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The Digital Revolution: an Analysis of Technological Innovation in the Music Industry

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**The Digital Revolution: An Analysis of Technological Innovation in the Music
Industry**

**A thesis submitted to
Regis College
The Honors Program
In partial fulfillment of the requirements
for Graduation with Honors**

by

Joey Ariniello

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Joey Ariniello

I. INTRODUCTION

Music is one of the most primal and ancient human experiences. The creation and sharing of music is a universal found in all cultures. Only within the past 150 years have humans realized the technology to record this music in a way that allowed them to hear it any time they wanted to. At no time since the invention of the printing press in the late fifteenth century has technology played such a vital role in the experience and of music.

Since the inception of the recording industry, in the early twentieth century, one fact has remained constant: technological advances will always affect the way music is both created and heard. The introduction of two completely different advances in technology, Edison's phonograph and the Internet, has caused the most dramatic changes in the production of music. A strong argument can be made that the phonograph was the single most important invention in the history of the music industry, as it literally gave birth to it. As Mark Coleman, author of *Playback*, notes, "the compact (three to four minutes) duration of the popular song is the enduring result of technology devised by Thomas Edison and others."[1] Prior to the phonograph, music was experienced mainly as a live performance, requiring both the performer and listener. That simple piece of technology revolutionized the way people thought about and experienced music.

Similarly, the Internet spearheaded a revolution as well, followed and

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[1] Mark Coleman, *Playback* (Cambridge: Da Capo, 2003), 1.

accompanied by MP3s that shattered the standards of the music industry and entirely changed the business environment. Many dubbed this twenty-first century transformation "the digital revolution." This digital revolution, and its resulting consequences, are the focus of my analysis. The Internet provided creative artists, business executives (and employees), technological geeks, and most importantly music fans, with unheard of tools and opportunities to rewrite the business of music. However, this paper is as much an exploration of evolution as it is revolution; the evolution of what music consumers value and a revolution of how an individual obtains music.

The transformations that took place over the past fifty years in music technology, ranging from the phonograph to the CD, helped lay the groundwork for this revolution. The ideas of progressive technological gurus were fueled by masses of young music consumers who sought out fresh alternatives to the status quo. While this revolution expanded business opportunities for many, it also threatened the foundations of corporate record executives who actively fought against it. However, one thing is certain today: the changes that resulted from the revolution are here to stay and the only way to find prosperity is by looking to the future.

The introduction of the Internet changed people's lives. The World Wide Web caught on quickly, especially with the younger generation and has had an enormous impact in the corporate world, particularly within the music business. For the first time in history the Internet allowed millions of users to obtain music digitally over the web, bypassing the process of purchasing music through record stores. It has spawned

numerous opportunities for artists to further promote and create their music. The digital

revolution has changed the business landscape within the music industry, leaving it to

seek out alternative business models to propel it into the future of a digitalized world.

II. HISTORY OF MUSICAL PLAYBACK TECHNOLOGY

"Music became nearly synonymous with the medium that delivered it, beginning with the wax cylinder, then vinyl disks, followed by the cassette tape and eventually the compact disc."
—David Kusek, *The Future of Music*[2]

One of the best things about music is that it can act as a time warp for some of us, conjuring up memories of long ago. These vivid memories transport one's senses and mind back in time. For those of us who were not around at the time when songs or genres were new, the songs provide a sonic glimpse into the past of musical pioneers and innovators who paved the way for the music listened to today.

Imagine it is late 1969. Throw on some music from that time and turn it up. Just sit there and listen. During the late sixties people experimented with a variety of things, whether with musical sounds or newfound mind-altering drugs. Hair was long and young people were realizing life was too short to do what their parents thought best. Just months earlier Woodstock had became the iconic outdoor music festival. Music was everywhere. Bands such as Led Zepplin, The Beatles, and Sly and the Family Stone were big name artists, and the sounds they produced blew people away. Do not get too lost in the moment. In 1969 individuals listened to recorded music through stereo systems spinning the long-playing record (LP). Now take a look at how you are listening to recorded music. Most likely, it is playing from speakers attached to your computer, maybe from an iPod, or perhaps it is playing from speakers connected to a CD player. Whatever it is,

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[2] David Kusek, *The Future of Music: Manifesto for the Digital Music Revolution* (Boston: Berklee, 2005),12.

there is a slim chance that the music you are hearing is from a vinyl record or cassette. In 1969 terms such as CDs and MP3s did not exist. The vinyl record was the main form of music playback technology that helped drown music listeners with the sonic vibes they craved. Now 40 years later, the musical landscape and playback technology barely resembles that of 1969.Vinyl and cassettes are now things of the past and electronic files have taken over. Recorded music has shifted from analog to almost entirely digital. A lot has happened in the past 40 years; history books show how this transition from analog to digital recording has shaped the music industry.

In 1969, practically everyone owned a record player and most had record collections that grew over time. Music fans began collecting massive amounts of records. While a collection was something to be proud of and even flaunt, problems began to arise with the number of records one accumulated. Space and storage became a concern. These records, while thin, began to add up in numbers. People started to realize that they needed more space to store their records, space that was not always readily available. Collections took over rooms, garages, and closets. In addition, music listeners began to value the benefits of portable music: things that the transistor radio made possible. They realized, however, that records were highly immobile; listening to them is a largely stationary activity.[3] The push towards music mobility would slowly spread, a cancer that would eventually kill the record.

Today, when strolling on any college campus or taking any mass public transit to work, one is guaranteed to see someone using some type of mobile music device. Music

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[3] Coleman, *Playback*, 156.

mobility is no longer a luxury; it is minimum requirement throughout the industry of playback devices. Just 50 years ago, mobile music technology was made widely available in its first form, the transistor radio. Sony capitalized on the transistor technology by developing a radio small enough to fit in a pocket and by 1959 had exported six million of the adolescent wish-list devices to America.[4] Transistors made considerably smaller electronic devices possible, which not only allowed for music portability but also enabled manufactures to reduce the size of home stereo systems.

While transistors gave radio mobility to America's youth, their ears were at the mercy of the DJ. The only choice kids had was to change radio stations, as they could not choose the music being played. However, a major step in musical empowerment came in 1966 when the Ford motor company introduced William Lear's 8-track player into its cars, as luxury options.[5] The 8-track became the first widely available car stereo, giving listeners the power over what they wanted to hear. The 8-track offered numerous advantages. For one, they were easy and simple to use; just insert with one hand, and press "play." Two, one could listen to any artist in their 8-track library, no more listening at the mercy of DJs. The 8-track was a success in the United States and "by 1975 it accounted for 25% of all prerecorded music sales," a success owed to the automobile[6]. Still, 8-tracks were nowhere near perfect. Disadvantages ranged from audio interruptions due to stereo track switching, lack of a rewind or fast forward button, and the lower quality of sound compared to the still prominent vinyl LP. Yet there was another monster

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[4] Ibid., 87.
[5] Ibid., 157.
[6] Ibid.

in the shadows that slowly crept up to take music mobility and the common music playback format to a whole new level: the compact cassette.

While cassettes had been around for musical recording purposes since the mid-sixties, it never went mainstream until its sound quality surpassed that of 8-tracks. Once they did, 8-tracks became a thing of the past, especially after Sony entered the market with a mobility makeover. In the December 8, 1979 issue of Billboard magazine, the introduction of Sony's portable cassette player (The Walkman), boasted a 14-ounce handheld playback only machine that used headphones and retailed at $199.99.[7] Cassettes slowly found their way into the market with 1979 audio product sales split among three formats, as illustrated in Chart 1.

1979 Audio Product Sales
(In Billions of Dollars)

■ Vinyl ■ 8-tracks ■ Cassettes

$1

$2.1

$1
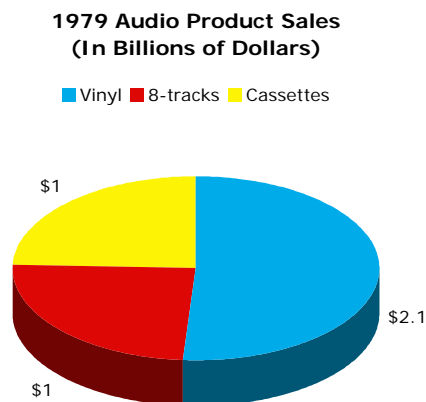
Chart 1[8]

Cassettes were the technology of the future and the numerous advantages they offered (mainly portability) helped to fuel the cancer that was eating away at vinyl.

After the introduction of the Walkman, music mobility became a sought after feature in the personal music experience. Portable cassette players fueled private

[7] Ibid., 155.
[8] Ibid., 157.

consumption of music.[9] People loved the freedom that Walkmans offered; they could

listen to whatever they wanted, when they wanted. The devices not only offered freedom

but changed the whole dynamic of personal music listening. The Walkman intensified

"the one-on-one experience of music and portability; immediate and intimate, purely

individual, and somewhat isolating."[10] Music became more personable; it was an

individual, the headphones, and the music, no matter where he/she was. Sony kicked off

the new decade of the eighties with its Walkman II. The new model was reduced in size

and sported a new feature that freed the user from having to physically flip the tape over

to listen to the other side.

At this point cassette sales were still significantly lower than vinyl but sales of

vinyl began to crash in the eighties. Chart 2 depicts how this transition took place in

terms of vinyl and cassette sales.

Cassette Vs. Vinyl Sales

Chart 2[11]

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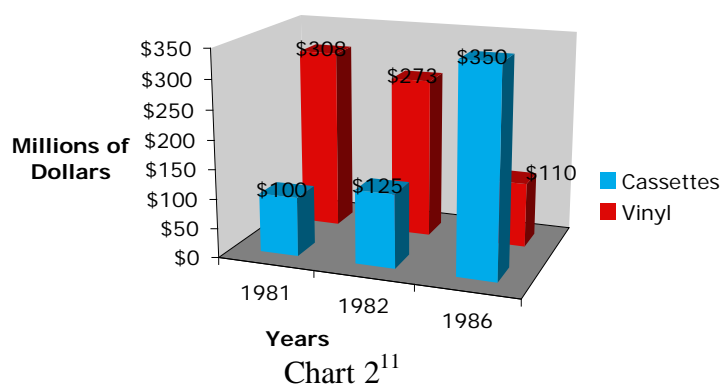
[9] Ibid., 158.
[10] Ibid., 159.
[11] Ibid., 159.

By 1982 8-tracks had almost disappeared and by 1983 cassettes sales had caught up with vinyl, and by 1986 it was obvious that vinyl was technology of the past as Chart 2 illustrates. Records still held some advantages for avid music collectors and listeners. They did not wear as fast as cassettes and the sound quality was still superior to that of cassettes. However, as the popularity of cassettes swept over a mobile music culture, it posed the first significant threat to major record companies.

The advent of the cassette not only empowered the individual music consumer with the mobility that he/she craved, but also brought with it a new kind of advantage: the means to easily record music with the simple touch of a button. "Blank tapes were the first battle of the music industry," and prompted first realization by music executives about the potentially crippling affects of consumer choice on their industry.[12] The reaction by the music industry was straightforward: "home recording was a form of piracy."[13] New technology had ushered in this dangerous format, one record makers should have looked at as a potential ally but instead they saw it as their worst enemy.[14] Immediately, add campaigns were launched, without any success, that claimed the death of music because of home taping. "A deadly threat was exactly what the record industry made of the cassette," but that did not stop the format from catching on.[15] To the advantage of the music executives however, people still had to purchase the tapes in the first place before they could make copies.

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[12] Ibid.
[13] Ibid., 160.
[14] Ibid.
[15] Ibid.

Technology began to explode and the music industry was a prime catalyst and benefactor of its fruits. Just as cassettes found their niche, the actual recording process took a turn from analog to digital. Analog tape recorders worked by making magnetic patterns that are analogous to the patterns of sound waves picked up by a microphone[16] as opposed to digital recording that converts sound into a pulsating electric current that can be expressed by a binary code made up of zeros and ones.[17] Figure 1 visually depicts this process.
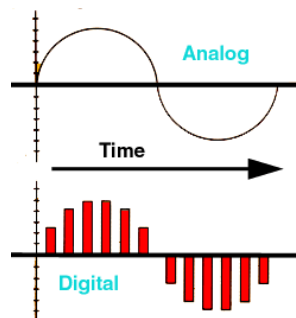
Figure 1[18]

Imagine the diagram represents one second of sound recording. With analog recording a continuous wave of sound is recorded straight to a magnetic tape. In digital recording however, numerous individual snap-shots are taken within that one-second period of sound called "samples." With a standard recording sample of 44,100 Hz, the digital recorder takes 44,100 samples of the sound within that one-second period (imagine there were 44,100 little red bars), and translates each sample into a sequence of numerical

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[16] Michael Fink, *Inside the music business music in contemporary life* (NewYork: SchirmerBooks, 1989), 73.
[17] Coleman, *Playback*, 168.
[18]"Are You Analog or Digital?," mediaslap blog, 2009, http://mediaslap.soundworks.com/2009/08/14/are-you-analog-or-digital/

information that is recorded onto a magnetic tape.[19] To playback those sounds analog simply plays back that continuous wave that was recorded, while digital technology reads the codes of numerical data to reconstruct the wave with an accurate image of the original sound wave recorded.

For many recording artists and music listeners alike, digital recording offers a sound quality that many consider to be superior to analog. Digital music stored on magnetic tapes was edited and mixed the same way as analog, but the sound quality was where digital came out on top.[20] Factor in the increasing advances in computer technology and software, and the analog choice looks even more unattractive. Digital recording opened hundreds of doors in the editing and mixing music process. Digital music made it possible to eliminate background noise, surface noise, blurs, muffling, pops, and clicks.[21]

Technology was on the fast track and just as cassettes were enjoying immense success in the mid-eighties, a new format was making a name for itself: the compact disc (CD). The little brother of the original record, the CD, was introduced in 1982.[22] What was so riveting about this new technology that created yet another format switch in the music industry? Not much at first. The success of the CD came slowly, just as cassettes had. Even four years later, in 1986, both cassettes and vinyl were still outselling CDs. Considering people still had their Walkmans and cassette players in their cars one can understand the hesitancy to embrace the new CD format. However, it was only a matter

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[19] Fink, *Inside the music,* 73.
[20] Ibid.*,* 74.
[21] Coleman, *Playback*, 164.
[22] Ibid.

of time before the CD established domination. The superior clarity and definition of sound played a big part in the transition. CDs looked sleek, new, and the ease of operation rendered the cassette as a clumsy, breakable, awkward plastic box.[23] Music consumers agreed: the CD was the format of the future. In 1988, just two years after the CD had been outsold by both vinyl and cassettes, CDs outsold vinyl for the first time in history $70.4 million to $43.4 million.[24]

By the end of the eighties CDs officially claimed a superior market share as cassette sales began to decline in 1989. Not only did the CD take the forefront of music technology, but it also found a way to knock the record out for the count. The CD's advantages were just too immense compared to the LP record. The most obvious advantage was size. The CD was more portable, easier to store, handle, and carry. CD collections took up considerably less space than LP collections. One could instantly choose which track he/she wanted to hear. Finally, the CD offered almost twice the playtime as the LP, 75 minutes compared to only 40 minutes.[25]

CDs began to establish a format of choice for the nineties, and record companies took an early note, helping to push the new format by discontinuing LPs from their record stores and sending them into the bargain box.[26] The CD became the music industry's new golden goose, and it was time to cash in. Technology wins again!

As the nineties rolled on and CD playback technology became cheaper, a certain phenomenon developed with music consumers, especially with those who were a little

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[23] Ibid., 173.
[24] Ibid., 166.
[25] Ibid., 165.
[26] Ibid., 166.

older. The CD "reissues" began to hit the music market. Music listeners began to repurchase the music on their old cassette and LP collections, or at least those albums that mattered. This meant good news for major labels. A business strategy to increase the sales of CDs motivated the label's next move. The labels began to shift their distribution channel away from the traditional record store and into big box retailers such as Best-Buy, Wal-mart, and Target, all of which sold CDs at discounted prices to move people into the store.[27] The future looked promising for record companies and the CD. Profits were high and business was good. Music grew and styles became more diverse, with underground genres going mainstream. The record labels were exactly where they wanted to be: in control of the consumer. On the other hand, Mark Coleman, author of *Playback*, reflects, "The latest format war ended in short-term victory for the music business, but companies paid a long-term price for their profits."[28]

Those three decades in the music industry consisted of rapid changes. The seventies through the nineties saw technological advances develop at a rapid pace: new technology replacing the old just after the old was embraced. During three decades of format wars between records, cassettes, and finally CDs, the music industry saw the rise of digital recording, and the dissipation of analog. It was an exciting time throughout the industry. Technological advances constantly reminded everyone how quickly things could change in the industry. More than anything, the music consumer's values about music had evolved. Mobility was what people craved. While the record company executives sat atop lofty headquarters in the early nineties, events were being set in

[27] Kusek, *The Future of Music,* 7.
[28] Coleman, *Playback*, 167.

motion that would transform their world in the near future. Personal computer (PC) companies had the foresight to see the potential of audio applications in their computers and began developing affordable PCs that included CD-Rom devices.[29] By the late nineties those computers had started to find their way into the consumer landscape. "The fundamental flaw, the limitations of CDs, became apparent at least to a farsighted few."[30] The time was right, and the stage set for the next music industry revolution, the most controversial to date, the digital revolution.

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[29] Kusek, *The Future of Music,* 4.
[30] Coleman, *Playback*, 173.

III. THE D1G1TAL REV0LUTI0N

"Arguably, file-sharing is the most successful and direct form of product sampling ever invented. It grew out of actual online behavior, and was incubated and created by the digital kids themselves."

—David Kusek, *The Future of Music*[31]

If one had to pick a consumer product that represented the start of the new millennium it would undoubtedly be Apple's iPod. The iPod is representative of Generation Y and the new millennium because it screams technological, innovation, and individuality, traits associated with both the new millennium and this generation. However, the iPod represents more than just these few qualities; it symbolizes one of the biggest upheavals in the history of the music industry. The iPod indirectly represents the digital revolution: the culmination of effects that the ISO-MPEG-1 Audio Layer 3 (MP3) and Internet has had on the music industry. As discussed in chapter one, digital recording allowed recording studios to record music digitally. After CDs were introduced these digital recordings were converted into sound files and copied onto the plastic discs then sold as albums. Each song comprised its own digital file that CD players would read and reproduce as music. With the advent of the MP3, music files became smaller, allowing individuals around the world to trade and share music via the Internet. Very few comprehended the ramifications of this technology at first, but this technology soon empowered consumers and forever changed the long-standing business model of the music industry.

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[31] Kusek, *The Future of Music,* 100.

By 1988, CD sales had officially outsold vinyl for the first time in history. Record company executives started realizing the product shift taking place. Just a year earlier, in 1987, the technology (MP3), responsible for wrecking the record company's business plans began to take shape. The International Organization for Standardization (ISO), and one of the subgroups of the organization known as the Moving Picture Experts Group (MPEG), developed standards for digital multimedia forms.[32] What began as technological research for speeding up audio over phone lines, quickly morphed into a technology that helped to compress music files for the Internet. Different independent research groups had been simultaneously working on the problem and all submitted variations of the technology to MPEG. MPEG took four of the samples submitted and forged them into what is now known as the MP3 format; however, Karlheinz Brandenburg provided the greatest contribution and is considered the father of the MP3.[33] The compression of an audio file decreases the amount of space taken up on a hard drive, but the compression also compromises audio quality. This works by

> …sifting through and deleting selected sound frequencies in order to enable the transmission of only the key frequency elements present in the music…The compression used in MP3's is so intense that a lot of the top end is usually lost and the bass is unnaturally emphasized.[34]

Audio compression significantly reduced the size of music files, which allowed for many advantages including more storage space on one's computer.

MP3s should have spread like wild fire, after their invention in the late eighties, but the technology of MP3's was ahead of its time and this caused the lag of adoption by

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[32] Steve Knopper, *Appetite for Self-Destruction* (New York: Simon and Schuster, 2009), 118.
[33] Ibid.
[34] Conrad Mewton, *All You Need to Know About Music & the Internet Revolution* (London: Sanctuary, 2005), 26.

Internet users. At the time, slow Internet speeds translated to sluggish download times for MP3s. No relative advantages presented themselves to waiting twenty minutes for a song to download when one could drive to the store, pick up an album with 12 songs, and drive back sooner than it would take for the download to complete. Understandably, the Internet was new and there were a lot of technologically ignorant people who had not heard about MP3s, let alone knew how to use the Internet. Technology would catch up. Besides, the MP3 epitomized what consumers sought. MP3s had no moving parts. Unlike all their predecessors, they consume minute amounts of power to play, they can store data in the file (such as artist and track title), they allowed for one to make customizable playlists, and while not realized in the eighties, universal mobility acted as the most attractive attribute.[35] As popularity grew one of its biggest advantages soon became apparent, CD "ripping."

CD ripping provided the handle to the knife that began stabbing away at the record labels profit and business model. The MP3 format opened numerous doors for computer programmers, the most devastating door for record companies being programs that would essentially take (rip) songs off of a CD and convert them into the MP3 format. These programs additionally allowed the user to create a custom playlist and burn the songs back onto a blank CD. Sharing songs via the Internet fully actualized the record executive's fears that home taping had introduced. Although not aware of it yet, the package of a CD-ROM computer, the CD, the Internet, and MP3s, became the devastation that all record executives initially feared. In the first six months of 2002, CD

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[35] Ibid.

sales dropped 11% while blank CD sales climbed 40%.[36] Total consumer empowerment had arrived.

The invention of the MP3 and its various uses were hindered at first by Internet speeds and downloading rates. As Internet technology advanced, so did MP3s. The format was relatively unknown at first but eventually college kids began to understand its potential and started to exploit it. Generation Y produced some of the most tech savvy people alive and that knowledge, coupled with the upgraded Internet speeds, provided the perfect recipe for the creation of MP3 file-sharing software. By far, the most famous of these college individuals was Shawn Fanning and his infamous program called Napster. There were a number of innovators that pioneered the creation of online file-sharing and peer-to-peer (P2P) music programs but Napster became the most popular.

Rob Lord and Jeff Patterson, two Santa Cruz students who loved music, were among those innovators. Once Lord and Patterson found out about the MP3 format they began posting music files online to share with people, receiving an enormous response.[37] The good responses lead to their creation of the Internet Underground Music Archive (IUMA) in 1993. They avoided copyrighted music and stuck to posting underground music on the site but when they approached L.A. record companies about possibly using the platform to distribute copyrighted music, they were denied.[38] MP3.com became another big player in the early days of online music sharing under its creator Michael

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[36] Charles Mann, "The Year The Music Dies," *Wired*, October 3, 2003, http://www.wired.com/wired/archive/11.02/dirge.html (accessed September 12, 2009).

[37] Bruce Haring, *Beyond the Charts MP3 and the Digital Music Revolution* (Los Angeles: JM Northern Media, 2000), 36.

[38] Ibid., 37.

Robertson. Robertson grew up in San Diego and started MP3.com after graduating from UCSD and testing a few companies (that ultimately failed).[39] Another company, Liquid Audio, started by Gerry Kearby in 1996, became known for having 300,000 downloads of David Bowie's "Telling Lies" in one week.[40] Programs such as Real Network's and IBM's Real Jukebox allowed users to download, store, manage, and rip MP3s.[41] These qualities attracted users to the program, who downloaded it 100,000 times during the first day of business and over 250,000 times after two days![42] File-sharing software use became rampant, with the biggest appeal being the free price. On the other hand, N2K pioneered the legal front in 1997 by being the first legitimate online company to sell singles from artists at .99 cents each.[43]

Around the turn of the millennium online music sharing had gotten the full attention of the major label executives, and they were not happy. Kids had begun swapping the music they were trying to sell and promote. Does any one remember buying enhanced CDs, the supposedly next best format? No. This is because major labels began releasing them at about the same time MP3s took off. On top of that they were overpriced at $20-$27 and did not play in all CD-ROMS.[44] It is blatantly apparent though, as David Kusek points out, that "there are certainly differences between CD quality sound and MP3 digital formats, but the difference is insignificant if 'pricing' is considered."[45] This

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[39] Ibid., 5-20.
[40] Ibid., 65.
[41] Ibid., 66.
[42] Ibid.
[43] Ibid., 67.
[44] Ibid., 45.
[45] Kusek, *The Future of Music*, 11.

is especially true for younger kids who are motivated primarily by price. Kids created custom CDs and playlists by effortlessly ripping songs from other CDs and obtaining various songs with a few clicks of the mouse for free. Music executives expressed outrage and viewed Michael Robertson, head of MP3.com, as public enemy number one.[46] That was, of course, until nineteen-year-old Shawn Fanning took his place.

Shawn Fanning was a college dropout who had teamed up with his uncle to get Napster up and running. Napster, launched in June of 1999, had 1.1 million users by February of 2000 and exploded to 6.7 million users by August; this made Napster the fastest growing software application ever recorded.[47] Why was Napster so successful? What did it have that other P2P applications did not? Napster was essentially a search engine that connected one to users around the world. The interface offered ease of use for customers. Napster also offered virtual communities for music listeners and boasted a vast catalog of music. As long as Napster had the song a user wanted they could download it. As one student at the time Napster was released stated, "All those other sites fell to the wayside because Napster was a search engine that allowed you to move and search for more things easier than ever. With faster Internet connections, Napster got very, very big very quickly."[48]

As fast as Napster grew, the record label executives realized the threat that P2P software posed to their companies. In addition, they also saw the potential that

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[46] Haring, *Beyond the Charts*, 7.

[47] Patrick Burkart, *Digital Music Wars: Ownership and Control of the Celestial Jukebox* (Lanham: Rowman and Littlefield, 2006), 55.

[48] Greg Kot, *Ripped: How the Wired Generation Revolutionized Music* (New York: Watson-Guptill Publications, 2009), 32.

applications offered for a legitimate online music business. In hindsight, record label executives actually acted against that potential. They began to see the P2P applications as stealing a business they controlled. In an attempt to fight back, they took the only road they knew to be a viable solution: The Recording Industry Association of America (RIAA), which represents all major record labels in America, sued Napster claiming that the software allowed music pirating. Generally, music pirating refers to individuals or groups who illegally copy music onto blank CDs or tapes and sell them for below market value to make a personal profit. Napster fought against the claims arguing that what the program did was not "technically" pirating, since Napster was not making any money off the sharing.[49] In response, the RIAA argued that Napster's users were not making any money for them.[50] The courts ruled in favor of the RIAA, requiring Napster to pay royalties to the largest record companies: Sony, Universal, BMG, EMI, and Warner (collectively known as the "Big Five"). Between March and April of 2001 Napster use dropped 36% and the average number of songs per user dropped from 220 to 37.[51] By June of the next year Napster filed for bankruptcy with $7.9 million in assets and $101 million in liabilities.[52]

Despite its demise, Napster revolutionized the way the music industry would conduct business in the future. The software program created by a college dropout showcased the democratizing efforts and desires of the public. The people had spoken and the record executives saw a freighting future if they could not control the market.

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[49] Burkart, *Digital Music Wars*, 56.
[50] Ibid.
[51] Ibid., 61.
[52] Ibid., 62.

Napster demonstrated "that more access to music leads to more interest in music."[53] Record executives hoped that suing Napster would set an example for other P2P software start-ups; in spite of this, more software programs, such as Fast Track, Gnutella, Freenet, Kazza, AudioGalaxy, Music City, Morpheus, Winmx, and Grokster, emerged to fill the gap, picking up where Napster left off. Antony Bruno, writer for Billboard Magazine, believes Napster's creation marks the beginning of the digital revolution stating,

> It certainly wasn't the first milestone in the history of the digital music market, and it might not even be the most important. But June 1999 is the closet date there is to a birthday for the digital music revolution—for better or worse. [54]

Pirating, as the record executives refer to it, has swept the world over, but its impact on the music industry is widely debated. One thing is for certain in the new digital age; file-sharing has become the most popular way for people to find out about music, with over 75% of teenagers in the United States engaging in it.[55] While some take advantage of free music file-sharing, and download thousands upon thousands of songs, most file-sharing users download music for free to preview them before they actually purchase an album. Then again, three out of four teenagers feel that they should not have to pay for file-sharing, mainly because they do not have credit cards, which is a huge reason P2Ps accelerated in the first place.[56] However, not all online music is purely free. There are a handful of companies that sell music by pay-per-downloads and are legitimate music distribution companies. Some of the more popular companies include iTunes music store, Rhapsody, CD Baby, and the new legitimized Napster.

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[53] Kot, *Ripped*, 35.

[54] Antony Bruno, "Ten Years After," *Billboard* 121, no. 23 (2009): 10, http://web.ebscohost.com/ (accessed September 21, 2009).

[55] Kusek, *The Future of Music*, 101.

[56] Ibid.

The adoption of P2P software has allowed consumers to access and sample any musical item, making singles, instead of albums, popular. The record executives were set on stopping the viral addiction of music fans to these P2P programs, instead of looking into ways they could team up with them. Their addiction to destroying Napster not only backfired when it tried to send cease and desist signals to future "Napsters," it also pushed their own customers into an unstoppable feeding frenzy for online music.[57] Even as file-sharing has exploded in the past decade, and people are constantly downloading music, there is a dark side that has been dragged along with foreign computer files. Those using P2P programs "have learned to fear viruses, worms, and harmful programs [and to] distrust…a network once it gets large enough" for fear they might be the next target of the RIAA.[58] On the other hand, this has not slowed the hunger for P2Ps as "it is estimated that hundreds of millions of copies of these free software applications have been downloaded, and that millions of people are online trading music files every minute of everyday around the world."[59]

MP3s have changed the way business is conducted and the way music is perceived. With digital music constantly flying across digital networks plenty of people have benefited, particularly DJs. Since "any given piece of digital music can be quickly borrowed, mutated, sampled, morphed, and adapted into a new piece" DJs have been able to make a living by mixing other artist's songs and playing them back at clubs.[60]

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[57] Ibid, 5.
[58] Burkart, *Digital Music Wars*, 65.
[59] Kusek, *The Future of Music*, 6.
[60] Ibid., 45.

Another consequence of digital downloads is that single tracks are becoming more marketable than an entire album. Research demonstrates that most people who use P2P software typically download the hits one could find on a Top 40 radio station; this suggests that P2Ps are much like radio, a great source to promote new music.[61] New music keeps the recording industry alive, as it is in a constant hunt for the next big artist. "Consumers of music soon tire of formulas; taste is not fixed but restless, subjective, and highly unpredictable."[62] The radio industry's business model is based on the discovery of new music; however, P2Ps have changed the dynamics and business models for radio stations also. As Beastie Boys member Mike Diamond told *Wall Street Journal*, "Nobody is going to stop this. It's out there. The kids are using it."[63] The fact that kids are using it is precisely the most frightening factor for major labels. Kids represent one of the biggest shares of the market and if they are entrenched early with the thought that music should be free, favorable future outcomes for record labels will dwindle. "Change" has been the trend over the past 10 years in the music industry: changes in distribution, profit, and consumer power. Along with these changes comes legal a business complications.

As described with the Napster situation, P2P software caused complications for the recording industry business, resulting in legal action. Napster was not the only company sued for pirating, just the biggest and best known. Other companies, such as Fast Track, MP3.com, and Grokster, were also sued. The RIAA even went so far as to

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[61] Burkart, *Digital Music Wars*, 73.
[62] Ibid., 17.
[63] Haring, *Beyond the Charts*, 133.

sue Diamond Multimedia in 1998, the creator and manufacturer of the first portable MP3 player in the United States, the Rio PMP300.[64] The Rio could store up to 60 minutes of music and retailed at $199.99.[65] The lawsuit against Diamond ended with the defeat of the RIAA and marked the first victory in favor of digital music.[66] During a period of potential innovation for the recording industry they "served fans…with lawsuits—more than 20,000 in a span of four years, in an attempt to intimidate consumers away from file sharing."[67] Lawsuits were not just targeted at P2P companies, but also at users of these programs who had significant numbers of downloads on their computers. The responses to these lawsuits, however, varied greatly.

Once the number of cases proposed by the RIAA began reaching outrageous numbers, politicians became frustrated. One politician, Orrin Hatch, head of the Senate Judiciary Committee, announced that he was in favor of death zapping the computers of people who used P2P software in order to stop online illegal behavior.[68] Imagine the total invasion of privacy if that reality took place. In defense of digital music, lawyers tried to paint a picture for politicians that seemed brighter than the version they saw. Many lawyers argued that "we have to remind legislatures that…copying is not always evil (and in some cases is actually socially beneficial)."[69] With all this talk about lawyers, politicians, P2P companies, and record executive opinions, the two most important parties, the artists and consumers, felt drastically different on the matter. Research done

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[64] Ibid., 111.
[65] Ibid., 122.
[66] Ibid.
[67] Kot, *Ripped*, 4.
[68] Burkart, *Digital Music Wars*, 7.
[69] Ibid., 12.

by the Pew Internet Project in 2004 showed that 60% of songwriters surveyed believed that the RIAA's lawsuit frenzy would not benefit artists or songwriters.[70] As for the consumers, their feelings were already apparent. Napster and numerous other P2P applications were testaments for the opinions of music fans. Consumer opinions helped to popularize P2P programs in their infancy and they will undoubtedly influence where the industry grasps its next strong business plan.

The digital revolution created turmoil for the music industry, most notably the recording business. The invention of the MP3, in tandem with the Internet and P2P software, undermined a business model utilized by record labels for decades. This format shift, that record executives supposedly anticipated, took place much sooner than expected. The invention of Napster, along with other various P2P companies, helped make file sharing viral among the youth of America. The threat of this new technology ravaged record executive's faith in a secure future. The immediate response by the major labels was to attack, not reach out, to these innovators. This reaction ultimately hurt more in long run sales than it protected them. Why were record labels set against a future they knew was inevitable? Why did they not embrace the technology? What were the consequences of their efforts?

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[70] Kusek, *The Future of Music*, 95.

IV. THE ROLL OF RECORD LABELS

"But it could be argued that the U.S. record companies, so concerned about the ramifications of change that many senior executives stalled the arrival of digital music, instead created a movement that flourished precisely because it managed to position itself as the angry alternative to the status quo."

Bruce Haring, *Beyond the Charts*[71]

The advent of the MP3 sparked the fire that fueled the digital revolution and modified the way people listened to music. More importantly, it altered the way people found and obtained music. Many people provided their opinions of what was truly transpiring within the record companies at the time online file-sharing began to gain attention. Some have argued that the record executives never saw it coming. Others boldly claim they knew the transition would come but just not as rapidly as it did. Whatever the case, one thing is absolute; the decisions and actions made about how to respond to online music distribution were shortsighted. As chapter two illustrates, the record executives threw lawsuits and legal jargon at the situation in hopes they would win by crushing competition. By ignoring the new technology and responding to the digital revolution, in an attempt to protect themselves and their money, record executives were left fighting for control over consumers.

The recording industry is no stranger to the threat of free music. Just as home taping pushed record executives to campaign on the slogan "Home taping is killing the music industry," they are taking similar actions today to ensure file-sharing does not grow out of hand. The fact is, however, file-sharing has gotten out of hand in the eyes of

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[71] Haring, *Beyond the Charts*, 22.

the recording executives and they only have themselves to blame. Accusations have been thrown back and forth between artists, record company executives, and music consumers regarding who has ultimately been taking advantage of whom.

The introduction of the MP3 empowered consumers to create new distribution channels within the music business. The technology directly threatened the recording industry's business model, which was relatively simple and straight-forward: sign the artists, record their music, and promote and distribute it through specific channels while controlling the process and price. This model had worked tremendously well since recorded music seeped into the mainstream, and many label executives became very rich from the success of select artists. The invention of the Internet and the MP3 threatened this business model in various ways. Music could now be digitally distributed instead of relying on a physical medium the consumer had to buy at a record store. Thus, the technology allowed artists to by-pass the record labels and go directly to the consumer. This created delivery platforms that the industry could not control.[72] File-sharing and the Internet took away the need for the record label's strengths: distribution and promotion. The key threat that P2P services posed was control rather than from lost profits through piracy; "the industry wanted to control digital distribution."[73] Without control, the recording industry believed they would be rendered obsolete. The stubborn decision to fight to retain that control led the record labels down the wrong path.

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[72] Burkart, Digital Music Wars, 45.
[73] Kot, *Ripped*, 28.

The inability to fully appreciate new technology created a fundamental problem on the business level. The record industries were still operating on the old reliable business model they had been using for years, and had difficulty trying to adapt to the new technology. Peter Jenner, Pink Floyd's first manager, described it best saying, "We're trying to force a nineteenth and twentieth century business model into twenty-first century technology."[74] Record labels struggled with this method over the past nine years and continue to do so today. The record labels wanted to maintain control, and might have if they only realized they needed to work with, and not against, new technology. Nonetheless, there are countless examples of record labels shunning innovative entrepreneurs who were actually looking to help them. For example, "promising services like Mixtape have reached out to labels for licensing deals only to find themselves ignored or asked to pay astronomical upfront fees."[75]

From the viewpoint of a record executive, however, the situation looked drastically different. Executives saw the technology as a threat, one that would render their business, and the jobs of many, obsolete. Stakeholders were pressuring the executives to provide profitable returns on their investments just as CD sales began to drop. Bob Merlis, former vice president at Warner Brothers label, commented on the matter saying, "It was a huge concern…we all saw everybody's assets flying out the window…it's not that we're against this technology, but this is about self-preservation."[76] On the other hand, music fans felt differently; they saw label executives as fat cats just

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[74] Ibid., 11.
[75] Bruno, "Ten Years After," 10
[76] Kot, *Ripped,* 27.

looking for a viable option to exploit music fans and artists for more money, especially once they started being slapped with lawsuits. One fan claimed, "For many years we, the fans, have paid full price for concert tickets, CDs, tapes, posters, t-shirts, etc. If anyone needs to be penalized for their actions, it's the record labels, not the fans."[77] Many people target the decision to sue Napster as their biggest fault and consider it the turning point to their business beginning to decline. However, music executives refute these charges saying, "even if Napster had made a deal another site would have filled in that role because of the large profit potential."[78] By that process of logic, what would be the value in striking deals with file-sharing companies in the first place? Then again, the early adoption of the technology might have led to an earlier adoption of legitimate online distribution that programs such as iTunes has proven profitable.

Before the major labels could consider such a business move they had to understand what the technology meant for the industry. Many people feel that the record labels were blind-sided by the technological advances and the only immediate reaction was to lash out against the unfamiliar. In contrast, Hilary Rosen, former CEO of the RIAA, argues against that idea stating,

> Everyone knew there was going to be a legitimate business and everybody was trying to figure out what that would be, the earlier issues, discussions and debates were about how much we should work together as an industry.[79]

Some believed such statements were covering up the truth about how little the industry really understood. A former Geffen records tech researcher, Jim Griffin, was among the

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[77] Ibid., 34.
[78] Mitch Bainwall, "Courting Success," *Billboard* 121, no. 22 (2009): 10, http://web.ebscohost.com/ (accessed October 15, 2009).
[79] Haring, *Beyond the Charts*, 42.

first to point fingers claiming, "To say that the industry understood what was happening to it would be giving them a lot more credit than they were evidencing."[80] Griffin makes a strong argument considering that he worked on the inside of the recording industry, and was up-to-date on new technology. The evidence began to stack against the recording industry and it was only fueled by the backlash from music fans and artists.

Some of the most substantial reactions against the major labels for fighting file-sharing are explained by examining the artist and label relationship or "ownership of the artist, or their intellectual property" according to David Kusek.[81] Fans, artists, and managers alike felt that the drop in CD sales signified punishment for the way major labels treated their talent. Labels are notorious for signing new artists and bands and taking advantage of them in the contractual agreements. For example, an established recording artist contract might promise 14% of a CD's retail price and often ends up delivering even less, with various fees and made up costs; and new artists would be lucky to make 10%.[82] Who is pirating who? Numerous artists speak out against the major labels, some even defying the label relationship and releasing their music online for promotional reasons, such as Tom Petty. One big name artist who constantly trashes major labels is Prince. Prince "saw file-sharing as a long-overdue democratic response to an industry that had built a business on exploiting artists."[83]

Artists, by their very nature, have always been influential leaders for key issues in society. When it comes to issues of pirating music their responses are split. Artists such

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[80] Ibid., 41.
[81] Kusek, The Future of Music, 11.
[82] Haring, *Beyond the Charts*, 8.
[83] Kot, *Ripped*, 35.

as Chuck D, of Public Enemy, are avid cynics of record labels; and when asked how he felt about piracy he answered "Piracy? The biggest pirates have been the record companies: the people running the record companies are lawyers and accountants…it's not about the art at all."[84] Other artists side with the record labels such as rapper Dr. Dre who argues "This is a job. Free downloading is a good thing for new artists who want to get their music heard. But for a person like me, who makes a living from it, it's a different story." [85] Then there are bands such as Metallica, who helped labels go after Napster. As mentioned, control is what record labels seek, the power to control and manipulate distribution channels for profitability. Claiming that piracy is the soul purpose for attacking P2P programs and pushing legislation that will help ban it is a handy but misleading cover up. However, the true record label agenda is clear, they are simply attacking P2P programs because the programs threaten their business model. An explanation from former Epic Records executive Steve Rennie illustrates why claiming piracy as the main issue in attacking P2P's is a lie, as he states,

> The greatest risk is that your music is never going to be heard, and the fact of the matter is record companies have been giving away music for years with the hope that they can introduce you to something that you might find value in and go out and buy it. So this whole thing about oh, my god, we're worried about protecting the rights of artists from piracy, frankly, is the big lie of what's on.[86]

Luckily for the major labels, the media popularized the lie in conjunction with the Napster scandal. While market control lies at the center of reasons the record labels have attacked file-sharing, other motives fuel the fire.

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[84] Ibid.
[85] Ibid.
[86] Haring, *Beyond the Charts*, 5.

The music industry has become a precarious entity over the past decade. Record companies consolidated as fast as mergers could be made, and artist's careers seemed to expire sooner than one-hit wonders. At the same time the music market was increasing, and more people than ever before were enjoying music. The implications of the Internet and the MP3 far exceed what their inventors envisioned. One of those implications has been the re-emphasis of the live musical experience over the product for consumers, resembling the early part of the twentieth century when music had not been recorded, only performed. But if recorded music cannot remain a product, how will the major labels control access and pricing to obtain a straight line into the wallets of America?[87] The record industry's response to P2P software was a decision made by a combination of fear for survival, greed, and shortsightedness. Major label executives worried about holding on to a past that produced money, instead of evaluating future opportunities. They thought the old business model provided the only way of keeping control over profits. The record industry was in poor shape during this transitional period because "the people who control the 'old' industry have convinced themselves that they are the music business, and that success in music means distributing products they must control."[88] In response to this controlling demeanor, the new generation of music lovers sent a rude awakening to major label executives in the form of consumer empowerment, as millions of music files moved freely across the Internet.

The wakeup call was not just to the recording industry, but the music industry as a whole. The recording industry felt the largest impacts of the technology as CD sales

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[87]Kusek, *The Future of Music*, 37.
[88] Ibid., 36.

plummeted and label mergers became common; however, other areas, such as radio, also experienced the affects of the digital revolution. Ironically, the late nineties was a time of significant prosperity for record companies. Sales were higher than they had ever been. It's no wonder that file-sharing was deemed such a threat to the companies. At a time when profits for the industry reached close to $15 billion a year, an electronic monster was lurking in the shadows to ravage their success. In 2000, consumers purchased 785.1 million albums but by 2006 that number dropped to 588.2 million.[89] In accordance with that trend the 10 top-selling albums in the United States also sold less as Chart 3 shows.

10 Top-selling Albums in U.S.A.
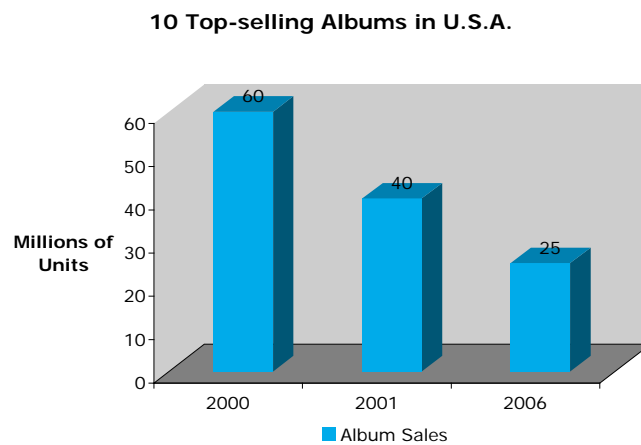
Chart 3[90]

Total revenue sales were also down as a result of this. By 2003, CD sales were down 26% from 2000 and revenue plummeted by $2 billion.[91] The obvious cause, in the eyes of the record labels was online music sharing. P2P software was starting to kill their business.

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[89] Brian Hiatt, and Evan Serpick, "The Record Industry's Decline," *Rolling Stone*, June 8, 2007, http://www.rollingstone.com/news/story/15137581/the_record_industrys_ decline (accessed October 15, 2009).
[90] Burkart, *Digital Music Wars*, 74.
[91] Kusek, *The Future of Music*, 74.

Online file-sharing certainly had a significant impact on the record labels but the majority of people using file-sharing software were not downloading entire albums, but rather, just singles. By 2006, fans were buying 582 million singles, and $600 million worth of ring tones.[92] File-sharing was mainly being utilized to sample music. If people liked a single, they would download it. If they liked the single enough, only then would they buy the album. Additionally, music obtained from file-sharing was inferior in sound quality, so many people would buy the CD just for the superior sound. Once file-sharing was rampant in the United States, different researchers began to try and gauge how much it affected the industry. One survey found that "63% of students who downloaded MP3s still bought the same number of CDs and 10% bought more."[93] So why were CD sales dropping so rapidly? If students had not completely abandoned buying CDs and some individuals were buying more, how had revenue dropped by $2 billion in just three years?

File-sharing was not the only reason for the decline in CD sales, it was just one of many different factors contributing to the record label's nightmares. In 2001, just in the middle of the Napster period, major labels released 25% fewer titles than in 1999, and at the same time the average price of the CD rose 7.2%, due to label consolidation.[94] In addition, CD retail space had dropped since major labels moved CDs into mass retail stores, such as Best Buy or Wal-mart, and closed individual record outlets. One of the fundamental problems with the CD was that consumers began to hold the value of it very low. Other media, such as DVDs and video games, offered greater value for their price.

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[92] Hiatt and Serpick, "The Record Industry's Decline."
[93] Burkart, *Digital Music Wars*, 73.
[94] Ibid., 72.

DVDs offered hours of visual and sonic entertainment with special features for just above

$20. Video games offered countless hours of entertainment and music for $50. The CD,

in comparison, only offered 12 tracks or so for $15-$18 dollars. The video game and

DVD industry created numerous distribution channels, strengthening their market, while

the record industry focused on cutting off new channels and suing their customers.[95]

Perhaps the record industry should have taken a hint from fellow entertainment industry

tactics!

The low value of the CD hurt sales in more ways than one. Consumers began

using their money to purchase products that offered greater value. CDs moved into a

market in which they not only competed against each other, but also were now competing

with DVDs, video games, T.V., and porn.[96] Other factors, such as a lack of superstar

artists also caused the drop in CD sales. Today it is rare to find an up-and-coming artist

who can pull crowds and sales that match previous superstars such as Michael Jackson,

U-2, or the Eagles. The year 2001 marked a new statistic; it was the first year, in 35

years, that no album sold at least five million copies.[97] Additionally, in 2003, a legitimate

online music industry had begun to form with the advent of iTunes. This, too, slowly

contributed to the drop of CD sales. In 2006 to 2007 alone, digital music sales grew 44%,

from $1.9 billion to $2.7 billion and in 2008 made up 30% of music sales.[98]

Higher CD prices, a belittled value of the CD, competing entertainment options,

shortage of superstars, and a growing digital market for music all contributed to the

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[95] Kusek, *The Future of Music*, 85-88.
[96] Ibid., 81-82.
[97] Burkart, *Digital Music Wars*, 72.
[98] Bainwall, "Courting Success," 10.

decline of profits for record labels. When going out of business seemed too devastating, the big labels resorted to the alternative, merging with other labels. The strength of the company depended on the strength of the artist. Most of the major labels held the biggest artists but other big labels still had prominent names that were not creating enough sales. The logical path to securing any kind of future was to merge with a larger more stable label.

The recording industry began consolidating at a rapid pace, some mergers within a company being announced just after a different merger closed. Once Polygram merged with MCA, records to become Universal records, the total number of major labels dwindled. This "left five multinational conglomerates to run the $14.6 billion a year record industry."[99] This so-called "Big Five" term did not stick; by 2004 the Big Five quickly became the "Big Four." Sony announced they would be merging with another major label, BMG, to create Sony BMG.[100]

Consolidating the record industry brought about numerous complications, price hikes, and layoffs. The challenges began at the local level with the closing of record stores; more than 2,700 record store closing since 2003, and over 5,000 employee layoffs since 2000.[101] Although CD sales had shifted into big box stores, such as Best Buy or Wal-mart, CD prices began to climb as consolidation took hold of the industry. CD prices approached a record $19, even though manufacturing prices had decreased.[102] The major

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[99] Kot, *Ripped*, 7.
[100] Hiatt and Serpick, "The Record Industry's Decline."
[101] Ibid.
[102] Kot, *Ripped*, 35.

labels needed to make money. By closing thousands of record stores the number of purchasing points for consumers who wanted CDs was drastically cut. The only option was to increase prices. In addition, the executives still had the shareholders knocking on their door and mergers only increased this pressure. Artists felt the impact as well, as record companies began pressuring them for more hits. As most in the business are aware, however, the creative spark cannot always be forced. Sheryl Crow commented on the situation after she won a Grammy for an album that was produced by a label that no longer existed, saying, "Artists were forced to produce hits in shorter time periods instead of allowing them to slowly grow" and build up fan bases.[103] The major labels were already dropping countless artists after consolidation because they were not producing the sales needed. Record labels were in a bad spot but continued to blame file-sharing as the cause.

The music industry encompasses a wide variety of businesses from recording, publishing, distributing, marketing and A&R, to radio, merchandising, and touring. Of these, the record labels have taken the biggest hit, yet radio has also seen a glimpse of its future in a digital world. The consolidation that ravaged the record industry also began to take place in radio with smaller stations being bought out by radio conglomerates, such as Clear Channel and CBS. With consolidation comes conformity and centralized decision-making, and that's exactly what happened in the radio industry. Music playlists began to conform as "commercial stations across the country became increasingly difficult to tell

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[103] Ibid., 6.

apart."[104] Randy Michaels, CEO of Clear Channel from 1999-2002, explained the conformity saying "listeners didn't want adventuresome music chosen for reasons of taste; they wanted familiarity."[105] But if that is true, why did millions of people flock to file-sharing programs to discover new music? Perhaps the Top 40 songs were not enough to quench the public's thirst for new music.

Nonetheless, Top 40 radio stations are still around today; however, conglomerates such as Clear Channel are hurting in stock share prices. People still listen to radio to discover new music but other alternatives are in competition. New music was once discovered only through radio, live performances, and word-of-mouth. Today, music fans "have far more convenient options for discovering new music than ever before, including the Internet, video games, television, and referrals from friends."[106] The digital revolution has not broken down the radio industry, but there have been shifts from how people are discovering new music. The question for radio is how much will that shift affect it? David Kusek suggests that "radio as we know it will become less relevant because people will have access to carefully programmed and custom-cataloged music anywhere, anytime" as digital music becomes more entrenched into society.[107]

On the other hand, radio is exploring innovative ways to keep listeners tuned in. An excellent example is Channel 93.3, a modern rock station in Denver. In the past decade, 93.3 has actively sought out regional music with a local's only show on the

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[104] Kot, *Ripped*, 9.
[105] Ibid., 11.
[106] Kusek, *The Future of Music*, 27.
[107] Ibid., 28.

weekends, and a "Hometown For the Holidays" concert showcasing local bands who win a listener contest. These shows, along with music surveys (which ask listeners to rank new songs by how much they like them), helped 93.3 to launch some of the biggest musical acts to come out of Colorado. Noteworthy artists experiencing international success through this method include The Fray, The Flobots, and 3OH!3. Other tactics that help keep the station running include conducting contests for concert tickets and artist "meet-and-greets." Various prizes, such as ski packages, sporting event tickets, and money, help keep listeners interested. With so many alternative forms of music discovery now available, stations like 93.3 must find new avenues to keep their listeners tuned in, and added value is essential. Channel 93.3 represents a good example of a station positioning itself as the essential hub for new music discovery in an emerging Denver music market.

The recording industry has dealt with tremendous issues over the past decade, including a business threatening technology, a decline in CD sales, and backlash from artists and music fans about the decisions they make regarding file-sharing. Record label consolidation resulted in the "Big Four" controlling the industry, with various independent labels in their midst. For the most part, the labels have realized there is no avoiding the P2P programs and the online distribution of music. They have taken a more active stance in exploring new digital frontiers. On the positive side for them, the number of households that download music from P2P sites has remained essentially flat over the past three years while legal downloading has expanded.[108] In 2008, 23% of Internet

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[108] Bainwall, "Courting Success," 10.

connected households downloaded music legally as compared to only 18% that downloaded music illegally.[109] In addition, many P2P sites have turned to the legal side of the law because of deals or lawsuits. While there are still millions of people who obtain music for free, the legal market is beginning to gain a stronger hold. However, the Big Four are not out of hot water yet.

Many record industry employees who survived the onslaught of consolidations and the countless waves of layoffs will be the first to claim that initial decision-making about online music was flawed. One such employee expressed his view saying,

> No doubt, many of us in the industry would've done some things quicker or different from what we did the first time around. We bear scars, lessons learned and sadness of lost colleagues.[110]

The poor decisions made early on led the Big Four to their current situation. Business is not terrible; they still make billions of dollars. Still, they now realize the importance of embracing a technology they once fought because if they do not, someone will, and the labels would ultimately be rendered insignificant.

A big factor in the utilization of digital distribution channels for record labels will be determining the level of universally acceptable Digital Rights Management (DRM). DRM provides guidelines for distributing digital goods but no universal agreement exists. DRM helps regulate how many times a purchased song can be shared. For example, iTunes allows only five different computers to play the songs a customer downloads. If an industry standard can be agreed upon "the Big Four can buy, sell, and resell, audiences

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[109] Bainwall, "Courting Success," 10.
[110] Ibid., 10.

and intellectual property in a kind of market arbitrage."[111] This would be similar to the re-issue effect with people buying CDs of old vinyl they owned. Record labels have traditionally had enormous market and cultural power. The invention of the MP3, to a certain extent, has begun to shift that power away from them, so they are exploring how to fight that. A renewed success of record labels will depend on gaining network power through technology.

Record labels have realized the faults of previous decisions they made based on the dismal times they experienced. Today's record executives have a renewed sense of direction, one that aims to push the record industry into a brighter future. While new business models are still being developed, online distribution boasts key advantages to record label business. Cutting costs by eliminating the physical product and moving entirely online could provide a significant advantage.[112] Profits would dramatically increase if manufacturing, packaging, and shipping costs were eliminated. Selling directly to consumers would also cut out the middleman (those big box stores such as Best Buy and Wal-mart). Contrary to this idea, though, are the downsides of distributing music entirely online. Sound quality would be limited to MP3 standards not CD or even vinyl. Customers who fall into the laggard category of a product life cycle would be slow adjusting to a different sales platform. Also, the remaining record stores would become obsolete, putting people out of jobs.

The Internet offers vast advantages for record labels. Labels can market to more people by exploring markets that once seemed a waste of time for them. The Internet

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[111] Burkart, *Digital Music Wars*, 50.
[112] Mewton, *All You Need to know*, 14.

gives major labels the ability to target and reach niche markets and audiences.[113] Label employees could actively run promotions for new bands by releasing free versions of songs in select markets predetermined to be most responsive to a particular type of music. Marketing campaigns for big name artists can be easily controlled. For example, snippets of unreleased songs could be planted in music chat rooms to build hype. The possibilities are endless.

The potential of the Internet sounds appealing, but at the end of the day profit is the bottom line. Traditionally, sales were made through the distribution of physical goods for the record industry. Price mark-ups were easier to conduct because consumers had no other means of purchasing the music. That business model was destroyed with the MP3 and file-sharing. Not only did file-sharing give consumers an easier and far cheaper channel of distribution, but the consumer's value of music also changed. Music value is shifting back towards the live experience and away from the physical good. Consumers would rather pay to see an artist perform than spend too much purchasing the music. Nobuyuki Idei, chairman at Sony, addresses the implications for record labels because of this stating,

> The record companies have to change their mindset away from selling albums and think about selling singles over the Internet for as cheap as possible—even at 20 cents or 10 cents—and encourage file-sharing, so they can also get micro-payments for these files. The music industry has to reinvent itself; we can no longer control distribution the way we used to.[114]

Record labels cannot control distribution based on past models. On the other hand, the sale of songs might not make enough revenue to offer security. In the new

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[113] Ibid., 26.
[114] Kusek, *The Future of Music*, 93.

record business MP3s might not even make up 50% of revenues.[115] Other avenues of income must be explored by record labels, such as ring tones. Members of the millennial generation, otherwise known as Generation Y, purchase the most ring tones. The first to be raised entirely online, Generation Y, comprise an estimated 75 million of the 300 million people in the United States. The sales potential is tremendous. Add-on sales and band merchandise could be the future of the record labels. Perhaps after someone buys a U2 CD online, the site redirects them to a page that offers various U2 posters or collectable items available to be shipped directly to them. Whatever the case, record labels will hopefully figure it out this time. It should be a simple matter of marketing, something they have plenty of experience in.

Record labels have made tremendous mistakes in the past decade, some costing them everything. The choice to ignore and fight the new technology movement resulted in one of the worst business moves they could have made. Many people within the industry are skeptical of whether there will even be a role for the record label in the next decade or two. The music industry used to hold the view that "signing to a major label has become an almost necessary step to getting one's song played on the radio."[116] Today people have other outlets of discovering music and artists can sell their music direct to consumers instead of going through record labels, which also allows them to keep the rights to their music. The record label still holds significant value within the music industry, however. Record companies help to get new bands exposure, "and the labels perform the invaluable function of backing young performers financially as they begin

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[115] Ibid., 93.

[116] Burkart, *Digital Music Wars*, 130.

their careers."[117] Additionally, record labels have tremendous marketing and network power. They can market a band in places others cannot reach and give them invaluable connections. People sometimes forget that "without the good efforts of the record industry, there is a great deal of music that never would have entered any of our lives."[118]

As the first decade of the new millennium comes to a close, every business person around the world can look back and distinctly see how the Internet has changed their industry. The music industry, in particular, fell victim to a complete shift within the recording and distribution sector. Record labels watched as MP3s, along with file-sharing networks, slowly altered their business models. The immediate reaction was to stall their arrival by actively fighting and suing the networks and the music fans that used them. In retrospect, this horrible decision by the major record labels led to enormous amounts of backlash from artists and music fans, which only fueled the file-sharing frenzy. This frenzy, along with a host of other contributing factors, actualized the industry's worse fears as CD sales plummeted. With the drop in CD sales came the consolidation of big record labels into the Big Four that run the industry today. Meanwhile, online music presented bleak future implications for the radio industry, which was also consolidating. However, the record labels survived: they are hurt, but not broken. The ramifications of their earlier decisions highlight the mistakes they made. Looking to the future they have begun to explore alternative business strategies working with the same technology they once sued. While the major labels still offer significant value to artists and consumers

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[117] Mann, "The Year The Music Dies."
[118] Haring, *Beyond the Charts*, 155.

alike it will be up to them to figure out how to best utilize their strengths. Perhaps the best place to start figuring that out is through analyzing the numerous advantages and disadvantages the Internet provides for different parties in the music industry.

V. TECHNOLOGY: DETENTION OR EMANCIPATION?

"People keep trying to impose order and telling kids they can't do whatever online, but they're wrong. You can do whatever, and more. If you can dream it, you can do it on the Internet. It's completely lawless and insane."

Greg Kot, *Ripped*[119]

The Internet forever revolutionized the way people conduct business and go about their daily lives. The past decade has been a time of fresh thinking, new ideas, and groundbreaking marketing techniques, and the Internet opened a world of opportunity for consumers, artists, and businesses alike. The Internet continues to offer a technological tool for implementing innovative business strategies.

The relationship of the consumer with the Internet had significant ramifications. If one statement could sum up the effects that consumers have had on the music industry thus far and where it will be in 10 years, the words of Marc Geiger, a music pioneer, illustrates it best: "It's about what the consumer wants. That's the first law."[120] The consumer drives any business, so it comes as no surprise that the advent of the Internet empowered consumers to send a meaningful message to the music industry. Young adults, in particular, have had ready access and time to spend on the Internet. Fed up with the continually rotating Top 40 songs heard on local radio stations they used the Internet to explore alternative and fresh styles of music. Opportunities began to open for new unsigned bands. Kids were discovering and connecting to these underground bands, such as Death Cab For Cutie. Some music loving kids found the P2P sites good outlets stating,

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[119] Kot, *Ripped*, 85.
[120] David Battino and Copeland Stewart, *The Art of Digital Music 56 Visionary Artists and Insiders Reveal Their Creative Secrets* (New York: Backbeat Books, 2006), 223.

> The big bands at the time like Limp Bizkit and Creed seemed abrasive to me. The music I found on sites like Napster and Audiogalaxy was something that wasn't being presented to me elsewhere and I thought that was really great.[121]

Through music dumpster diving (or sifting through unknown music), the Internet generation made one thing very apparent, the power of choice is what mattered most.

Power to choose the music one wanted to listen to provided a prime advantage for consumers. As Conrad Mewton notes,

> Music fans across the globe are now able to access all different kinds of music, so they can decide who they like and don't like, as opposed to a major label spending millions grooming and pushing a manufactured superstar onto the public.[122]

In a slightly different light, the Internet highlighted the choice that consumers have always had within a market. As David Kusek points out "They will follow the path of convenience and value—a simple rule of business that has been proven time and time again."[123] That simple business concept explains why P2P programs gained such popularity and success. Former singer Gary Stewart, on the other hand, argues against such easy access saying, "I grew up in the age of the records and mailing away for things. And the good thing about that experience is that when you have to work that hard, it deepens your relationship to the music."[124] With the ease of obtaining music in today's industry perhaps this connection is lost, replaced by the quick click of a button to obtain the hot new single of the week.

That quick click of a button may offer more of a connection than Stewart gives it credit for. Digital music solved the problem of finding old artists and songs that are not

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[121] Kot, *Ripped*, 70.

[122] Mewton, *All You Need to*, 44.

[123] Kusek, *The Future of Music,* 30.

[124] Don Grierson and Dan Kimpel, *It All Begins with the Music* (Boston: Course Technology, 2009), 177.

readily available in Best Buy or Wal-mart, creating interest among older consumers as well. "The difficulty in finding the beloved songs of youth, for example, drives the surprising adoption of file-sharing networks among the boomer generation."[125] Forgotten or hard-to-obtain songs from the past century can now be attained within a matter of minutes. The idea of compiling every song ever recorded by a record label is dubbed the "Celestial Jukebox" by some. Currently, there is no single database that has obtained this lofty goal, but it is only a matter of time before the milestone is reached. As music popularity increases along with technology, the "Celestial Jukebox" will become reality. However, the movement towards this "Celestial Jukebox" in accordance with Generation Y's "connectedness" will redefine the way music business is conducted in the next decade, as the Internet has done in the past decade. The multiple benefits and drawbacks the Internet provided for consumers is amplified when the focus shifts to the artists.

Artists have found the most substantial freedom and advantages from the digital revolution. The Internet has provided artists with the tools to take control of their own destinies. The online world has helped artists promote their music in ways unheard of back in the early nineties. Artists can now easily stay connected with fans through websites, social networking sites, and the occasional chat room. Further, music may now be distributed directly to the fans instead of having a major label package it and push the promotion campaign. For some artists it is all about practicality and convenience as singer Kyler England explains,

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[125] Brad Hill, *The Digital Songstream: Master the World of Digital Music* (New York: Routledge, 2003), 248.

There's not another way. I'm so thankful that those old days are over. When I started, I kept a snail mail list in addition to my email list I'm so thrilled I don't have to do that any more. It's expensive and time-consuming.[126]

Artists are also beginning to realize that careers can be made and maintained without the involvement of record labels.

As we saw in chapter three, there are a number of artists who detest and even speak out against record labels for the way they conduct business. The Internet offers a provocative alternative to the major label route. By 2000 forward-thinking artists began to realize the importance of the Internet.[127] For a multitude of artists the dawn of the Internet can "unshackle them from the grip of record labels: artists…can make direct deals with thousands of websites and promote their music to millions of people that old record companies never touch."[128] Besides, at record labels the artists became an icon of sorts that people merely watched on stage. Distancing themselves from that position helps to re-engage the intimacy artists have with their fans at the beginning of their careers. The ideal for dreaming artists is being able to record and edit a full-length album in the depth of a basement for minimal cost. Then that digital music could either be sold or given away on their website. Additionally, they might strike deals with various websites and perhaps even a small marketing agency to promote their music to new audiences. Further, they could embark on a nationwide tour to promote the album. Throughout this whole process they keep the entirety of the profits, having only to pay

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[126] Grierson and Kimpel, *It All Begins with the Music*, 45.

[127] Mewton, *All You Need to Know*, 49.

[128] Sudip Bhattacharjee, Ram D. Gopal, "Re-tuning the Music Industry—Can They Re-Attain Business Resonance?," *Communications of the ACM* 52, no. 6 (2009): 136-40, http://web.ebscohost.com/ (accessed October 15, 2009).

for help with promotion, recording, or touring. Yet, this scenario remains a dream for most artists. The real world costs to support just touring alone is enormous, especially for young artists who have minimal income. Some sort of financial backing and promotion knowledge is required to explore this career in music. This is the reality that very few artists have already utilized and many more hope to actualize in their careers. The way some artists see it, why waste time being just another impersonal artist among the other 600 that reside at the record label when you can do it yourself and probably make more money than you currently are?[129]

Contrary to this, as stated before, record labels are unlikely to just disappear. The dynamics of technology have changed and that means the dynamics of business must also change. Record labels will still provide tremendous marketing and networking power, so perhaps the future recognizes the reality that "Artists, if they want to, are shifting into a position of power in which they are working with the labels, not for the labels."[130] The future remains uncertain but the real stories of the past, such as that of Death Cab For Cutie, help to shed light upon possibilities attainable today.

Death Cab's career provides a real Internet success story, one that began as "connected" kids across the nation sought out new and different music in the vast archives of Napster and other P2P programs. The Internet allowed the band to take undemanding promotion techniques, such as word of mouth, and give them unprecedented power through an electronic as well as physical network.[131] The fans

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[129] Haring, Beyond the Charts, 14.
[130] Kusek, *The Future of Music*, 23.
[131] Kot, *Ripped*, 74.

essentially drove their success. As Greg Kot, author of *Ripped,* stated, "It was a case of true music fans becoming gate keepers of popular taste, and that translated to careers taking off for bands like Death Cab and Modest Mouse."[132] Band member Nick Harmer did not know the power of the Internet at the time commenting "I never really looked at Napster or those kinds of things as a bad or good thing—it was just a different way to find music."[133] Yet, he did realize the importance of the Internet in support of their career saying "and that's the most important thing: don't try to stop it. Figure out a way to work with it because this is how people want music."[134] Perhaps Death Cab should be running a major label? In the end, with the help of the T.V. show *The O.C.,* which casted one of their main characters as a hard-core Death Cab fan, the band rose to popular stardom. Even though the Internet helped Death Cab to find their way to the ears of millions they struck a deal with Atlantic records to help them further their career. This emphasizes the importance record labels still have and the connection powers they offer. Other artists, such as Alex Ferdinand, from the band Franz Ferdinand, concur with Harmer about the extensive use of file-sharing, declaring that "File-sharing is something that has really helped us as a band in getting established…I don't think it is damaging musicians at all."[135] Reggae rock band, O.A.R., would agree as they gained popularity through college networks and file-sharing.

With the few success stories of bands such as Death Cab, Franz Ferdinand, and O.A.R. the music landscape will begin to change. As suggested in Chapter Three, the

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[132] Ibid., 76.
[133] Ibid., 81.
[134] Ibid.
[135] Kusek, *The Future of Music*, 95.

success of an increasing number of bands will saturate the market, perhaps indicating a drop in the number of superstars but an influx in a number of contenders. Maybe that is not even important for success in the music industry of tomorrow, as today, "For each artist who has sold a million copies of a CD, there are hundreds that have done just fine by selling 5,000 copies while keeping 80% of the profit."[136] However, success on this level would be substantially smaller than if superstars like Prince explored this route. When Prince released his Crystal Ball album, he sold roughly 250,000 copies earning approximately $5 million in revenue off the endeavor of which he kept 95%.[137] The Internet has created various opportunities and advantages to empower artists and open gateways that people thought could not exist in the music industry. However, as technology aims to eradicate problems and promote convenience, it always creates some new disadvantages for its users, of which artists are not exempt.

Just as the opportunities of the Internet have empowered any artist to build their own career, instead of relying so much on others to do it for them, the double-edged sword of technology has begun to create new predicaments. First and foremost, the rise in the number of bands who are experiencing commercial success will begin to have a profound effect on the industry. One of these effects, already stated, is the decline of superstars, which is not entirely bad for other artists. Yet, for up-and-coming artists trying to make a name for themselves, the pool of competition is drastically increasing. As David Kusek explains, "It will be harder for new artists to get to any level of meaningful

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[136] Ibid., 28.
[137] Burkart, *Digital Music Wars*, 131.

exposure when there are more artists trying to get attention in various distribution channels."[138] New artists today, and in the future, will have increased competition as more bands flood the music scene. Perhaps the music industry will do better, as the Death Cab story exemplified. Survival of the fittest could put the consumers back in control to determine what they feel is of value, thus weeding out the artists that make lousy music. Then again, one would have to be kidding themselves to think that popular taste could cleanse the industry of miserable music. Others such as Tweedy, of the band Wilco, while recognizing the ramifications of the Internet, remain optimistic about artists flooding the industry claiming, "It becomes about the sea of voices in the Internet, and how can anyone be heard? But who's to say that being one of those voices in that sea isn't meaningful or important?"[139]

In addition to this deluge of artists within the industry, another nagging worry introduced by the Internet is that artists will not get paid for their work because file-sharing is robbing them. Again, Tweedy comments on the situation saying, "Artists who have been successful on major labels are afraid of being put in a situation where nobody wants to pay for their music."[140] This fear is rightly grounded because everyone needs to make a living but if the artists already retain minimal profits from record labels for selling CDs in the first place, why are they worried at this new development? Up-and-coming artists do not have to worry about this. They are eagerly giving their music away to anyone who will listen. Jack Rabid, editor of the music magazine *The Big Takeover*,

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[138] Kusek, The Future of Music, 13.
[139] Kot, *Ripped*, 110
[140] Ibid.

directly affirms his position on the matter stating, "The only bands who have to worry about the Internet cutting into their sales are the people who make lousy albums."[141] Perhaps Ted Cohen says it best, however, that "an artist's fear of being pirated is greatly overwhelmed by his fear of never being heard."[142]

One of the biggest upheavals the Internet instigated, in accordance with P2P networks, has been the rise in popularity of the single and the decline of the album. The single has always been at the core of making money within the music industry: it pushes the sales of albums. While there might have been a time when record executives viewed the entire album as an exquisite experiment to explore a theme or story through 12-15 superbly crafted tracks, this notion is a fleeting concept within the industry today. It has been replaced by creating a smaller number of singles and surrounding them with 10 or so mediocre to downright terrible songs; then packaging them all together and selling them for around $15. Digital music has allowed people to have the freedom to pick and choose the songs they want, saving money on the songs they do not. The sale of singles bestows instant gratification through the fastest means; download, drag it into a play list, and upload to an iPod.

The sales of singles exploded in the middle of this past decade. In 2003 $19.2 million in songs were purchased compared to a staggering $844.2 million sold in 2007, and the numbers will likely continue to rise.[143] The initial shift from albums to singles became apparent when in 2000 the Baha Men sold four million albums with their hit

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[141] Ibid., 109
[142] Battino and Stewart, *The Art of Digital Music*, 223.
[143] Knopper, *Appetite for Self-Destruction*,181.

single "Who Let The Dogs Out" and three years later Fountains of Wayne's single

"Stacy's Mom" outsold the album with 520,000 to 400,000 units.[144] This phenomenon

has been fueled by video games such as Rock Band or Guitar Hero, where kids are

introduced to new songs and subsequently go and download them. Many artists feel

enraged about how this phenomenon played out over the last decade. Some feel that

digital music will lead to the death of the album and numerous artists have denied Apple

and other online music distributors the right to sell their music because of that notion.

There are those, however, that view this shift as a step in the right direction, such as Jack

Rabid who heatedly comments on the situation that

> Even without the better analog sound and fine art of the vinyl era, the main event, 30-60 minutes of an artists full musical expression sequenced carefully as one total body of work, is not the concept that's dying. What's dying is the idea of only the crappiest crap, made with the crappiest intentions, with the crappiest production, to entice the most airtime on the crappiest giant chains of radio stations, bought and paid for by crappy labels, and dictated by some crappy, contemptuous, lowest-common-denominator projecting programming exec from his crappy polling printouts in some crappy office somewhere, to ensure we all swallow the same crap all over the country at the same crappy time, and then placing that one slice of crap on a longer disc with a bunch of even crappier crap. That is the concept that is dying. Amen.[145]

Not everyone shares the same passion as Jack Rabid but others agree that there

are numerous benefits in moving from the album concept to a single-based industry.

Many artists have written songs while on tour or in-between albums, so why not take

advantage of releasing them? Why wait to head back into a studio until there are 12 or so

other songs? Typically, artists have songs that do not make the cut for an album (a

process meant to distinguish good songs from mediocre songs); however, many artists

release some of those cut tracks at a later date. Superior music might actually find its way

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[144] Ibid.

[145] Kot, *Ripped*, 109.

to the forefront. As Kusek notes, free "music from having to contain at least twelve tracks of a certain length in a certain style throughout all tracks, and out in the stores in a particular country by a certain date—and the true potential of music will explode."[146] By taking away the requirement to produce and sell an entire album, a new world of opportunity could open up. The album model does not have to be eliminated, but if time constraints are diminished an artist could spend more time writing and perfecting songs for a truly phenomenal album; all the while releasing singles and touring in the mean time. Then again, some in the industry, such as Ted Cohen, hold the belief that "music is not selling as a unit anymore, so it should be about getting people to experience it" in concert.[147]

The live experience of music can be one of the most exhilarating moments of one's life. As the music industry struggles to find a solid business model that can support purchasing legal music, the touring industry has exploded over the past years. It conforms to the idea expressed throughout this paper that music is shifting from being a product (such as a CD) to more of a live and interactive experience. More artists today realize that profits from selling CDs will not support them so they are turning to their live shows as the primary source of income. In searching for a template to follow on the matter, who better to analyze and exemplify than one of the best live bands of all time, The Grateful Dead. The Dead were not big on recording music in the studio, as they only put out four studio albums in their last 17 years as a band.[148] The band focused more on their live

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[146] Kusek, *The Future of Music*, 39.
[147] Grierson and Kimpel, *It All Begins with the Music*, 178.
[148] Kot, *Ripped*, 105.

performance than writing hit singles. The Dead would always have the best sound system in the industry and had a sound engineer customize a setup for each venue.[149] The Dead allowed anyone to record and share their live performance and through this acquired a tumultuous and enduring fan base, known today as "Deadheads." Other bands, such as Phish, Dave Matthews Band, and Blues Traveler, explored the same sort of career, finding fruitful results. Phish, denying the commodities of today's usual band (such as music videos or radio interviews), went out and just played; by 2004 the band was grossing $2.2 million a night.[150] Jerry Garcia, guitarist for The Dead, describes how music should be shared,

> If you want to survive, you go out there and pick up your audience, you recruit them. That's who you're working for. If you're a performer, that's where it's at. Not playing to a microphone in a studio.[151]

While this situation is ideal for artists and performers, a majority will not take this route. Instead they have been relying on innovative marketing and promotional techniques to get their music heard.

As discussed earlier, the Internet gave rise to bountiful promotional opportunities for artists that did not exist 15 years ago. In July of 1999, Hilary Rosen (former CEO of the RIAA) had the foresight to recognize that

> It is entirely appropriate, though, to think about long-term artists having the opportunity to have their own promotion, marketing, holding their own masters, doing whatever they want to do with their work and having that level of control.[152]

This ideal state of control for artists has already actualized itself for some and is in the near future for others. Already, there are music production facilities that are affordable,

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[149] Ibid.
[150] Ibid., 107.
[151] Ibid., 106.
[152] Haring, Beyond the Charts, 146.

small to midsized marketing companies that offer promotional services to artists, various distribution options that have grown from this need, and managers and agents who have sought to take on more productive roles for the band.[153]

The Internet creates many other sources of revenue for artists to explore. One of these sources includes obtaining money from selling other items in addition to music that artists feel are marketable. An example of selling additional items is given in Chapter Three, by linking people to a merchandising website after they purchase or download the music they want from an artist. Other avenues of this approach would include ring tones, ring back tones, wallpaper for cell phones, licensing music for video games, and even DJ remixes of the songs.[154] The web offers some of the greatest potential through the use of fan or artist websites. Contests could be run online for meet-and-greets with the artist or perhaps signed merchandise.[155] Another popular source of revenue today is selling recordings of an artist's live performance, which also includes other add-ons and videos of daily life. Perhaps artists could take this concept one step further by offering live, online viewing of the concert for purchase at a slightly lower price for individuals who could not make it there themselves. This is a similar concept to the sports pay-per-view model. The possibilities are only constrained by the limitations of those within the industry, and how forward-thinking their ideas are. However, creative artists must also find new and fresh ways to realize income for themselves.

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[153] Kusek, *The Future of Music*, 22.
[154] Bhattacharjee and Gopal, "Re-tuning," 137.
[155] Andrew Sparrow, *Music Distribution And the Internet A Legal Guide for the Music Business* (New York: Gower Technical, 2006), 79.

The introduction of the Internet enticed many within the music industry to rethink how business, and specifically promotion, should be conducted. Many artists started to leak songs to their fans to create hype before the album hit stores. Other artists even posted their albums online for free, as Wilco did after their label dropped them.[156] The band Radiohead made music history when they decided to let fans determine how much they felt their new album *Rainbows* was worth, and yes, "free" was even a choice. Trent Reznor, the mastermind behind the band Nine Inch Nails, pursued a similar route offering a portion of his *Ghosts I-IV* album for free and asking only five dollars to obtain the rest. Both endeavors were met with hype in the media in addition to financial success.

U2 undertook a different sort of marketing technique in agreement with the release of a new iPod. Before U2's *How to Dismantle an Atomic Bomb* album was released, the band struck a deal with Apple to release a signature colored U2 iPod at the same time their first single "Vertigo" was to be released.[157] The album sold three million copies and the single "Vertigo" sold two million copies, making it U2's best selling hit.[158] Other promotional innovations included rapper Jay-Z releasing his entire *The Black Album* online for DJs to mix together with other songs. He even provided a mixing program on his website. Formulated from this experiment was DJ Dangermouse's controversial *The Grey Album*, which mixed together Jay-Z's *The Black Album* and The Beatles *The White Album*. Artists have always led the march towards innovation in promotion, and they will likely be looked upon to help the industry grow in the future.

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[156] Kot, *Ripped*, 102.
[157] Ibid., 202.
[158] Ibid.

In addition to innovative marketing strategies, some big name artists have been releasing albums without the support of a major record label and finding tremendous success doing so. The Eagles pushed 711,000 copies of the their *Road to Eden* album in the first week by exclusively selling the album through Wal-mart stores. Similarly, Paul McCartney launched his album using Starbucks as an outlet, and Nine Inch Nails distributed $1.6 million worth of music online for their *Ghosts I-IV* album.[159]

On a smaller scale, bands such as Slightly Stoopid have risen to fame and prosperity by avoiding record labels all together. They have gained an established following across the nation purely through touring and releasing their own albums. A new trend beginning to show among big stars is signing touring deals, instead of label deals. Both Madonna and Jay-Z jumped into touring deals with concert promoter Live Nation, and other artists like Shakira and Nickleback made similar deals.[160]

Music technology has also had a distinct affect on the way music is made and even opened the door for another whole genre of music to be explored, the "mash up." With the advance in DJ electronics and programs, the DJ world began mixing together songs on a level that was unprecedented. DJs have always made smooth transitions from one song to another, or "scratching," to add their own flavor to the song. Now entirely new songs are being created from existing songs. The "mash up" involves taking several songs from different genres and constructing them into a whole new song. This phenomenon is sweeping the dance world now. Girl Talk, a biochemist turned DJ, ranks among the first pioneers of this art. Technically his art is illegal, but that hasn't hindered

[159] Knopper, *Appetite for Self-Destruction*, 245.
[160] Ibid., 244.

the artist from continuing his work. Even so, Illegal Arts, the label that released Girl

Talk, said that there have been no legal threats against the artist's work; however, they

admitted to having a difficult time finding a CD manufacturer.[161] Major labels apparently

do not mind the experimental music as some have even approached Girl Talk asking to

help mix other artist's albums; and he feels that "All music does what I do. You take your

influences and manipulate them into something your own. It's like the Beatles 'stealing' a

Chuck Berry riff."[162] Another testament to the wonders of technology!

From the tremendous advantages and few dismal drawbacks the Internet offers

artists, it is plain to see why so many of them have rejoiced at the advancement of

technology. The entire music landscape has morphed into a playdough that gives

innovative minds the power to shape and mold the ideas of tomorrow. As artist Duncan

Sheik states, "There has never been a better time for innovative music and musicians."[163]

The Internet has been the most transformative technology in the history of the music

industry, from connecting directly with fans and crowding the music market, to sparking

the passion of live music, promotional innovativeness, and new music all together. The

Internet has opened additional avenues of opportunity in the world of music because

> A musician does not have to be a recording artist or a performer to thrive in today's
> music industry. They could be a songwriter, lyricist, performer, band member,
> entertainer, promoter, entrepreneur, fashion designer, producer, teacher, or small business
> manager.[164]

The Internet also gave rise to another technology; the Apple iPod music kit.

Invented by a man by the name of Steve Jobs, and his company Apple, the iPod helped

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[161] Kot, *Ripped*, 168.
[162] Ibid., 167.
[163] Grierson and Kimpel, *It All Begins with the Music*, 179.
[164] Kusek, *The Future of Music*, 21.

shape the music industry and stands alone as one of the most influential symbols of

technology in the new millennium. Not only has it changed the way people listen to

music, it also helped clear the path for the music industry to proceed into the future. In

analyzing Steve Jobs' (CEO of Apple) past, one could scarcely imagine he would help

revolutionize the music industry. Nevertheless, the electronics nut started Apple in April

of 1974 by selling personal computers and other various electronic gear.[165] He was voted

out of the company in 1984 and ventured off to start the animation company Pixar, only

to eventually find his way back to Apple in 1997.[166] After regaining control of Apple,

Jobs pushed his company forward with innovative thinking suited to capture the dreams

of tomorrow. A portable music device that could hold and play MP3s became his quest

after the turn of the millennium. He organized a team, led by Jon Rubinstein and Tony

Fadell, to engineer the device and by October 23, 2001 the first iPod was available in

stores for a whopping retail price of $399.[167]

As Steve Knopper, author of *Appetite For Self-Destruction*, describes it "The iPod

changed everything—music, fashion, electronics, computers, the Internet."[168] The iPod,

in turn, grasped popular culture and spawned a multitude of third party products

including cases, car adapters, and speaker docks. It pushed the role for computers to

greater frontiers, to the point where cell phones are essentially mobile computers. Within

a few short years, white ear buds not only made a social statement but also a fashion

statement. Shoes and clothing began to adapt to the iPod. By the middle of the decade the

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[165] Knopper, *Appetite for Self-Destruction*, 161-163.
[166] Ibid., 165.
[167] Ibid., 169.
[168] Ibid., 178.

iPod became the coolest, trendiest piece of palm-sized metal to ever grace the earth. Not everyone was impressed, as Bob Lefsetz, a former record label executive, expressed, "What kind of screwed-up world do we live in where the iPod is cooler than the music it plays?"[169] Bob has a valid argument. People mindlessly shell out hundreds of dollars for the wonder devices and then proceed to fill them with free music. The very existence of the iPod stands for this behavior. Steve Jobs understood this; however, after the introduction of the first iPod in 2001, Jobs knew there was one more ingredient to the mix; stating "All Apple needed after that was music—legal music—to play on it."[170]

After the release of the iPod Jobs had the foresight to recognize the potential of a legitimate digital music market. Perhaps it was a sense of fear as the RIAA had already gone after Diamond for their MP3 player. Whatever the motivation, Jobs did not wait for the record industry or another third party to develop a legitimate online distribution system for digital music. Apple purchased a MP3 organization program known as Soundjam, after which Jobs and his team reprogrammed it into what would be the first version of iTunes.[171] Apple then created an online interface program in accordance with iTunes called the iTunes music store. The only thing left out of the picture were the rights from the major labels to sell their music online, a feat that many people had unsuccessfully taken on already.

Steve Jobs would not take no for an answer. From the get-go Jobs made it very apparent to the executives of the labels that "You'll never stop that [Piracy]. So what you

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[169] Kot, *Ripped*, 208.
[170] Knopper, *Appetite for Self-Destruction*, 170.
[171] Ibid., 167.

have to do is compete with it."[172] However, with great amounts of uncertainty and confusion within the industry as to which direction to proceed with technology, Jobs confident demeanor and charm took hold in convincing them why they should let Apple sell their music. He explained that Apple only controlled 4-5% of the market so a failed attempt would not cause great commotion; and Apple also had a large marketing budget of $15 to $30 million a quarter to push the music store.[173] From the record label's point of view, no better option was available and they suspected that if iTunes was successful Microsoft would undoubtedly compete against it so that the record companies could benefit from the competition.[174] A few labels agreed upon a price of 99 cents per song and the rest joined the agreement that put Apple on the fast track to reforming the music industry.

The record executives were not the only people Jobs had to convince. Artists needed to be convinced as well and there were a few big names that Apple saw as important to the success of the store. Where other digital music services had failed, Jobs prevailed by getting bands such as U2, the Eagles, and even digital music critic Dr. Dre to release their music to Apple.[175] Jobs accomplished what he needed to for a functioning digital music store; the time came to release it to the public.

[172]Jeff Goodell, "Steve Jobs: the Rolling Stone Interview," *Rolling Stone*, December 3, 2003,http://www.rollingstone.com/news/story/5939600/steve_jobs_the_rolling_stone_interview (accessed October 15, 2009).
[173] Knopper, *Appetite for Self-Destruction*, 175.
[174] Ibid.
[175] Ibid., 176.

On April 28, 2003 the iTunes music store opened its virtual doors to customers who could choose from a catalog of 200,000 songs.[176] It was a milestone in the music industry, one that record executives hoped would lead the way to a brighter future for their companies. The first large-scale legitimate digital music store, supported by a catalog of songs from the biggest music labels, had arrived. Superstar Sheryl Crow voiced the opinions of many saying "This industry has been in such a funk. It really needs something like this to get it going."[177] What really got iTunes going though was Jobs' decision to share its usage with Windows-based computers. A year after the iTunes store was opened to the public Apple had sold 70 million songs and later that year in 2004 the number leaped to 300 million.[178] In January of 2008 Apple reached another milestone, selling a total of four billion songs. Just three months following that, iTunes became the nations leading music retailer.[179] The gamble had paid off; Jobs succeeded in creating a viable and successful online music retailer. However, the major labels were not entirely thrilled as Jobs was.

Apple's profits began to soar, and its stock along with it. Jobs had crafted a brilliant music package for which his company was reaping the rewards. The combination of the iTunes store and the iPod was a genius business strategy "because it pushed music fans to buy more and more iPods, for $300 to $500 a piece…and accounted for $121 million overall" in Apple's 2003 profits.[180] On the other hand, the record labels

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[176] Ibid., 177.
[177] Ibid., 178.
[178] Kot, *Ripped*, 203.
[179] Ibid, 203.
[180] Knopper, *Appetite for Self-Destruction*, 178.

realized Jobs had an agenda of his own. They were well aware that there was no chance music fans were spending \$20,000 on legal music to fill their 80-gigabyte iPods.[181] As much as the iTunes store promoted legal music, the iPods themselves were indirectly promoting P2P programs and free music, the very challenge the record labels were fighting. On top of that, the iTunes store failed to prove any great profitability for the record labels. The price breakdown for the sale of a song depicted in Chart 4 shows why.
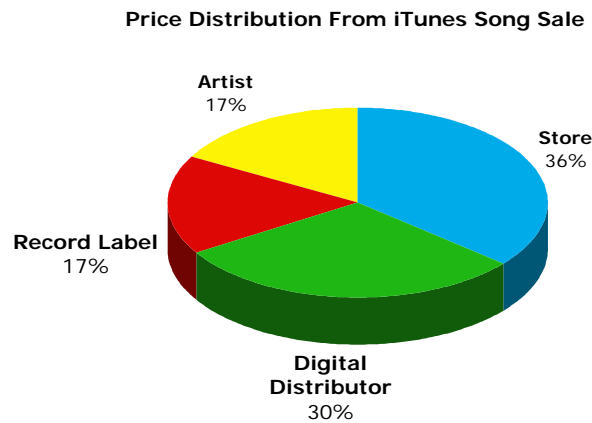
Price Distribution From iTunes Song Sale

Artist
17%

Store
36%

Record Label
17%

Digital
Distributor
30%

Chart 4[182]

CDs were still tremendously more profitable than digital downloads. To add insult to injury, more singles than albums were being downloaded. From an artist's perspective, Greg Kot argues that iTunes should be insulting. They only receive 17% of the cut and Apple does nothing in the matters of promotion or manufacturing the music, they just simply host the bandwidth.[183] Then again artists were not making much more from the record labels promoting and manufacturing their CDs. The record labels needed to do something, so they entered talks with Apple to create a variable pricing strategy. By early

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[181] Ibid., 179.
[182] Kot, *Ripped*, 205.
[183] Ibid., 205.

2009 they finalized a deal to enact a three tier pricing strategy of 69 cents, 99 cents, and $1.29, however, the record labels had to compromise by eliminating their previous Digital Rights Management (DRM) policy which limited the sharing of iTunes songs to a certain number of computers.[184]

The Apple music package helped to revolutionize the way digital music was distributed and transformed the norms for a technological society. It infiltrated popular culture, took hold, and has not let go; defining and influencing an entire generation. While Jobs' agenda might not suit that of the record labels, one has to agree with Edward Felten, a professor at Princeton, that "The easier it is to buy legitimate high-quality products the less of a market there is for pirated versions."[185] For once, record label executives have taken this particular advice and utilized it to push towards a technological future instead of against it.

The music industry has been experiencing a phenomenal surge of interest in music over the past decade and does not show signs of letting up. More people are experiencing music than ever before in substantially different manors. Innovative people who were tired of record labels and radio stations dictating the flow and distribution of music took it upon themselves to create new means. Not only has technology become an interesting and new possibility for record labels to explore, it has become a necessity to survive within an industry that is experiencing a tidal shift in protocol. After considering the enormous benefits for artists utilizing the Internet, "What's called for now is

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[184] Ibid., 207.
[185] Leah Hoffmann, "Content Control," *Communications of the ACM* 52, no. 6 (2009): 16-17, http://web.ebscohost.com/ (accessed October 15, 2009).

somebody who can bridge the gap between the musician sitting in his shed, making his own CD's and selling them off the web himself, and a wider audience."[186] This is where the minor labels have begun to step in and help. Not afraid to use technology to their advantage, minor labels have helped artists reach out to a wider audience while giving them the attention major labels lack.[187] These relative advantages are what major labels first ignored and dismissed as outrageous. Slowly, they have come around as management has changed and the prosperity of other companies has become noticeable.

From a marketing perspective, the Internet can, and has, changed the business model. The opportunities for marketers are endless. Just within distribution marketers could track the buying habits of customers and assemble databases about them, which would allow custom offers and exclusive benefits for the customer.[188] Since the market is heading towards an environment of niche markets, micro-marketing will continue to play an increasingly important role. By targeting specific niches, marketers will be able to learn in depth analysis about their customers, allowing them to more effectively shape advertising and promotion campaigns. Live music will undoubtedly grow in popularity as music shifts back towards the live experience from the recorded product. Countless possibilities arise in this particular area, empowering the fans. For example, music festivals already offer info, set times, ticketing prices, and service locations through automatic text-in responses or websites for mobile users. Some radio stations run contests via text for band merchandise or meet-and-greets. However, technology will push this

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[186] Battino and Stewart, *The Art of Digital Music*, 247.
[187] Bhattacharjee and Gopal, "Re-tuning," 137.
[188] Mewton, *All You Need to Know*, 60.

threshold in the future giving fans more interactive opportunities, such as camera angles, trivia, or perhaps at the discretion of the band, voting on songs for the set list. The customer is now the center of decision making in the technological world, dictating what is popular and what is not.

Record labels are now making more of an effort to follow the customer-centered movement. Mitch Bainwol, the current CEO of the RIAA, describes this renewal of the record business claiming they are now about progress; "Progress because our business, having been through these growing pains, has reinvented itself and emerged energized and excited at the potential offered by this new digital age."[189] Apparently talk is not only for show this time around as record labels are taking distinct actions towards the progress they claim. More than any other major label, EMI was the first to explore the options of the digital age. "EMI led the industry by embracing and exploiting new technology and business models such as digital downloads and online music subscriptions, custom compilations, wireless services, high-def audio, and Internet radio."[190] Once again, EMI is embracing innovation by offering a new kind of artist marketing tool in partnership with the video website Hulu. The partnership deal is aimed at creating artist pages, where users can visit to watch music videos and hear the music of various artists.[191] In a similar fashion, both Sony and Universal teamed up with Youtube to create an entirely new concept website known as Vevo, which is essentially a Youtube type website

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[189] Bainwall, "Courting Success," 10.

[190] Grierson and Kimpel, *It All Begins with the Music*, 178.

[191] Daniel Kreps, "Video Sites Announce New Music Features: Hulu Adds Artists Pages, Vevo Sets Launch," *Rolling Stone*, November 18, 2009, http://www.rollingstone.com/rockdaily/index.php/category/digital-music/ (accessed November 18, 2009).

specifically for music videos.[192] Vevo also offers people the artist pages, the ability to browse videos by genre of music, and create personal playlists of favorite videos. In addition to all of this, Warner partnered up with Youtube to reinstate all of its videos back on the website after they pulled them in December of 2008.[193] Warner has also been rumored to be in discussion with Vevo about also joining the website.[194] Major record labels are venturing into new territory, yet they are not alone in their quests as a number of companies are currently doing the same.

A couple of companies making headlines in the past few years are music streaming companies, such as Pandora and LaLa. Pandora is an Internet radio company that streams music, from selected artists. An individual simply types in an artist and Pandora streams music from that particular artist, as well as other artists within the similar genre. It offers a whole new way to discover new and different music, and it is popular too, as Pandora has 40 million listeners each month![195] LaLa lets anyone stream any song for only 10 cents. A special feature of LaLa however, is that it offers a cloud database that any one of its users can upload music to and listen to wherever they can access the Internet. Weedshare is another fascinating website that, unfortunately, shut down a couple years ago (due to incompatibility of their music files with major media players) but left a mark on the music world. Weedshare was based on the premise of

[192] Daniel Kreps, "Warner Music, Youtube Reportedly Strike Deal To Restore Videos," *Rolling Stone*, September 28, 2009, http://www.rollingstone.com/rockdaily/index.php/category/digital-music/ (accessed November 15, 2009).
[193] Daniel Kreps, "Warner Music."
[194] Ibid.
[195] Jefferson Graham, "Apple Buys Lala, Entering the Streaming Music Business," *USA Today*, December 8, 2009, http://www.usatoday.com/tech/news/2009-12-08-apple08_ST_N.htm (accessed January 2, 2010).

empowering consumers through distribution and trial. If someone recommends a song to an individual, he/she can listen to it three times before they have to purchase it; however, if they choose to do so the company receives 15% of the sale, the artist 50%, and the remainder is credited to the account of the person who recommended it.[196] How about that? Get paid to share and recommend music to friends, this entices a greater number of people to discover new music.

Apple, one of the foremost innovators in the industry, recently purchased LaLa. Industry analysts are unsure whether LaLa will be developed to fit Apple's needs or if the move was meant to eliminate competition.[197] The potential of such a program in the hands of Apple is huge. Customers could upload all of their music purchased through iTunes into the cloud database that could easily be tapped into via an iPhone or iPod application virtually anywhere. On the other hand, this defeats the purpose and need of iPods if anyone can store music online instead of on a portable device. Yet, Apple has transformed the iPod from where it originally started; substantially more than a simple music player, it is a portable computer capable of accessing the Internet and supporting thousands of convenient applications. Perhaps in the next five years, iPods will not serve their original purpose of music storage but accessing it instead, while also being helpful with other tasks.

In other areas, Apple is again in talks with the Big Four to reconcile the plummet in album sales on iTunes. Both the record labels and Apple are talking about new ways to entice customers into buying full-length albums again. Plans include an e-booklet, of

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[196] Battino and Stewart, *The Art of Digital Music*, 235.
[197] Jefferson Graham, "Apple Buys Lala."

sorts, that will come attached with the albums compromising of artist pictures, album lyrics, and additional videos of the artist.[198] All of these business strategies and ideas are making heads turn within the music industry, who knows what will emerge next?

Technological advancements have always helped to define and drive the music industry. In the early days, and especially throughout the fifties, sixties, and seventies, artists were the largest innovators in relation to musical technology. In the twenty-first century, music lovers have taken the reigns of technology to push the industry into innovative horizons. Consumers have been empowered by technology. Artists have been set free by technology. Technology has aided digital distribution in changing since its infancy with P2P networks. Technology advanced ideas in music marketing and promotion. Apple steered the wheel of innovation, driving the actualization of technology. Record labels have finally come to understand the potential of this technology. Finally, an assortment of other independent companies have pushed the threshold of what is possible for the music industry. All of these brilliant minds will help the future of the music industry. What will that future look like?

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[198] Daniel Kreps, "iTunes, Record Labels Aim To Jump Start Sales," *Rolling Stone*, July 27, 2009, http://www.rollingstone.com/rockdaily/index.php/category/digital-music/ (accessed October 15, 2009).

VI. THE FUTURE OF MUSIC

 "This, we believe, is a possible scenario from the future of music—a future in which music will be like water: ubiquitous and free flowing."
David Kusek, *The Future of Music*[199]

From the inception of the phonograph and wax cylinder, to the ease at which a twelve-year-old can upload music to his iPod today, brilliant minds have fostered innovation in the music industry. It seems ironic that the same industry has been so hesitant to embrace change and innovation in the technological advances of the last 20 years. Music legends, such as The Beatles and Led Zepplin, are sculpted into the rocks of history for embracing innovation, while the business men who run the labels they work for actively fight any hint of change. The music industry has a substantial dichotomy resting in its depth. Nonetheless, one fact has always remained constant: the greatest success always takes place through innovation and change and will continue to do so in the future. The impact of technology on the music industry, mainly the Internet and the MP3, has been illustrated in previous chapters. This chapter will look to the future of the music industry as important decisions and innovations will shape the standard business model for the next 50 years.

When turning towards the future, uncertainty remains but excitement prevails. Certain areas of focus render themselves of utmost importance to the music industry in regards to where it is headed, and will be outlined in this chapter. These areas include: music as a "utility model," the implications of technology, new business strategies, and

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[199] Kusek, *The Future of Music,* 3.

music's continued rise through the live experience. Each effects different parts of the business, yet, all will affect the prevailing process of getting music from the artist's mind to the ears of consumers and money from the customer's wallets to the hands of everyone involved.

We turn first to music as a "utility model." Two different aspects help define this area of focus: technology experience and pricing/licensing. Music as a utility, an idea that David Kusek puts forth, contends that music will become similar to other monthly utility bills. Technology and business will advance to the point where music will flow in and through our daily lives just as easily as water does.[200] However, to achieve this ideal, technology must advance to the point where it becomes less obtrusive to our daily lives. People will not accept a lack of mobility or integration in the future, as current technology is beginning to illustrate. Consumers will demand "a seamless experience that includes the capability to move from home to car to a wearable device without 'dead time'."[201] Imagine being able to access the "Celestial Jukebox" with every song ever recorded on a label (and various videos that accompany them) then creating your own custom playlists. In addition, having the ability of your home, car, and mobile device integrated into the same system so that you can access all of your music and the "Celestial Jukebox" all the time, anywhere. You would be able to "trade playlists, and recommend a couple of songs to your friend in Seattle, and they get added to his rotation."[202] Music would be everywhere. It would not become about how much music

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[200] Ibid., 3.
[201] Bhattacharjee and Gopal, "Re-tuning," 137.
[202] Kusek, *The Future of Music*, 2.

one can obtain (because you would have access to every song ever made), but instead about what you prefer to listen to and how you discover new music. This is the reality the music industry is heading toward but technology must first pave the way.

Technology changed the music industry in the early twenty-first century and will continue to do so for years to come. Advancements in the mobile arena, storage, the way we find music, and other innovative technology, will push the industry towards the music utility model. Within the mobile arena, it is strikingly obvious how fast technology is beginning to advance. Already, people can access videos, music, and the Internet within seconds on their mobile phones. With websites like Youtube and Vevo, and mobile music access vaults like LaLa and Rhapsody mobile, mobile technology is fast approaching the music utility model. In America and Europe alone, 750 million people are expected to have connections to wireless broadband networks within the next decade.[203] Mobility and the devices that harness its power are already a reality. The future will be a matter of price plunging and rapid adopting, a trend that has already started as "forecasts predict that half of all mobile users in Europe will subscribe to a 3G service by 2010."[204] With increased mobile technology power, digital storage must be able to compensate for the constantly increasing storage demand for higher quality data.

Albhy Galuten, a musician and producer, speculated in 2004 that by the turn of last the decade, all of the music recorded from all the major labels would be able to fit on a single $100 hard drive.[205] That reality is only now a determination of time. On the other

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[203] Kot, *Ripped*, 207.
[204] Sparrow, *Music Distribution,* 3.
[205] Battino and Stewart, *The Art of Digital Music*, 245.

hand, the reality today is that people with thousands of songs can store entire personal music collections on a single $100 hard drive. As both storage and bandwidth increases, people will have the ability to increase the quality of downloads. For example, HD videos can currently be downloaded over wireless networks. The future will provide a new format change in music from the MP3 to something of higher quality where the file will include high, low, and midrange data for superior sound quality.[206] Eventually, digital storage will be rendered to just a secondary attribute, one that people will not consider in buying electronic devices. Computers will conduct automatic back-ups so that you will never have to worry about losing music, or any kind of digital data for that matter. Storage, while necessary for the advancement of other technologies, is not even the exciting part of music technology. Music search engines will be the interest of the future.

As alluded to before, the closer music draws to the "Celestial Jukebox" the more the focus will shift towards finding and discovering new music than buying it. Searches beyond just artist, title, and genre have already found their way into the mainstream through various programs such as Shazam, Musicphone, and Musikube. Shazam leads the industry in artist recognition software. Shazam is an application available on mobile phones that requires the simple push of a button, a fifteen second recognition and analyzing period, and Shazam!...you instantly have the title, artist, and album of the song

[206] Matt Rosoff, "10 Music-tech Trends That Will Shape the Next Decade," *Cnet News,* December 28, 2009, http://news.cnet.com/8301-1023_3-10422428-93.html (accessed January 2, 2010).

and the option to purchase it from iTunes. Evolution of this technology could enable the user to find songs through typing or saying lyrics or even humming the melody.[207]

Technology promises even more than music recognition software. More intriguing technological developments are found in music recommendation software. This type of software will be key to discovering new music in a future of completely saturated music markets. The technology already exists in several different forms from Pandora radio, to iTunes' Genius feature, to the Musicmatch Jukebox. As described in the last chapter, Pandora plays similar or "recommended" music for the listener based on a single artist. iTunes' Genius feature recommends music based on the choice of one artist. iTunes also offers recommendations of what others bought in addition to the artist you're looking to download, and even goes so far as to allow users to create playlists of songs that can be sold. Musicmatch Jukebox combines editorial expertise with community-based patterns of listening behavior and guides users through artist-based channels to find new music.[208] However, these technologies, which are primarily community and trend based, do not help new artists to be discovered.

The technology that will evolve from present music recommendation software will contain elements from all those programs. The future promises a program that can readily identify the song, artist, and every single minute piece of information in association with it. This information would include, perhaps, an artist web page, tour dates, link to buy tickets, music videos, and lyrics, through a short sample of the actual

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[207] Ibid.
[208] Kusek, *The Future of Music*, 155.

song, humming of the melody, or lyrics. Further, this program will then have the ability to connect you to every single song available by that artist. On top of that, it can then offer you recommendations of other artists you might like, similar musical playlists made by other individuals, or perhaps a generated playlist, including recommended songs. As music recognition and matching software advances, this program could potentially recommend new and unheard music by upcoming artists by identifying particular music traits each song has in common. The possibilities are endless with music search software and grow more important each day that technology advances.

One conference, named Hackday, has been helping to drive the advancement of music technology in recent years. Hackday brings together pioneers within the field to share innovative ideas and form collaborations to push technology.[209] Music technology has already advanced to the point where people with little technical ability on an instrument can make and mix their own music through programs such as Apple's Garage Band. Future technology will expand on this concept providing the tools for anyone to become an "artist" in a sense, in their own leisure time.[210]

Perhaps most stunning and the most controversial technology is the hit song software, "Software that is designed to pick hit songs before they actually become hit songs, by using a combination of demographic data, previous hit song meta-information, local variants, and general statistical logic."[211] This technology would be a godsend for

[209] Chris Faraone, "Hack pact," *The Boston Phoenix*, December 2, 2009, http://thephoenix.com/Boston/Music/93826-Hacking-pact/?page=1#TOPCONTENT (accessed January 2, 2010).
[210] Kusek, *The Future of Music*, 165.
[211] Ibid., 157.

record labels but the technology offers scary implications of letting machines do the work with data for an art that is based on human emotions. Even Chuck D of Public Enemy offers a very futuristic picture of music technology, claiming

> I think having an MP3 as the soundtrack of your life is a step towards a chip being implanted in your head with everything on it, and just turning your neck to the side and going to whatever year you wanted to hear something.[212]

Just as the pioneering of technology is essential to music becoming a utility, business models and strategies must also transform to accommodate technological changes.

Technology has altered the business aspect of the music industry, specifically the record labels, as Chapter Three plainly illustrates. The future and direction of the music industry will be heavily determined by the creative decisions of music executives who realize that the old business model of signing bands, promoting them, and then making money off the success of their album sales is slowly dying. A greater number of alternative strategies to make money are being explored everyday within the music industry. Diverse business models, along with a utility payment structure for music and new marketing ideas will pave the way for the future of the music business.

As album sales continue to dwindle, companies like Apple are trying to ignite the fire to keep them alive. However, every day that online music gains popularity the demand for full-length albums dwindle. Artists, along with record companies, are beginning to realize that this model will not support them in the future and are seeking other means of putting cash in their pockets. A hot topic in the future, that could provide sustainability, is product line extensions. Ringtones and ring-back-tones have already

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[212] Battino and Stewart, *The Art of Digital*, 248.

been explored for alternative sources of income providing a very lucrative model. For example, the public willingly pays just as much if not more than the price of an entire song for a 20 second clip. Yet, other modes of product line extensions must be explored. Rap and hip-hop music have taught a valuable business lesson, that there is a market for non-musical related merchandise. Countless artists, such as Russell Simons, 50 Cent, and Eminem, make millions from clothing lines associated with them.[213] The possibilities are endless and not just contained to clothing. Artists could sell any product they feel passionate about. Jimmy Buffet, for example, built a Margaritaville empire from product line expansion. The limits are already being pushed in other areas as bands such as Phish, The Who, Dave Matthews Band, Duran Duran, and Incubus have found success by offering recordings of live shows for sale after they commence.[214]

David Kusek describes the next generation music business as one that "combines the functions of a record label, management company, publisher, and merchandiser into a single entity."[215] Record labels might find it hard to survive if they do not adapt their business models accordingly. If they fail, companies such as Sanctuary Group will begin to take their place. Sanctuary Group signs deals with artists that enable the act to keep their master tracks but lease them temporarily to the company. In return, Sanctuary distributes the music digitally and in hard form, creates merchandise to sell, and provides management to conduct live shows.[216] These types of companies are blurring the threshold between record labels and artists. In the future, artists will no longer work for

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[213] Kusek, *The Future of Music*, 118.
[214] Ibid., 117.
[215] Ibid., 137.
[216] Ibid.

the record companies but instead, with them. Nonetheless, the most successful music

companies of the future will be

> Those who can give their customers a completely integrated and cross marketed mix of
> recorded music, live shows, merchandising, tickets, artist access, mobile music, video
> games, television, radio, film, software, and other publishing and information products.[217]

With technology and business models driving toward an increasingly realistic

utility model of music, one other aspect, price, must also undergo a transformation.

Currently, the major digital distribution methods include a pay-per-download or a

combination of that and a monthly subscription service. iTunes exemplifies the pay-per-

download model. As for the "combo," companies such as Rhapsody and Napster make

use of them by charging a monthly fee to access all of their music; yet, people do not own

the songs. They must pay-per-download to own them. The music utility model calls for a

monthly fee for access to every song ever recorded by a label. One might ask why this is

any better than using Rhapsody since you do not have the option of owning the songs.

That is a valid point with the current technology restrictions but "if you had access to

every song ever recorded, on any device, from any location with an Internet connection,

wouldn't you rather pay for that service?"[218] The need to own songs would essentially be

eradicated as long as you can access your own music on anything from anywhere. This is

the beauty of the music utility model.

Monthly fee pricing is the result of compulsory licensing. For the "Celestial

Jukebox" to become reality, all record labels, both minor and major, would have to allow

licensing to this service. A flat monthly fee, like one would typically have for water,

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[217] Ibid., 135.
[218] Rosoff, "10 Music-tech Trends."

cable television, and cell phones, would be the only cost outside of technological devices for unlimited access to music. This flat fee would be gathered into a large pool of money, which would then be distributed accordingly. However, "distributing accordingly" is undoubtedly the biggest battle to over come. A plethora of legal battles would ensue to determine how much money each of the involved parties would receive. Perhaps they could determine distribution of the money by how many times an artist is downloaded? The Song Writers Association of Canada proposed a five-dollar licensing fee on every cell phone and Internet account in the country for unlimited access to all recorded music.[219] In opposition, some individuals, such as Steve Jobs, feel that this concept would fail because people want to own their music, not rent it; because the minute you stop paying, your music disappears.[220] No wonder iTunes is lacking a monthly subscription fee option. The advent of this "Celestial Jukebox" drags along the implications discussed in Chapter Four about tougher artist exposure in a saturated market. This is where future marketing strategies will take their place.

Marketing music in the twenty-first century will accomplish the exact same thing as it did in the twentieth century: artist exposure. The difference will be in the techniques companies use to reach its audience, as the competition dramatically increases. Marketing will be aimed towards getting people to simply hear the artist's music. A feat that will prove much more difficult as radio falls into a substantially less important role and music recommendation programs gain popularity. Strategies could arise from learning to market to niche-specific markets. Managers might even start paying individuals in certain

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[219] Kot, *Ripped*, 207.
[220] Jeff Goodell, "Steve Jobs: the Rolling Stone interview."

interest categories to listen to new songs and provide feedback.[221] As the market begins

to divide into distinct niches, fan bases will likely downsize from those of the superstars

today. Marketing strategies will shift from macro to micro models, focusing on creating

relationships with the artist's fans and maintaining those relationships. A band by the

name of the String Cheese Incident offers good execution of this strategy by booking

blocks of rooms in whatever city their playing in for their traveling fans.[222]

With the progression of technology, individually designed messages based on

real-time data collection, listening habits, and artist interest could be sent directly to your

phone.[223] Marketing music in the future will be the most uncertain aspect of the business

because strategies will have to adapt to the way in which consumers find their music. The

most successful bands will have a marketing team who can reach the desired audience in

a timely fashion through the cheapest means possible and then convince them to buy

additional artist-related products. Even grander would be the ability for marketers to

resurrect a band later in its life and conduct a successful tour (much like the reunion tours

of bands such as AC/DC and Van Halen). However, some individuals "don't see things

today that are going to have the same impact with touring so that the band will revive and

do it again when they're in their sixties."[224]

The future looks bright in the music industry but to explore the possibilities a few

roadblocks must be overcome along the way. First and foremost, DRM must be

abolished. A music utility model is impossible with the restrictions of DRM. Besides, it is

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[221] Kusek, *The Future of Music*, 158.
[222] Ibid., 67.
[223] Sparrow, *Music Distribution,* 79.
[224] Grierson and Kimpel, *It All Begins with the Music*, 201.

a dying security, as "there has never been any DRM that has not been cracked by diligent hackers one way or another."[225] DRM is simply the cane of shortsighted music executives who are still trying to beat money out of the old business model. And who can forget about pirating? Yes, there are arguments for and against online file-sharing (both good and bad) but the fact remains that billions of songs are still downloaded every month. As Steve Jobs said, you cannot eradicate it, so you have to compete with it. The future music industry will have to "regain the customers' trust…the next generation of the music business, will need to work extra hard to provide a lot of added value in order to earn back the respect of music fans."[226] Perhaps the people running the business then should look towards live shows to help them out.

Surging into the future of music, one theme is apt to take hold of the music industry quickly: touring to make money. Tweedy, a member of the band Wilco, provides one of the many testaments to touring as opposed to record sales stating, "In all my years making records, I never made money off selling records, I knew about touring, and that's what sustained me and the band."[227] The future of artists will depend on the performance they give, not how popular their song is. Of course, on a basic level, the music is what draws people in and helps them connect with an artist. The music is the reason people will be at the shows in the first place. However, as Matt Rosoff believes "only acts that put on a great show—not just singing and playing songs, but entertaining in the old-fashioned sense of the word, with video and stagecraft and humor and spectacle—will cut

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[225] Kusek, The Future of Music, 152.
[226] Ibid., 147.
[227] Kot, *Ripped*, 108.

through the noise."[228] As the music industry moves forward, the experience of live music will take on a major role. Significant amounts of money will not be made by recording and selling music, especially within the music utility model, which will force artists to make money in alternative ways. Kusek believes "that 'paying for the experience' will be the prime paradigm behind the pricing of music going forward."[229] For live music fans, this should be cause for phenomenal celebration because all signs point towards the touring business substantially increasing.

Everyone wishes they had a crystal ball that would provide the secrets of the future. Record company executives would probably pay top dollar to obtain one. Yet the future remains just as uncertain as it ever has. The music industry is in the midst of exciting change and the possibilities of the future only heighten that excitement. The argument has been made that music distribution will likely head toward the utility model in accordance with the advancements in technology and reformation of business models that will allow it to do so. Then again, no one can precisely predict where the future lies or the new possibilities it brings. They can only speculate with the knowledge they have gained. Even with such speculation and assumptions, the possibilities will never cease to spark imaginative thought about what the future holds for the music industry.

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[228] Rosoff, "10 Music-tech Trends."
[229] Kusek, *The Future of Music*, 11.

VII. CONSLUSION

As the first decade of the twenty-first century comes to a close, the music industry continues to find ways of resolving the turmoil that confronted it at the start of the millennium. The technological innovations of the Internet and MP3 revolutionized the music industry and transformed how people interact with music. This digital revolution changed the landscape of the music industry. The search for a universal, reliable, and profitable business model continues.

The digital revolution could also be known as the consumer evolution, as it led to a change in how consumers value music. The importance of convenience and affordability increased the value of mobility. The emergence of P2P networks, such as Napster, led to the appreciation of variety and value of new music.

From the LP record to the MP3, consumers helped to fuel and define the next technological advancement. Yet, not since the invention of the LP has technology so drastically altered the musical landscape. The Internet and the MP3 both altered and simplified the music listening experience, while providing digital distribution platforms to feed the immense demand of music fans. Certain companies, notably Apple, advanced the music technology platform by creating the most popular personal music player to date (the iPod) and by initializing the first legitimate digital music retail store (iTunes). The combination of the two revolutionized the way music was distributed and set the norms for a technological society.

A chain reaction started, as consumer's values fueled technological innovation, which in turn fueled the empowerment of the consumer and artist. The development of

the cassette initiated the path to consumer empowerment by allowing individuals to record onto blank tapes. MP3s and P2P networks fully actualized the concept by allowing consumers to "rip" songs off CDs and share them across the Internet. For the first time in the history of the music industry consumer choice (rather than record executive directives) began to dictate the future. Technology provided freedom to the music consumer and that translated into empowerment.

Artists became empowered as well. Technology provided an alternative to the major record label by helping artists explore new provocative promotional avenues and find new sources of revenue. Essentially, it gave artists the option of controlling their own careers, music, and income. This is a step in the right direction for many critics of the corporate music world. The newfound freedom for consumers and artists unshackled them from the control of the record industry; however, this empowerment led to a profound restructuring of the music industry.

The sudden rise in consumer and artist alternatives sent shockwaves of concern through many sectors of the music industry. Most significantly, record labels felt their business directly targeted by such empowerment. In an attempt to ensure a future of product control, just as the past had delivered, label executives fought tooth and nail against the technology that provided the new consumer freedom. Blinded by greed and fear they failed to see the potential such technologies could offer. File-sharing represented public enemy number one and aimed to undercut the record label's greatest strengths: distribution and promotion. Only after consolidation and defeat have record labels come to realize that music technology must be embraced to succeed in the future.

Some areas of the music industry favored more provocative reactions to the new digital technology. Radio stations, for example, while threatened by P2P networks and music software, such as Pandora, continue to explore new ways of using technology to keep people tuned in (such as local Denver station Channel 93.3). Artists and marketers are using technology to explore groundbreaking promotional and sales techniques. Business entrepreneurs recognize the needs of the future and are exploring new business models to move the music industry into new frontiers. Technology enthusiasts are continually innovating music tools for consumers, artists, and businesses alike.

As technology progresses and music business is reformed, the consumer's value of music becomes more apparent. Music fan's current behaviors suggest that music, as a product (the actual purchase of music as a unit by consumers), will most likely decline in importance due to the increase of storage on personal music players, increasingly easy access to vast amounts of music, and increasing numbers of artists in the market. If consumer values and technology continue down this path, music distribution will begin to conform to the "music utility" model. However, the importance of experiencing live music will continue to rise as music fans seek connections with artists.

The digital revolution encompasses many facets of change, innovation, and evolution for the music industry. The technological innovation, which fueled the digital revolution, was heavily influenced by consumer's value of music. Technology, in turn, empowered both consumers and artists at the expense of the record labels. The increased loss of record label control, coupled with the vast new opportunities provided by technology, streamlined the music industry into revolution. Today, as the digital

revolution is taking complete hold of the industry, the consumer's value of music is again

pushing technology to new heights. This trend will likely continue as the future of the

music industry remains an exciting story, with many chapters yet to be told.

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