The Music Industry in a Digital Era

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Abstract. In this paper I will try to depict the development and the reconstruction of the music industry in the past two decades in terms of the adaptive cycle of resilience (ACoR). The music industry proved to be non-resilient in the early 00’s, at the time when the internet started playing a major role in the way people and organizations live, work and interact with each other. Thus, the music industry entered into a crisis phase which lasted many years and bankrupted many of the big companies of the industry. However, those companies that proved to be more resilient and flexible, went through a big reconstruction, redirected their goals and finally made it to integrate to the digital world.

Keywords. Adaptive Cycle, Music Industry, Crisis

1. Introduction

For the last couple decades the internet plays a major role in the way people and organizations function and interact with each other. This establishment of the internet influenced almost every industry. One of the most directly affected industries however, was the music industry.

The traditional music industry was based, among others, in the record industry. New
technologies play without a doubt an important factor influencing the socio-economic and institutional transformation of economic sectors. They can trigger changes within economic structures of organizational and business models; contribute to the constitution of new markets and market relations, shift existing constellations of cooperation and competition, expand the scope of action open to new actors or produce modifications in consumption patterns. [2] The Music industry had to come through a very disruptive change to become what it is today. The effect of the new technologies in the function of every business in the field was of great significance. This crisis and transformation that went through can easily be associated with the model of the Adaptive Cycle and its four phases.

2. The Adaptive Cycle of Resilience

The Adaptive Cycle of Resilience (ACoR) is composed of four different phases, according to Abcouwer & Parson. Every organization can find itself inside one of the phases, depending on its current situation and its goals and ambitions in general. The four phases are: equilibrium, crisis, new combinations and entrepreneurship. There is a constant movement from one

Figure 1: The Adaptive Cycle of Resilience
phase to another for every organization. The velocity of this change is affected by many internal or external factors.

**Equilibrium**

The music industry was based for many years in three sub-industries. The record industry, the publishing industry and the live-based industry [1]. For many years, those three sub-industries were controlled from the big companies in the sector. Around 75% of the share of the music industry was held by five or six big companies. The record industry worked for years in the same profitable way, without being affected from the technological innovations that were made in the recording field (phonography). The reason was that even though new recording media were introduced in the market (e.g. vinyl, cassette, CD) those big companies had always the power to maintain their oligopoly on the field. It was not easy for small companies to enter into the sector, and the reason being the really expensive, at the time, printing (vinyl) and recording (CD) technology that only those established companies could afford, due to the scale economies they had achieved during their long presence in the market. Whenever a new technology would come up, the ‘blue chips’ of the sector would be the first to rule out every possible antagonism.

**The Crisis**

This period was launched and driven forward by a new set of technologies: digitalization, data compression and the Internet. The established companies of the music business were hesitant in accepting the new technological challenges. They initially reacted with blockades and containment strategies and only defined a strategic repositioning upon massive and undeniable pressures to change. [2]

The main companies of the music business had to go through big restructures to keep up with the ‘digital’ trend. While file-sharing applications and piracy became more and more popular, music business would see their revenue getting lower year after year. Affected particularly severely has been the CD segment which is still the industry’s main

![Figure 2: Change in CD sales in 2008 in the largest markets and in Austria in comparison with each national market’s best year](image)
sales driver, even though its influence is waning. In 2008, the world’s largest markets – the U.S., Japan, Britain, Germany, and France – showed declines in sales in 2008 (in million units) between 34.9% and 59.2% compared to the current best years. [3]

Filesharing is made primarily responsible for the decline in sales in the phonographic industry, especially in the CD segment. Some researchers consider this as one of the biggest reasons of the recession but other suppose that regardless the existence of the internet and the illegal downloading of copyrighted material, this recession was caused by many other factors like the lack of synchronization with the modern trends, the massive mainstream and low quality product and also the deficient strategies.

**Reconstruction and Response Strategies**

The actors of the music industry strategically responded to the challenges with various ways to regain their lost share of the market. Some of the strategies are:

- The pursuit of file-sharing and file-hosting platform providers, of individual file-sharers and in a final step of Internet service providers through the courts.
- Licensing of online and mobile digital music providers.
- Licensing of synchronization rights to games producers, film and TV production firms and advertising companies.
- Market development in the BRIC-countries (Brazil, Russia, India and China).

Rogers (2013) sums up the new strategies as follows: “The ongoing formation of alliances and agreements between the music industry and the technology sector indicates that music companies are creating business models and licensing systems that enable them to profit from the abundance of emerging and established digital outlets and services. Overall the range of revenue streams open to artists and music companies has increased significantly with the proliferation of internet and mobile platforms” (Loc. 1665). Newly established music streaming services, which turned out to be really profitable, were also acquired by big record labels.
The relevance of these new revenue sources as well as the boom of the live-music sector are helped the music industry regain some of its lost domination.

**Phases on the Adaptive Cycle**

Due to the constant changes of the environment, the organizations have to go through the cycle often more than once. The Adaptive Cycle model helps us understand the importance of continuous adaptation of the organizations into a rapidly changing environment.

Figure 3 depicts the reconstruction need to overcome the crisis phase, while Figure 4 makes is an illustration of phase where new strategies are employed to lead back to stability.

![Figure 4](image)

**Conclusion**

In this mini case study the crisis and reconstruction of the music industry throughout the last two decades were successfully mapped on to the Adaptive Cycle model and thus we can conclude that the model is a significantly useful tool to depict the changes that organizations have to make in order to survive in a constantly and quickly changing environment.

**References**