influence the music consumption patterns. However, the advent of the Internet in the nineties as well as the development of the digital technologies such as the MP3 media format, have deeply affected its functioning. The major record companies lost control of the distribution channel.

Indeed, the technological characteristics of the digital medium, notably the possibility of an unlimited duplication and circulation of intangible data as well as the high connectivity and interactivity between users, completely changed the music consumption behaviours. The Internet has shown that music consumers can now get the music elsewhere than from the system implemented by the recording industry companies. The much-talked occurrence is the advent of the file-sharing networks whereby users can share digital content such as MP3 music files. Although these behaviours have raised legal issues, they have also raised sociological issues. The advent of the Internet illustrates a shift from an industrial era to an age of information that the modern societies are currently experiencing.

Consumers are spending an increasing amount of time online at the expense of traditional mass media. They are extending their social networks online as the popularity of social

networking sites shows. Internet users are given tools to create and consume media content such as blogs, video or even music, online. These user-generated-content and user-friendly approaches that the Internet is heading to, describe Web 2.0.

In addition, because the Internet and the digital technologies' properties allow it, the economic structures developed for the Internet market have spread the notion of free online. Media online companies have affected the consumers' perception of digital media content. On the Internet, free is now a notion taken for granted.

Thus, generations of consumers, are changing their media consumption habits in ways that go against the recording industry sector's expectations. Consumers no longer have to buy the music to consume it. Music has been so abundant online that they do not have to pay for it. Their interests for music express themselves online but don't turn into profits. The sole file-sharing phenomenon is not liable to the recording industry crisis. The dissertation arguably reveals that the issue is far greater and more intricate than the file-sharing issue. The shift toward an information era, illustrated by the development of digital technology, has brought about these contemporary media consumption patterns that the recording industry sector belatedly acknowledged.

The media audience's contemporary behaviours have had a considerable impact over music marketing. The promotion of music had to be completely redesigned in order to adjust this new market.

As it happens, the influence ratio of the media outlets to the audience is shifting. Online, the presence of gatekeepers such as blogs and webzines is still significant. Yet, because any kind of music is virtually available online, the audience can establish itself as a trendsetter on its own in accordance with social networking trends, online retailers' recommendations or the quotidian word-of-mouth alike.

Traditional promotional strategies such as publicity, advertising and radio promotion, have remained similar on the Internet, albeit the targeted trade is different. Most interestingly, the Internet led to the emergence of less traditional types of promotional strategies that focus on the relationships that artists develop with their audiences. Although these strategies already exist offline, the technological structure of the digital medium enables marketing supports to back up their efforts on this specific aspect of music and artist promotion. The fan base has always been the key factor for an artist's success. Marketing supports leverage the social networking platforms and the power of online word-of-mouth to raise fan bases.

They also make the most of the one-to-one communication structure, the interactivity as well as the connectivity that the Internet is based on to implement Direct Marketing as well. These strategies aim at getting the audience to identify themselves to the artists and

the music that they listen to. This ultimately encourages them to buy the music and results in a powerful marketing feedback loop online as well.

Most importantly, these strategies, cheaper to implement online than in the traditional media system, enable all artists, established or not, to enhance their marketing power. This aspect is now a key feature in an over-crowded online market.

The affordability of reproduction and distribution of digital content online also leads to the emergence of new players in the music distribution channel. Most traditional distribution businesses have extended their operations online. New digital distribution companies also appeared, increasing the competition online. The offers have not been so large for artists to distribute their music. The main constraints inherent in physical distribution of music such as the limited shelf space of retailing and the cost of stock, completely disappear online. Any kind of genres and artists have now a large access to the distribution chain.

In addition, these new digital distribution companies came up with new business models based on an artist-centred approach whereby artists gain financial rights that preserve their independence. These models present a significant shift from the established models implemented by the record companies that prefer to use an approach focusing on their own profits. If successful, these companies may arguably affect the influence of the incumbent vertically-integrated record companies over artists. As middlemen, no longer are the record companies needed for the distribution of recorded music online. Given digital music retailing is likely to become the vehicle for the sale of recorded music, these record companies may face a critical shift in their marketing operations and solely capitalise on their financial and promotional clout.

Finally, the Internet has seen the emergence of a growing number of digital music retailers and music offers. Although the a-la-carte download payment method still prevails online, contemporary media consumption patterns lead to think that cloud-based offers whereby music is consumed by means of streaming playback, will increase in popularity. The abundance of music online, the multiplication of offers as well as the consumers' perception value of music online are leading music retailing to see music as a service rather than a good. Online, music has recovered its primary intangible and uncountable nature, lost with the advent of physical records.

Because accessing the content is not an issue online, digital music services push themselves forward by providing their customers with context. The way that consumers navigate and consume music is probably one of the keys to attract them to the stores again. The synergy developed online between music content and context has enabled the digital music distribution system to achieve what the traditional distribution channel has

failed to accomplish, namely the consumers' satisfaction - the ultimate purpose of marketing.

The upheaval that the recording industry is facing is leading to an industry wherein artists are gaining more independence and bargaining power. It is leading to an industry increasingly competitive, less controlled by the incumbent major companies. Most importantly, it is leading to an industry more culturally diverse wherein any kind of music and artist are more accessible than ever. The recording industry and the music industry as a whole are changing. To what extent is the music industry changing?

The dissertation is still characterised by the very current aspect of the topic. Even though profound changes within the industry are already perceivable as the dissertation has shown, many issues still remain, notably the copyright issues, still unsolved. The recording industry sector is still being affected by the transition towards the information age. Therefore, the question remains...

"Each time a new technological environment for music comes along, everything shifts. What was dominant recedes into the background. What was once lost is retrieved. And it never quite turns out the way you expect it to [...] The digital age is profoundly different from everything that has come before." (Dubber, 2007).

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7. APPENDICES

7.1. Appendix A: Marketing On The Internet

Interview of Jennifer Otter, CEO and founder of JKO Media, marketing and PR consulting company.

By Gerald Trep, the 20th of September 2010, London.

1. Could you introduce yourself, your background and your company JKO Media?

Jennifer Otter: My name is Jennifer Otter and I grew up in California. Unlike most of the girls at school who had their dolls, I preferred to play records. I started collecting records probably at the age of four. Then, I quickly realised that there was no way for me not to work in the music industry.

I focused my career on music marketing and I worked at some major labels. So for instance, I worked for artists such as Eminem and 50 Cent at Interscope-Geffen-A&M. I also worked at Sony Music, MCA Records, Polygram, and Universal Music Group. Actually, I worked for many traditional record companies.

Now, I run my own marketing and PR consulting company called JKO Media. I do consulting for media companies and music artists. For instance, I did consulting for Facebook, Gwen Stephani, Blackalicious, and DJ Shadows. Currently I'm doing a movie documentary about Joy Division fans.

2. What made you decide to create your own company?

JO: I created my own company because I see music more than just a physical product, I like being close to artists and creative people that can combine both the creative and the financial aspect of the music industry. When you work at a major record company, you mainly work with people who care more about the backstage pass rather than taking care of the artists' career. So I decided to

take all the skills that I got while working at major labels and I have started using them for the independent artists primarily and then other companies within the media industry.

Running my own company has enabled me to have more flexibility and to stick more to my own visions which are to keep the artist always in the main focus.

3. You started your career in the music industry when the Internet was still in its infancy. Thereby, you have witnessed a shift of marketing campaign toward the digital media. How could you account for this shift?

JO: Historically, people always want new technology regardless of what it is. You can go back to the beginning of the twentieth century when the phonograph was popularised. When you go back that far, music used to be a large and public experience whereas recorded music brought that live experience in your home. Recorded music revolutionised the music experience. You could have anytime, anywhere.

The phonograph came first. Then, it was replaced by the vinyl. You also had the cassette and the CD. Along with CDs, came digitally recorded music whereby you have records which are always perfect every single time you listen to them.

Digital technologies such as the MP3 format and the Internet, have changed everything. When it comes to the MP3, you've got a product which is created but which doesn't exist in real life. You've got the convenience of the MP3 and the convenience of the Internet which enables users to get the music anytime anywhere. So the Internet seems to be the perfect store for the situation where we are now.

On the other hand, when you ask what happened to the record industry now, you just realise that the entire hierarchy of the record company is based on the physical product. The record company distribution channel is made for nothing

but a physical and countable product. So, no wonder that we see upheaval in the industry.

Nowadays, people buy less music. The cultural value of music has shifted. Ten years ago a CD was worth \$15 and now you've got an intangible product for free. The actual value of music is gone as much as the physical product is gone. So what is the value of music? Children are growing up to see music as a product for free within their rights to have.

However, the record labels are starting to make the most of the Internet to implement digital marketing campaigns. They are creating Facebook groups, they are twitting, they are implementing this social networking strategy. Yet, the most important thing to do is to organically make real fans one by one. This is the only way to have a long career. It doesn't matter how many friends you have on Facebook or Myspace. It's all about how many fans are going to come to see you when you come to gig in town. Real fans are going to invest in the products that you endorse whether it is a CD, a T-shirt or a cap.

4. Owing to new music consumption patterns, we have seen a substantial fragmentation of the music market. For a marketing strategist, what is the importance of mass media nowadays?

JO: As far as blogs, webzines and online newsletters go, their availability enables people to tap into very specific scenes and genres. They get to know a subculture really really well.

On the flip side, I think there is so much filtering online that there are less real world connections like with real magazines such as NME or Rolling Stone. Back in the past, every music fan, all your friends, used to read those two papers.

We were to a point where everybody shared the same culture. Now everybody go on Pitchfork.com or other blogs to know about their own music. Nowadays, there are less large cultural points that people can plug into. That's another big shift.

Of course, you have to take this aspect into account when implementing your marketing campaign. There are more outlets that you have to reach now. On the other hand, the main advantage of all those blogs is that it's available to everyone and there is a huge potential for people to access these blogs. When you do a marketing campaign for an unknown band and suddenly some of those blogs are talking about it, that's a huge chance for that band to be exposed to an audience. Those blogs are easier to reach than the real magazines.

5. Is the fragmentation of the market into niches a good thing for a marketing strategist?

JO: As far as the fragmentation of the outlets goes, even if it means that there are more opportunities for marketing, it also means that it's harder to reach a large audience. People cannot be present on all these outlets. So you have to put more effort in your marketing strategy as far as the Internet is concerned. When you are a large scale artist such as Lady Gaga, it's not really an issue as the financial and human resources are easily adjusted to this diversification of outlets online. On the other hand, even if you have the possibility to reach people for less, it doesn't mean that it's easy to reach a large segment of them.

6. Since the last ten years, we have seen the growth of social networking in people's lives. How could social networking sites be an advantage for the promotion of music?

JO: The biggest thing is that it allows artists to directly connect with their fans. In the past, you had to write them physical newsletters. You didn't really know who they were. Now, the artist can directly access to their fans. They can communicate in realtime with them. They can interact with them by organising contests such as remix or video contests.

It's an immediate way for artists to get in touch with their fans. Artists can provide their hardcore fans with demos, and remixes for less. From a marketing perspective, it enables early adoption of the artist's music. Fans can really think that they are part of the music-making process and therefore it strengthens a bond between the artists and their fans.

The fans feel closer to the artists. That removes the presence of the record labels from the relationship. That makes a huge difference.

In addition, social networking sites considerably increase the power of word-of-mouth which, in music marketing, is everything. People are so connected online, the interactivity is so predominant there that trends spread like wildfire online.

7. Marketing campaigns are primarily implemented to create awareness of a product, and most importantly, to induce people to buy products. Nowadays, music consumers don't have to buy music to consume it. As a marketer, what strategies do you implement to incite the consumers to buy music rather than downloading it illegally?

JO: It's a hard thing to do. We're going back on this cultural issue. If they've done it in the past and they grew up with paid music they probably still value music as far as money goes but it's completely different with the youngest generations. They've grown up to think about music as a free product.

You have to put the audience in specific contexts for them to buy the music. You need to add value to the music. For instance, a way to get the audience to buy the music is to sell it at shows. Then you can rely on the compulsive purchase behaviour. At shows you haven't got the Internet so they buy the CD. At shows, it's also easier for the artists to have the audience buying into them because they give them live experiences.

Otherwise, you can also provide a tie-in. If the fans buy the music, they can get something more with it like a backstage pass or something like that. You can

also add value to the music by emphasising on the experience provided by the music. A good way is to highlight the relationship between the fans and the artists that the music creates. Nowadays, with the social networking sites, it's easier to do so. Once again, with these networks, it's easier to communicate with fans, to inform them about exclusivity such as new music and then to strengthen a bond.

Otherwise, you can emphasise the value of physical products. You can create different packaging for the CDs such as deluxe editions of albums for instance. I love the physical aspect of music. You can educate the consumers about how great the physical product is whether it's for the visual impact it has or the collectible aspect of it.

8. The digital music distribution has removed the middlemen from the music chain distribution. In addition, independent artists rely more and more on independent marketing and PR companies such as yours. How do you see the role of record labels in the future?

JO: They will be Gone! I see the next ten years moving away. The record companies' model that we see now is going to be gone. I think we are going to see more and more record/management companies. The implementation of the 360 degree type-model will grow as well. The 360 degree deal is the type of contract where the revenue streams for the labels are from touring, merchandising, music, product endorsement, that is to say all the revenues that an artist can bring to the labels. Record labels cannot survive with the sale of music only.

However with such deals, the artists will realise that they can do it themselves. They will call upon independent consulting firms that can provide them with marketing, publicity, distribution services and so on.

Thereby, I think that the role of the independent marketing and PR companies will grow as well. Hopefully since I run one of them (laugh)!

9. *Final words, where do you see music is heading to in the future?*

JO: There used to be a massive gap between the fans and the artists and I think that gap is going to disappear.

Because the overall revenues of the record industry are shrinking, I think there will be a reinvestment in artists and artistry. I think we will see more and more artists on the road and less and less superstars. The likes of Madonna, Michael Jackson and the Rolling Stones - all these baby boomers' icons - won't be replaced. It will be another big cultural shift as far as I can see.

In addition, digital music consumption will surpass the consumption of music on physical support. The old generations were taught with physical products whereas the youngest generation are growing up in the digital revolution. As the phonograph completely changed music consumption, digital is now changing music consumption again.

Now, as far as marketing is concerned, digital cannot do everything. It is still important to create a synergy with your strategy online and your strategy in the physical world. You use the mass media to reach a large audience and you use the new digital media to keep contact with the responding audience. It is a combination of the physical world and the digital world. That's going to make marketing campaigns very successful in the future.

Now, whether things have to change, as far as the digital distribution of music goes, the cultural value of music has to be placed back on music, as far as it's worth spending your money on. That's a huge thing and I don't know whether it's going to happen. Because of the aforementioned cultural shifts, I think it will be really difficult to go back to a place where the music sales will ever get back to where it was before.

Jennifer, thank you very much for this interview. It was very insightful!

JO: You are welcome Gerald. It was a pleasure too!

7.2. Appendix B: Digital Distribution On The Internet

Interview of Matt Parsons, CEO and co-founder of Ditto Music, digital music distribution company.

By Gerald Treppe, the 9th of August 2010, Birmingham.

1. What is your company's positioning within the digital distribution market?

Matt Parsons: Based on web traffic and on the amount of clients, we are the UK's largest digital music distributor. Within the British market, we outperform our main competitor, Tunecore which is currently the leader at the international scale.

So far, there have been three main digital distributors in the world: Tunecore, CDBaby and DittoMusic. Given the nature of the business these days, we are looking to expand our international activities.

In January 2011, we are opening up an office in Nashville besides the current offices in Birmingham, Los Angeles and Liverpool which is about to open in a few weeks. Despite the intangible aspect of our business, in which proximity isn't really a requirement anymore, it's still important to be close to our clients, the artists, so as to respond better to their demand.

We keep launching new services. The market is changing every few minutes. We want to always keep ahead of that market and provide the consumers with what they want.

2. What are the profiles of your customers? Are they unsigned artists, signed artists or independent labels?

MP: We deal with everybody. I would say that proportionally, probably 80% of our clients are unsigned artists. We give them an avenue to release their music themselves.

The rest of it is record labels such as Modern English, which produces Kid British for instance. We also have high-profile artists such as Whitey who recently performed alongside Lily Allen.

Our model lies on taking one fee (distribution), we charge only for the services and don't take any commission on sales. Because of that, we are attracting more record labels. Artists and record labels keep whatever they want. They know that they keep 100% of the profit. Our business model lies on this only aspect: we perform a service, we charge you money for that and that's it. It's not fair to take a band's royalties in five or ten years time whereas all we've done is one service. We think it's personally more fair for the artist themselves.

3. What is the impact of digital distribution on unsigned artists, in terms of earning and position within the industry?

MP: With digital distribution, to a certain extent, it does bring a more levelled playing field because everybody goes into the same store. In the iTunes' store, there are millions of artists who have roughly the same visibility.

Digital distribution just presents an easy way for artists to get their music out there. Because of that, a lot of what artists are doing is entirely digital. They will record something on their computer. They can upload their music through our website and it goes digitally from our cloud over iTunes, get sold and downloaded digitally so the whole thing is an entire digital age. What digital also means is that there isn't overhead, you don't have to lay out a lot of money to get thousands of CDs to get printed and hope they will all sell.

This is the infinite shelf space, as far as digital distribution goes. You'll never run out of copies, you'll never have to print new stuff. People have their own recording softwares, they can record something on a Monday, upload it on a

Tuesday, and get in the charts for the next week. The whole process has just become so streamline. It's so much easier for unsigned artists to have a gate right.

That said, there is no much point throwing your song into the Itunes big river and hoping it will sell. Obviously the artist needs the other edge which is actually the promotion. So we offer tie-ins with corporates, sponsorship and promotion. We have a tie-in with We7 for instance, where we give away a 15 grand prize every couple of months to an artist. They've got promotion with them. In addition, we've got a tie with Topman, Levi's and a few other companies who are willing to promote new artists. We can put your music on sales for you, we can help you do a lot of other things. By the end of the day, it's also in the artists' interest to do some promotion to make sure it sells.

4. With all the services that you provide to artists (accounting, synchronisation, promotion, gig payment), you act like a publishing/management company, does your role go beyond what we can expect from a music distribution company?

MP: It's not just about getting your music on Itunes as a few people seem to think. There is so much more to it. There are so many ways for an artist to make money these days. We've got the digital download; people can make money on it but there isn't that much in it anymore. You are going to make money by licensing your music to the next Lexus advert for instance.

At the end of the day, this is a music business so you support the artists as much as possible. So there are many things that we can put in place for them. For instance, every time that an artist plays a gig, if it's an open mic night, if he/she sings and plays the guitar for twenty minutes for instance, he is entitled to £6 which is paid from the venue to the PRS. All he's got to do is to register for free and claim that money back. If he doesn't claim that money back that money goes to a big pot and gets divided between the major labels. That's how it works. It costs money to record, it costs money to rehearse, so we try to generate some money for the artist.

We deal with gig earnings but we provide other services as well. Something we are about to start by the end of this week is a live feed on our member's dashboard with publishing licensing opportunities. It will be updated probably twice a day and it will have: "such and such car company would like music for an advert that sounds a little bit like a Massive Attack tune". Then, the artists will be able to submit their music for them.

There are so many adverts and TV programmes which need music. For instance, every episode of Hollyoaks has got probably twenty different songs in it. They've got to get the songs from somewhere. There are four or five shows every week so you look at fifty to a hundred individual licensing agreements every single week just for one show. How many shows have music in them? There are hundreds of them so there is a massive need for music in there. We can provide this service to our artists. It will be on our dashboard every single day and they could login twice a day to see the regular update coming through. It will be another good way for them to make some money but obviously, we benefit out of it as well. We get more clients because we offer better services. The more we can offer, the better. We get more clients, we do better as a company, and everybody wins.

5. With distribution companies providing such services to artists, what value do you see in major/indie labels nowadays?

MP: The role of the major label is basically the same as the independent labels except that they've got more money. What a major label provides for you is a structure. On the other hand, you do have new model-type arrangements. For instance, Lily Allen who I believe has got a corporate funding for her ventures, uses one of this kind of companies to manage her career for her. They will execute label services and this is what we've started doing as well.

It means we can provide services for them: label services, set up tours for them, set up promotion for them, we do the distribution, we also do the physical distribution if need be. Basically we do everything that a record label would. We would take a small service charge out of that but at the end of the

day, the artists would keep a hundred percent of their rights and a hundred percent of their royalties.

It's a service industry. you provide a service, you get your money, you move on. There is no reason to keep taking money out of artists ten years at the end of the line for something they did many years ago.

I think this model is going to be very popular over the next few years. The major labels do provide money and they do provide the structure but if you can go to another company who can provide the structure and find a different way of getting money, you will make so much more money and have so much more freedom to do what you want to do than if you sign to a major record label.

6. We have seen that the major record labels deal more and more with promotion and distribution of music rather than the development of artist. With all the services you develop for artists, are you going to run the company as a record label?

MP: Something that has been suggested to us and that we've been thinking about seriously for the last six months is that we are on course for the next two years to be competing directly with the major labels because our client structure is growing massively. We are already offering pretty much the services that the major label do anyway. So we can be seen as a label but with a different model. Looking at how the majors have well succeeded and where they went wrong, improving on that.

Because we are a young, vibrant, fast-moving company, we've always managed to stay a couple of years ahead of most people like that. So with our growing structure, there is no reason why in a couple of years we won't be a major label. We will be a different kind of label. We will be the new label where the artists keep all their money and keep all their royalties. Of course, we can't do it for free. A certain amount of money would be claimed back because after all, this is a business. But at the end of the day, we'll get paid for our services except that this way the artists are going to make more money out of it.

7. You respond to the artists' need, how do you respond to the consumers' needs in a market where supply of music exceeds demand and where technological circumstances enable people not to pay for music? Do you only focus on a B2B scale and leave retailers with the consumers' concerns?

MP: As it stands at the moment, we've never really dealt with consumers because that would involve being a retailer essentially... To be honest we are also a retailer, sort of. We have a shop which is DittoMusic.net, but not a retailer as such. So if we were to develop that, it would change the structure and the methods of our company.

This is something that we are not looking at moving into in the next few years because of the market saturation. We've been doing the distribution since 2005. We only became big in January 2007, we got our first Top 40 that year, and the amount of retail websites that hit the wall is quite important. Probably two thirds of them have gone bankrupt in the last couple of years. There isn't as much of other business in selling a sustainable business unless you are a big player such as Itunes or to a lesser extent, Spotify.

We would develop the company into music retailer, if we came up with a way of music consumption that would be completely unique. That would be the only times that we would ever move into it. There is not much point in starting a download site. We have our download site but it's a basic retail site. There is a little bit of traffic but it's not immense. If there had been another way of consuming music, we would have been done it but in a market which is already completely saturated, highly dominated and would take millions of pounds to actually conquer... you know I'd rather stick to what I'm good at (laugh).

8. With new consumption patterns of recorded music, what do you believe is the future of the physical format?

MP: I think the physical format are still relevant today. I think people still want to have something physical to collect. However, this will change in the next twenty years on. The physical format is dying out. It is more relevant to the older consumers these days. I mean I'm thirty two, the physical is more relevant to people of my age, slightly younger and definitely older whereas the newer consumers now, those people in their teens, don't really buy physical. Lee, my brother and co-founder of Ditto, was in a conference last year and they were saying that the most common way teenagers listen to and consumes music is on a mobile phone. That's the worst way to listen to music but this is what kids are doing so as a physical format... would you count mobile phone as a physical format? It's physical and plays music so essentially it's a physical format: the Sony/Ericsson mobile phone, the Iphone and the Ipod these days, maybe they are the new physical formats.

As far as the physical in a more traditional sense such as CDs and vinyls, I think that within the next twenty years it will be wiped out completely, maybe apart for DJing.

Things are changing and maybe the new physical is the mobile phone. I think that the music industry needs to be aware of what the consumer wants to constantly meet those needs.

9. Various forecast reports have foreseen the advent of a mass consumption of recorded music through mobile phones? The Asian market (Japan, South Korea) and the possibilities that smart-phones offer tend to confirm the trends, how do you respond to this growing demand?

MP: Personally, I think it's a terrible way of listening to music but on the other hand, from a music industry's point of view, if that's what people are doing then let them do it. I mean when the CD came out a lot of people were saying: "Oh

no, I don't like this new little CD thing, it's not the same as the vinyl" Ten years later, the vinyl was getting obsolete and everyone was having CDs. The market needs to correspond what the consumer wants so if the consumers want to listen to his music on his mobile phone or his Ipod, then let them. I don't see any point in telling people how to listen to music. They'll all listen to music how they want to and it's our job in the music industry to give them that service. If we don't give the consumers what they want we don't have a business. We just need to be aware of the trends, try to keep ahead of them to a certain extent.

So, for instance, we have a worldwide mobile phone package called "Global Mobile Networks Distribution". It's a service in partnership with about 500 mobile phone networks throughout the world. For instance, if you are in the Maldives on holiday, you can access the local mobile network to download music. As you were saying there is such a big market towards that area in the far-East. In the UK, we have developed this service with T-Mobile, Orange and Vodaphone. The market is of a reasonable size.

In terms of demographics, the majority of people who use that kind of platform are teenagers because they are more likely to use their mobile phones for pretty much everything. if they listen to music on their phones they will probably download it on their phones so if there is a revenue stream out there. We think it's important to address that.

10. Where do you see music on the Internet is heading to in the future?

MP: What should I understand? Why do people still pay for music?

If you want to download the latest Kings Of Leon's single, you've got two choices: you go to Itunes and you can buy it for 79p or in the same amount of time you can go on a Bitorrent network and download the exact same track for free. That's the kind of question to think about. I just think people are buying music because they are actually buying into bands. They want to respect a certain band. They appreciate what they've done. It's 79p! I could get it for free but I want to buy into Kings Of Leon because they are a cool band!

Otherwise, streaming is obviously getting to be the future at the moment but also how we pay for it as well. In this case, what you listen to is sponsored by a brand with an advert that's playing in the background between two tracks. It's probably gonna be a stage within five years where every bit of music will be free but propped up by companies like Panasonic. Nowadays, we've seen car companies sponsoring bands. I think this is the way forward, music for free for everybody but propped up by advertising and companies because realistically the consumers get music for free if they want anyway.

What do you think?

To me, the future of music consumption on the Internet depend on the much-talked legalisation of the P2P networks. That would change everything that is happening right now. All the new consumption patterns that are settling in the music landscape these days would completely change again resulting in the advent of new consumption needs to satisfy.

MP: I see what you mean. The thing is that unsigned artists by definition are not particularly popular, at first when they release. It means that if you want to buy this new local band's music that is getting quite popular, you wouldn't find them easily on any BitTorrent. You know most of the file-sharing sites have been used to download the big artists from the top 40. So iTunes has been so far the only avenue where smaller artists have been able to get their release in the first place.

Nevertheless, we had a contract that we did once. It was with Mininova which used to be a Torrent site. As far as I know, they've become legit now. When they were still illegal, we were asked by a record label to "leak" their album onto this file-sharing network. It was quite a big american band that we had a distribution contract with. So we unofficially "leaked out" their album and it went down really well. This thing got a load of press saying that the band's album got leaked on file-sharing networks! It's a great way of getting press.

When an album gets released it gets leaked anyway. Face it, there is nothing you can do about it anyway so you'd better embrace it. it means that people like your tune and the more people have your music, the more of them will come to your gigs and buy a T-shirt. People moan about their stuff getting on

P2P networks but they don't mind putting a video on Youtube. Yet it's the same thing. Everyone is seeing or listening to it for free. They can get access to it anyway. It's a promotion tool.

The music industry is changing year on year, week on week. Just embrace it, otherwise you are going under. You need to keep up with the way people consume music. If people get your stuff for free, stop complaining about it. It just means you've got more fans coming to your concerts. You're going to make a lot more money at the end of the day from selling concert tickets and merchandising than you are from selling a 99p download. It's a big industry, there are so many ways to make money out of it. So, the bottom line is: always give the consumers what they want and make the most out of it.

I think it's a good final claim as a conclusion.

MP: (laugh). I leave you that actually!

Matt, thank you very much for the interview. This was very insightful.

MP: Good. Thank you.

7.3. Appendix C: Digital Retailing On The Internet

Interview of Gareth Reakes, CTO and co-founder of We7, digital music retailing company.

By Gerald Trepay, the 24th of September 2010, Oxford.

1. What is your company's positioning within the digital retail market?

Gareth Reakes: We7 is an online streaming service with a subscription digital store with an ad-funded system attached. So you can come consume music online just by pressing play and listening to anything you want for free. We support that through advertising. We also allow consumers to pay a monthly subscription which is one of the new methods that the music industry is using to try to get money from digital music. The subscription allows you to play all the music you want without any advertising. You also get a mobile application that allows you to download and stream music whenever you want. Finally, we also have what the music industry call an a-la-carte store which is a digital download store.

As far as the competition goes, considering that you only listen to one thing at once, our competition is anybody who wants to do that. At the highest level, our competition goes from the television to the terrestrial radio so I think it's very broad.

If you only consider the digital space, there are a variety of companies. For instance, there is Itunes which focuses on the digital download. It is our main competitor given it is the leader on the market. There is Amazon MP3 which focuses on the digital download as well.

As far as the streaming services go, there is a variety of illegal services like RUShop. Otherwise there is Spotify which based its services on the ad-funded model but currently focus more on their subscription service. There are other

services which are entering the market. For instance, Sky has recently implemented a subscription play. In the US, there are MOG and Rdio which are purely based on subscription. In the streaming market, in Europe, our main competitor is Deezer, based in mainland Europe. It provides ad-funded and subscription services.

2. Your business model is based on three main aspects: an ad-funded service, a subscription-based service, and a single download service similar to iTunes. Why such broad offers?

GR: This is what we wanted to do and this is what the music industry wants at any given point. The download system that we put on three years ago was a condition from the labels for us to implement the streaming model. We were actually the first digital music service company in Europe with an ad-funded streaming agreement. At that time, they were really concerned about iTunes' download model. They still are but to a lesser extent.

In order for us to get our agreement, they said that we had to have an a-la-carte store. So, we implemented it. However, the a-la-carte model is a very low margin business. Our tracks are usually more expensive than those on iTunes and Amazon and yet, we make no money on them.

At some point we will make this transition away because the labels don't really care about the a-la-carte model as a condition anymore. The music industry now is looking towards subscription. We do see this model as a sustainable revenue source. Every user is profitable because they pay each month. So we don't have to rely on advertising in this case.

This audience is very small at the moment. Thousands of users do it.

Anyway, we thought it was a good idea to use that variety of models. So, our primary focus is the ad-funded component. A few percents want subscription and buy music but the vast majority of people out there don't pay for music.

We really want to focus on providing something that is better than what is illegally free for the audience. We provide them with something that is easier to

find with the guarantee that they get the right content and also that is legal for them to do. At the end, that pays the artists back. We have a lot of content, approximately six million tracks.

3. We can compare your services to the competition present in the same market. What makes you different from the competitors?

GR: As I said before, everyone is a competitor. If you look at that positioning, we are one of the only legal services which is trying to make free work. Spotify is one of our competitors in the streaming marketplace. We are pushing people to subscription and we do believe that a few people will pay. However, you're don't get the 95 percent of people who don't currently pay and suddenly get them to pay £120 a year for a subscription service.

So, we are different in several ways. The main one is that we are making free work. We don't need to upsell people to subscription to make it work and use that as a subsidy for the ad-funded. We want to make it so that when someone plays and streams the music, we generate a profit from the advertising. Deezer is the closest to what we do.

We also have a slightly different view of the world to the other streaming services out there. One of the other things that we do now, owing to the huge amount of data that we've got, is the move towards what we call 'sit back'. We've got 'sit forward' when you choose what you want, and we've got 'sit back' when you don't. So 'sit back' includes a personalised radio also referred to as playlists. People love the idea of choosing the music that they want but after awhile, they are like: "What do I have next? What do I want next?". They just want to be fed music. So our idea is to build that up, to do a personalised radio service like Pandora in the US or Last.FM but also allow people to come from sitting back to sitting forward and choose the music that they want as well - a thing that you can't do on those services.

Eventually, you will see more and more changes based on that over the coming six months.

4. We7 has broken into the music retailing market with a new business model. We have known the record labels sceptical to everything new whereas the music publishers have always been open to new revenue streams. Which of both have been more willing to license their catalogues to We7?

GR: If you want to start a digital music service, you have to have a deal with the record labels before you can do anything. I can get a publishing deal quite easily. I'd say it's not a problem in the UK. You just have to see PRS For Music. On a streaming basis, PRS For Music reduced their rate from 0.22 pence to 0.085 pence as of the beginning of Q2 2009. Then, we drew the catalogue of Warner Chappell, the music publishing company affiliated with WMG, from the PRS. Then, came the record labels. So, you have to get three different agreements in the UK, all at different rates in order to do streaming. Unfortunately, you can't get those agreements without any huge payment for discussion. It's just the rates are what they are.

The record labels are the big players. The publishers will give you their agreement once you've got the deal with the labels. The labels are always the hardest to negotiate with and they are the most expensive.

5. Digital retailing is not subject to the limitation of shelves. This means unlimited choice of music. How do you help the consumers find what they are looking for or what they might like?

GR: We are coming back to the point that I was talking about earlier. There is the 'sit forward' thing when you choose the music, and there is the 'sit back' thing when we choose the music for you in accordance with your preferences. Now, if I give you a couple of examples. We suggest music themes such as the Top40, dub music themes or the X-factor playlist. Those playlists are heavily used by our users. We have components where they can just type in a song

and press play. So, they can go and search what they love but also we give them introductory playlists that they can go and use and listen to.

Furthermore, we are about to release radio upon your loved music. As it happens, let's say you love five artists or twenty albums. You can just press play and use that loved music as a seed to create a radio station personalised for you. Then, that station will give you access to new artists that you might not have heard of before.

I think that personalised radio and playlists, including introductory and topical content, are ways to help consumers find what they are looking for or might like.

6. We have recently seen Apple build a social network into Itunes, Ping. This is clearly a recommendation tool for its users. How do you make the most of social networking?

GR: We are not gonna build a social network on We7. We are first a music site. However, we use social networks for marketing and for music discovery as well. There is one thing that we are working on at the moment. We allow users to comment on what they like on their social networking profiles in conjunction with our services. We use most of the social sites but we mainly focus on Facebook because this is by far the largest social network in the world. As a matter of fact, most of our users use Facebook.

The Facebook 'like', which is part of Facebook's social graph, is becoming more and more important to us. We released this 'like' button regarding our services and it had generated a lot of traffic on our website and our Facebook profile. As it happens, about four or five weeks ago, our traffic had gone from 1,000 visits a day on Facebook to 7,000 visits a day just from releasing this 'like' button.

So, we are also about to implement a new feature to the Facebook 'like' buttons. If people like such and such artist and that they publish it on Facebook, we will soon be able to publish on their wall that there is new content from this artist that is available on our website. We will connect up the accounts. Our users will be able to see their friends' playlists or favourite

artists. It will bring a total new way of discovering music. It will be a social way of discovering music, a totally new experience which is really important. That will be happening in the next couple of months.

It shows you how important social networking is in terms of providing people with the information about the music that they love.

7. One of the aspects of your services is the ad-funded music service. Although it appears to be a good strategy to compete with the illegal downloading, this strategy is still in its infancy. Does it secure satisfying revenues to the artists and We7?

GR: On the artist basis, yes in general because we always pay a minimum. That's one thing we are always very keen on. We want to show that we are fair to artists. There is always a minimum level that we pay whether or not we manage to get advertising revenue associated with that. That's why we developed the subscription service and the a-la-carte model. The last two years haven't been a great time to make an ad-funded music company start. The economy is really in a bad situation and that directly reflects on advertising spending.

Now in terms of rates, are they reasonable? It's a really interesting debate within the industry at the moment. We don't want to charge people half a pence to play a song because then, they are not going to buy the track for 50 pence. In this case, they will just go two clicks away and illegally download the same track. According to IFPI, 95% of music content on the Internet is already illegal. There is a completely new way of consuming music out there and we have to find a way to monetise these new behaviours. However, there is a fear from the industry about the concept of free. They are like: "Do you want to make people think that music is free?" No worries about devaluing music but from my perspective, they are missing the point that most of young people already do think music is free. You can go and access music on a variety of file-sharing networks. I think the shift is already set on that one.

8. *You offer flexible services to the consumers (ad-based, subscription-based, single/album download services), you promote unsigned artists as much as you promote signed ones. In a nutshell, you respond to the music industry's both end parties. You seem to be the ultimate service. What more can you do?*

GR: At the top level of the music industry, the record labels were very good at A&R development and music distribution, but there used to be a big problem because there was no real communication. They had complete control over the distribution channel and music promotion on the media compared to now. Global distribution of a product was quite hard and they were those few able to raise the resources for that. But now, both of those things are fading away. We don't really need to globally distribute a physical product nowadays and A&R discovery can now be done on the Internet. So two of the core things that the record labels excelled at, that was very expensive to do, are fading away. There is a shift in the functioning of those companies that is happening. They are becoming more and more service companies such as for marketing. They are still good at things but the new music economy also means that an up-and-coming artist can get easy promotion through sites like us and Spotify.

As a growing site with an increasing audience, we can become a promotional platform and provide services for up-and-coming artists. We can allow them to generate some revenue through merchandising, ticketing, sales, ad-funded streaming so that they can continue to make music. That's some of the things that we can do to help. We'll see in the future...

9. Do you see the digital music service companies as sustainable businesses compared to the brick-and-mortar music shops?

GR: The only question for the music industry is whether they will replace the revenue they had from physical products. That's the only question. Digital music services are already sustainable but the record industry is sitting there and says: "Oh dear, we're not getting as much money as we used to!". CD sales are in decline. Will the digital music industry replace all the revenue that the CD sales generated at the most? I doubt it.

Currently, the record industry is hoping that the subscription model will generate huge revenues and will replace the CD but they're wrong. There is a growing amount of subscribers but they are only a couple of millions worldwide, mainly in the US. So we need to see how this amount will increase. So yes, digital services are sustainable. The question is: will they sustain the record labels in their current form? I doubt it.

10. Recent surveys show that the ownership of music still means something to music consumers. To what extent do you see music in the cloud as a sustainable concept for music consumption?

GR: I think it's a matter of generation. Probably in the same surveys you probably see that people who put more value on the CD are those who put more value on ownership even if they download the music. I think an access model makes sense. There is an ownership issue but if you look at services like us, RUShop and Spotify, people are happy with that interactivity. There is no reason for you not buy the music anyway. You can go and buy your stuff and put it in the cloud. Just think about what Lala, bought by Apple, used to do. The music that you owned appeared on your Lala library. It was in the cloud but it was music that you owned. You still had it on your hard drive but wherever you were, you could access your library through the Internet with devices such as mobile phones.

However, I really think that the access model is the model of the future with the exception of the high end stuff. If you are a big fan, maybe you do want to pay £200 for a special box set. Nevertheless, with We7, you get more than the ownership of music then, it's an experience that you get.

11. Final words, where do you see music is heading to in the future?

GR: For pure music consumption, an access model will be the way that people will consume music. In terms of broadband penetration and wireless network, it will be fine for us to just stream permanently. You will just be able to play the music whenever you want, wherever you want whether it is on your mobile phone, your computer or on the television.

The question is: will it be implemented by paying subscription? Will it be a pay-per-play model? At the moment, we are exploring a top-up system with the labels. It's like you can listen to the radio for free and if you want to do it on an on-demand basis, then you pay a fiver for a thousand tracks whether you listen to them on your mobile phone or on your computer.

I think there will be even more ways to pay for that access. Orange and Sky are currently developing models for music consumption through their services.

Do you think of a possible legalisation of the peer-to-peer networks in the future?

It's a possibility but the key is not the legalisation of these networks as much as how it will be paid for. This is the big problem actually. If you want to use the peer-to-peer networks to buy your music and you pay someone for it, the problem is solved. But people go there because it's free. If it's legalised, who's going to pay for the content?

Thank you for your insight Gareth. I think it gives us a fair overview as to how the digital music distribution is nowadays.

GR: No problem at all Gerald!