The Emergence of New Media and Its Effects on the Popular Music Industry

Hwanho Choi¹ and Jaekwon Chung²*
¹Manchester Business School, University of Manchester
²College of Business Administration, Kookmin University

Abstract The Internet has had a significant impact on the operations of record companies and has transformed the role of music consumers. Active music consumers are regarded as not just consumers but also co-creators and innovators who create value; therefore, firms need to create environments in which they can learn from consumers. Prior studies exist on the effects of the Internet on the music business, including its structure and culture. However, these studies did not focus on exploring how the relationship between record labels and consumers changed, how networked music consumers influence value creation and how record labels are responding, and the difficulties from using and the drawbacks of interactive media and new business models in the music market. This study investigates these issues through interviews.

요 약 인터넷의 발전과 정보기술의 도입으로 음반회사의 비즈니스 환경은 급속도로 변화하였다. 소비자의 역할은 단순히 콘텐츠를 소비하는 것을 넘어, 적극적으로 콘텐츠 창출에도 기여하는 공동의 창조자 (co-creator) 역할로 확장되었다. 본 연구에서는 기존의 연구가 밝히지 않았던 음반회사와 소비자의 관계변화에 초점을 맞추어, 소비자들이 어떻게 가치 창출에 영향을 주고 음반회사는 어떻게 대응하는지를 분석하였고, 본 연구의 결과는 이론적인 공헌과 함께 실무적으로도 의미 있는 인사이트를 도출하고 있다.

Key Words : New Media, Popular Music, Value Co-creation

1. Introduction

The traditional methods of distributing music have begun to be regarded as obsolete because of the ease of distributing music in the digital space given the introduction of the Internet [1-3]. Retailers’ role in music distribution has been redefined as traditional bricks-and-mortar retailers have begun to realize the importance of digital sales. Increased consumer power through diverse consumption options, such as buying singles and purchasing music directly from musicians, has also led to calls for more efficient ways to consume music [3]. New ways to experience music in the digital space have been introduced into the market to attract consumers. As a result, several legal services that are substitutes for illegal file sharing, such as Spotify and Deezer, have gained popularity, and the consumption of digital music has increased significantly [4].

Given the intangibility of digital music, new marketing issues have arisen and operators of digital music services...
have begun using different strategies [5]. Diverse music blogs dedicated to specific musical genres can be found on the Internet and music fans are communicating online with their peers, often through online communities [6,7].

The direct relationship between musicians and consumers and the democratization of music distribution and promotion has intensified from the increase in peer-to-peer interactions, a defining feature of Web 2.0/social media. Generally, the concept of Web 2.0 and the characteristics of specific Internet environments have provided new possibilities for ordinary users or consumers to take leading roles in terms of value creation and innovation, as is seen through the introduction of new terms and areas of research, such as value co-creation with consumers [8,9].

Numerous prior studies were conducted on the effects of the introduction of the Internet on the music business. In contrast, how the traditional relationship between record labels and consumers has been challenged by the rise of social media and the extent to which this development has changed record labels’ internal practices has not been fully answered. In addition, the difficulties or drawbacks that have arisen from interactive media and technological advancements have not been fully understood in research. Therefore, this study aims to discuss (1) the changed relationship between record labels and consumers in the music market, (2) how networked music consumers influence value creation in the music market and how record labels are responding to this phenomenon, and (3) the difficulties and drawbacks that have arisen from interactive media forms and new business models.

2. Literature Review

2.1 Web 2.0 and the new business paradigm

In the industrial era, the objective of the value chain was to reduce costs and increase internal efficiencies in terms of value creation. This notion dominated the early days of the Internet [10]. Traditional ways to perceive value chain and value creation were dominated by the firm-centric view of increasing the wealth of a firm. This firm-centric view was also noted in Strategy and the New Economics of Information by Evans and Wurster [11]. The authors stated that information accounts for a large part of the cost structure and its flow is a central part of value chain processes. A firm, and not its customers, largely controls information because information cannot be delivered outside the value chain, unlike with the Internet [12].

The rise of digital communication technology and the Internet was identified as offering greater opportunities for business operations. Technology used to be regarded as providing benefits for the efficiency of firms and the rise of new business areas in electronic markets. Although early Internet technology can connect consumers and allow them to be active figures on this platform, Web 2.0 technologies have driven the phenomenon. Web 2.0 technologies, as coined by Tim O’Reilly [13], can be described as harnessing the collective intelligence. Web 2.0 represents “the architecture of participation” [14]. Web 2.0 is a different form of media from the previous generation of the digital media, Web 1.0. According to Ritzer and Jurgenson [15], “Web 2.0 is defined by the ability of users to produce content collaboratively, whereas most of what exists on Web 1.0 is provider-generated”. The examples of Web 1.0 are AOL and Yahoo and the examples of Web 2.0 are Wikipedia, Facebook and blogs. Two different terminologies, social media and Web 2.0 have been used interchangeably. The phenomenon of Web 2.0 has been epitomized and popularized by social media such as Facebook and Twitter [15].

Various prior studies identified active consumers as co-creators and innovators who create value [9,16-18]. These studies suggested that ordinary people, previously described as consumers in the old economy, have become important figures as innovators and creators in the networked economy. According to Normann [19], “they (customers) are no longer anonymous markets and receivers/sinks. And the critical competence moves from production competence to relationship competence”. From this new perspective, consumers become knowledge co-producers with firms and contribute to future performance improvements [20].

In a networked economy, collective crowds can solve scientific problems, produce collective value, and be a critical source for firms [17,21]. In addition, non-market
production increases in a networked economy, which is different from industrial models of production and distribution [16]. Consumers need to be regarded as co-creators of value and can be further viewed as innovators [9,10]. These assertions differ from the notion that consumers have a passive role and are not involved in production. Consumers are no longer merely consumers, and the line between producers and consumers has been blurred, a phenomenon that devalues the old, distinctive roles of producers and consumers, now termed prosumers [17].

2.2 Web 2.0 and its effect on the music industry and popular music culture

Since the time that music could be delivered in recorded forms such as LPs, we have begun to experience music more from musical goods produced by firms. Kibby [7] mentioned that, “the commercialization of popular music was accompanied by a move in the ‘place’ of music from the public performance space to the private listening space”. In that era, audiences were mere consumers and one of the only ways to engage with the artists or music directly was through performances. The historical music market was based on mass consumption controlled by the major labels with their greater economies of scale, and the mediators or gatekeepers, such as distribution channels, retailers, and broadcasting channels [2,22]. Record labels determined even the creation of value [23]. The music industry in Britain was dominated by a white male staff that belonged to the middle class and that had a university education. In this environment of British record labels, rock music was favored over other genres such as soul and hip-hop, and the album format was preferred over the single format [23]. Negus [23] argued that “these distinctions not only informed acquisition policies and marketing philosophies, they were hierarchically inscribed into the drawing up of contracts, and the allocation of investment to departments, genres and artists”.

After the rise of the Internet, file sharing and digital music content have become very popular forms for obtaining music (see Table 1). In this Internet era, audiences are able to listen to music using many diverse methods, including the Internet, the radio, and social networking sites such as Last.fm and YouTube. Eric Nicoli, CEO of EMI Group, pointed out that:

*In this internet age, the consumer is using music content more than ever before – whether that’s playlisting, podcasting, personalising, sharing, downloading or just simply enjoying it. The digital revolution has caused a complete change to the culture, operations and attitude of music companies everywhere. It hasn’t been easy, and we must certainly continue to fight piracy in all its forms. But there can be no doubt that with even greater commitment to innovation, and a true focus on the consumer, digital distribution is becoming the best thing that ever happened to the music business and the music fan.* [24]

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<tr>
<th>Table 1</th>
<th>The development of the digital music sector</th>
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<td></td>
<td>2003</td>
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<tr>
<td>Licensed Music Services</td>
<td>Less than 50</td>
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<tr>
<td>Catalogue Available (tracks)</td>
<td>1 million</td>
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<tr>
<td>Industry’s Digital Revenue</td>
<td>US$20 million</td>
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<td>% of Industry’s Revenues from Digital Channels</td>
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The Internet has been regarded as a way to remove intermediaries to disseminate music, to decrease operational costs, to increase effective inventory control, and to eventually decrease the price of musical goods and content [1,25]. In addition, the concern exists that consumers have increased opportunities to search for what they need and to be exposed to diverse choices [26].

The rise of Web 2.0 technologies and the enthusiasm of people created another opportunity for value creation to occur outside the traditional value chain, but through fans and musicians. Consumer participation has broadened as newly emerging business models such as MySpace and Last.fm became available for consumers. Consumers can create their web pages or personal playlists to show their music preferences, connect with their friends, and link to their favorite musicians. Often, consumers create their own blogs, which they can develop as a community to
share and create music-related information [6,7,27]. A consumer’s engagement, which can be considered as the limited activities of personal expression or enjoyment, has presented a bigger picture because it affects the traditional value creation process in the music industry. Although publicity and talent development have been regarded as activities embedded in corporate-level value creation and processes, consumers in the networked space are also engaged in such activities [6,28].

Audiences and fans do not just want to consume ready-made value, demonstrating that they can be value creators and want to be involved in value creation activities. In addition, musicians stay actively engaged in the network to connect with fans. Because audiences are involved in the activities, they are able to express their appreciation for the music they love. Central motivation and not capital returns inspire them [6]. Jenkins [29], who argued that media producers need to pay attention to the new movement of participatory culture, noted that “audiences, empowered by these new technologies, occupying a space at the intersection between old and new media, are demanding the right to participate within the culture”.

3. Methodology

Because this study is concerned with exploring social phenomena, qualitative methods are more suitable than quantitative ones. Although the positivistic paradigm requires relatively large samples for statistical analysis, the phenomenological paradigm can be investigated using a sample of one because the purpose of such a study is to gain an in-depth understanding [30]. This study does not seek information that represents an entire population but, instead, intends to investigate in-depth relationships and consequences that have resulted from the rise of digital technologies in the music industry. Collis and Hussey [30] mentioned that, “under a phenomenological paradigm, the emphasis is on the quality and depth of the data. Therefore, the data you collect will be mainly qualitative data. The data is often referred to as being rich, since it captures the richness of detail and nuance of the phenomena being studied”.

3.1 Data collection

Semi-structured qualitative interviews were conducted to collect primary qualitative data. Qualitative interviews are concerned with understanding the nature of a research area, attempting to listen to what interviewees say, preparing to adopt the emerging themes of the interviews, and interpreting the data collected. Saunders et al. [31] stated that, “semi-structured and in-depth, or non-standardized interviews are used in qualitative research in order to conduct discussion not only to reveal and understand the ‘what’ and the ‘how’ but also to place more emphasis on exploring the ‘why’”.

Most interviewees have had long careers in the music industry and are actively involved in its current transition period. Interviewees were recruited from different continents, North America, Europe and Oceania, to learn about the global trend of the popular music industry in the digital age. Therefore, overall, the interviewees were expected to have a deep knowledge and understanding of the current landscape and the history and traditional structure of the music industry and record labels. To conduct these interviews, 80 e-mails were sent to potential interviewees and 19 interviews were conducted. Each interview took between 30 and 60 minutes. Appendix 1 provides brief descriptions of the interviewees.

The interview guide, developed by considering the research objectives, consisted of three main sections. Although the guide was provided to interviewees when initial contact was made, it was not prescriptive but was used as a starting point. Further follow-up questions were asked as required. The first question, in part A of the research guide, was related to the general impact of the Internet on record labels’ value chain and value creation activities to have broader understanding of the impacts of the internet on the structure of the music industry. The second section consisted of questions related to the rise of interactive media forms and their effect on the day-to-day practices of record labels. This section was to know the impact of digital technologies on music consumers and how consumers’ use of technology affected record labels. The questions in this section were also to understand the development of other business models on the Internet and the implications for the music industry. The third section was developed to gather summarized opinions from the interviewees in terms of the meaning of the phenomenon.
of digital technologies for the music industry.

3.2 Data Analysis

Qualitative content analysis was used to analyze the data collected in the person-to-person or phone interviews. Flick [32] defined content analysis as “one of the classical procedures for analysis of textual material”. Various forms of textual materials can be included, such as documents, media content, videotapes, observation protocols, and interview transcripts [32].

Before analyzing the data, the interview transcripts were read several times to gain a complete understanding. Once the broad picture was understood, a data reduction process was undertaken during which relevant phrases were selected and then coded. A second data reduction process was then carried out to group and summarize similar phrases, a process called “summarizing content analysis” [32]. The findings sections of this article are written based on the various themes and codes developed during this research. In addition, the researcher attempted to interpret the data and suggested various sources to support their interpretations and analysis.

4. Research Findings

4.1 Music Consumers in the Digital Age

Most interviewees noted that, given the rise of social media, consumers are no longer at the end of the value chain process and no longer merely consume what record labels give them. Some interviewees were even reluctant to mention the word “consumers” because they understand that the old ways of consuming music are no longer valid. They often speak in terms such as “fans,” “active participants,” or “listeners.” This distinction that the interviewees made was clear from one of the interviews:

You’ve got consumers, which are what record labels try and sell to and you’ve got fans that are what bands are going to make a living off of ... Consumers are the ones that are going to buy it cheap, they are going to buy it on CD maybe, they are going to be part of the charts, ... they are going to download illegally, ... Whereas a fan is going to buy whatever comes out; they are going to want to be part of something and they are going to want to be into it. (Interviewee A)

This implies that music consumers in this age who not only consume products but who are also willing to be active participants create an environment that allows them to communicate with musicians or labels. Interviewee A further mentioned that what they want to create in terms of a relationship between musicians or the label and fans is two-way communication rather than one-way transactions.

Consumers’ activeness nowadays has also changed the way music can be heard and exposed. As music fans and consumers are exposed by much diversified information, the record labels are in the difficult situation of marketing their music to informed audiences. We regard that today, music consumers do not just rely on the major record labels and traditional big budget marketing channels to find music. Music consumers who are armed with technological advancement and a willingness to find quality music go online to find music they love and to be connected with musicians they like. One interviewee points out:

So as the major labels have gotten more focussed on these hit makers ... It’s driven a lot of those listeners to more independent music and it’s driven them to places like Pandora and Last.fm, where they can go through and actually find new music for themselves without relying on the record labels to kind of determine that taste for them. (Interviewee S)

Based on the findings, it can be seen that the emerging behavior of music consumers as active participants suggests that consumers’ perspective on the value of music has changed. In terms of the value of music, the interviewees agreed that the value of traditional physical formats has diminished given the rise of file sharing. In addition, the previously accepted scarcity and high prices related to listening, experiencing, and purchasing music in the traditional music market is not relevant in this era. Today, vast amounts of music are available for free on the Internet, putting us in an era of abundance.

The question is: how can a business survive under these circumstances? Some interviewees argued that we
are competing in an era of free music, which requires operational changes in the music industry. Record labels and artists can compete with free music by offering consumers services or products that enable consumer participation and value creation. In addition, diversified services are needed to give consumers various ways to experience music.

Therefore, we argue that music that used to be regarded as a physical product with exchange value should now be considered a service that offers further consumption and opportunities that facilitates consumer engagement in terms of value creation. The focus should not be only on selling goods and disseminate their marketing messages. In this age, record labels need to see the importance of content that consumers create and share. The phenomenon of Psy's Gangnam Style was accelerated by users of social media who shared the music video of the song, left messages how much they loved the music and created new content using the song.

The traditional interests of record labels can be summarized as profit maximization and domination of the popular music market. Interviewee C mentioned that record labels engaged in marketing activities without greater consideration for consumers who were, essentially, an unknown quantity. However, as the analysis shows, consumers are no longer passive recipients. Rather, they are willing to engage in active value creation, such as searching for music in non-traditional ways. The findings also show a different perspective on the value of music, not only as having exchange value but also as having a use value. Therefore, record labels should consider developing ways to interact with consumers.

4.2 Value Creation in Record Labels in the Digital Age

4.2.1 Record Labels' Response to the Digital Age

Most of the interviewees agreed that the major record labels are in a difficult position in terms of doing business given that the principle of Web 2.0 is peer-to-peer interaction, which encourages sharing music, photos, and opinions—regarded as social activities. In this system, no hierarchical structure exists as did in the traditional music industry. Instead, the structure consists of distributed networks that affect the creation, distribution, and promotion of music. In these networks, the traditional gatekeepers have lost the power that they once had [2,33]. Most interviewees criticized the major record labels for their reluctance to modify their business, and some interviewees criticized them as being too big to drastically change their old ways of doing business and for not wanting to change their old business structures that generated significant revenue.

Several interviewees argued that record labels’ reluctance and ignorance in the digital age can also be witnessed in most music industry innovations that have developed outside traditional music industry and record label operations. The notable new business models, such as iTunes and Spotify, also originated from outside the traditional music industry structure. Record labels and the music industry have missed opportunities to explore new markets [34]. We consider that their reluctance to be innovative and develop strong relationships with newcomers can be seen as the result of fear on their part because such new innovations may destroy their system.

In addition, as with Napster, record labels are not overly concerned with understanding consumer demand because they largely controlled the traditional music market. An interviewee clearly articulated this situation:

*It's almost like the record labels are always a few steps behind the consumers to find out what about next, where are they going to consume their music, where they're going to spend their money, how can we make money from them; and I think the record labels are really not used to that. (Interviewee G)*

This quote indicates that the unexpected continuing evolution of the Internet and social media space and its popularity, disrupt the record labels in terms of how to do business in this era, because there are no clear ways to make revenue, which used to be generated by physical sales from the record labels’ perspective. This is also related to the systemical difference, as the Internet space is not governed by the hierarchical structure, whereas the value stream of the record labels has been governed in the structure which they set up. There is, therefore, no clear way to integrate and expect outcomes with the activities on the Internet and in social media space. 
One of the interviewees points out that

Uncertainty is the thing that is most negatively affecting the economics of record labels. (Interviewee N)

We regard that the uncertainty might come from different circumstances between the traditional market which used to be controlled by the record labels and the emerging trend which is driven by users. The problem from the record labels’ perspective would be it cannot be controllable like the traditional way of business. Although we cannot ignore the fact that the music market has never been controllable as the failure rate of record labels has been very high; the record labels have been used to disseminating their musical contents through mass media channels with huge budgets, and hoping that some artists may reach superstar status. It was the market in which they did not need to concern themselves about music consumers, much as discussed already. However, we contend that the emerging market demands two-way dialogue and further control by consumers.

The general consensus among interviewees was that music companies’ perspective in terms of selling music is still old fashioned. Therefore, record labels need to restructure their business model to satisfy consumer demand and to ensure sustainability. However, record labels’ responses to the digital age have not been examined in significant detail. Based on the interviews, we suggest that the restructuring of record labels’ business model does not seem limited to a simple matter of determining revenue streams; rather, it addresses how to deliver value that satisfies consumer demands and to develop an environment that can benefit from consumers’ value creation on social media such as content and stories, which requires a fundamental change in the value creation process of record labels.

4.2.2 The Emerging New Trend at Music Companies

The most striking changes in record labels’ practices resulting from the rise of the social media platform on the Internet are in marketing. Social media channels have enabled more economical distribution of marketing and promotional materials for artists and music. In addition, the distance between musicians and music fans, once constrained by various traditional gatekeepers such as media networks or record labels, is no longer relevant because music fans can directly connect with musicians. One interviewee accurately described the effects of social media on the popular music industry:

What Web 2.0 and what social media has done is given the artists and the people that are on kind of the lowest tiers of the music industry food chain, given them the ability to interact with their fans, find their fans and connect with their fans and engage their fans without the help of a big marketing budget or the distribution channels that the recording industry had a monopoly on previously. (Interviewee R)

The marketing activities once carried out through mass media channels such as the radio or magazines and that had vast budgets could disseminate their products and manipulate consumption through diversified media channels. However, the pessimistic assumption on the effects of marketing on the consumption of music seems no longer valid, as one interviewee mentioned:

Social media is really something that music fans do for you. It’s not really anything you can do for yourself. (Interviewee Q)

This implies that marketing campaigns on the Internet and in the social media space are different from traditional campaigns that largely consumed what marketers disseminated; rather, consumers live in an environment in which they create, share, and disseminate messages. The interviewee further stated that a vast amount of music is available, meaning that musicians or record labels need to find ways to get their songs heard by consumers. Promoting music to consumers is the primary starting point for marketing and future revenue streams.

Traditional methods focused on mass marketing through media outlets as record labels attempted to promote their music on radio programs or get reviews from music magazines. However, as we continually suggest the nature of marketing activities for music, which were controlled by producers, is not relevant today given high-speed connectivity and easy accessibility. For
instance, Britain’s music program, “Top of the Pops,” was the longest running music program on TV; however, it was unable to continue and its 42-year history and ended in 2006. One of the reasons for its demise was the increase in popularity of the diversified ways to listen to music on the Internet, such as through websites like YouTube, which allow audiences to avoid waiting for a week to hear new singles [35]. A BBC press release also highlighted this reasoning:

“Over recent years, the show has faced ever-increasing competition from multi-media and niche musical outlets, which enable viewers to consume music of their choice any time night or day in a way that Top of the Pops simply cannot deliver in its current weekly format” [36].

As an extreme example, the demise of “Top of the Pops” shows the inability of traditional music marketing to enable music audiences to access musical content, including audio, video, and text, without much difficulty with respect to time and place.

Arguably, the rise of social media/Web 2.0 has changed the internal practices of record labels in some respects. Some interviewees mentioned that record labels are no longer in a position to sign with musicians for long-term periods or for several-album mega deals. In extreme cases, they sign with musicians for one single. Also affected is format preference (single over album format) because the whole album concept is no longer attractive. This is because most consumers buy and listen to music based on singles from diverse musicians. A statistic from the British Phonographic Industry (BPI) also shows the dominance of singles in the digital market and growth in single sales, which were highest in 2009. In 2009, 152 million singles were sold, of which 98% were digital single sales from the digital market [37].

The dominance of the single market is also affected by the releasing span of music. Under the traditional music production protocol, a musician would release two albums at least two years apart. However, several interviewees argued that, today, musicians cannot leave their music fans for such long periods. Musicians need to produce music consistently to keep their fans’ attention. Consequently, as record labels’ core revenue stream—physical sales—has diminished, they have become keen to make 360-degree deals with musicians that establish several revenue sources, such as touring, merchandise, and performing rights, of which record labels have not been direct beneficiaries.

Finding future rosters has also been affected by the rise of social media in particular and the Internet in general. One interviewee, who runs an independent record label, stated:

“A lot of things have changed the way we work as a label due to technology and the Internet, especially finding out about bands. It’s much easier to find out about a band in America or whatever, much quicker. ... I can get in touch with that person immediately and download the music immediately, whereas before it was much tougher. You’d have to ring the artist up, find out where they were, have they got any recordings, can they send a CD over to us ... (Interviewee H)

Regarding interacting with fans through social media platforms, such as MySpace and Twitter, respondents pointed out that record labels would like to sign with acts that have a strong relationship with fans. We concern that this desire is understandable because core fans are the most valuable consumers who generate revenues for musicians. One respondent insisted that:

“In the old days you had the A&R agents, who were hanging out at clubs to discover new talent ... What they do there is they try to look at how unknown bands are received and appreciated by an audience. ... They already know when they pick up a talent, or try to find a talent, that this artist has been able to attract a certain attention on MySpace, for instance. ... So, that is a very concrete example of how the product development has changed and how the audience and consumer are used by the label to develop talent. (Interviewee J)

4.3 The Difficulties in Utilizing the New Media

Note that the right strategy and approach are needed rather than the pursuit of recklessly noisy marketing campaigns that turn out wrong and that result in disastrous outcomes [38]. In this sense, respondents
suggested that musicians should follow careful strategies when utilizing social media platforms. According to one interviewee:

*Just because they are there doesn’t mean to say that you have to use them. You need to think about whether the right content is there. What is the audience you are reaching? Again, what is the value? It all comes down to how you are building value into this relationship using social media and digital platforms.* (Interviewee O)

Although the importance of interacting with fans through social media is growing, as cases such as Nine Inch Nails and Radiohead show, some interviewees questioned that such interactions are limited to popular acts, and unknown independent musicians have difficulty gaining fame, as have popular acts. One interviewee argued that:

*Most musicians don’t utilise social media ... The fact [is] that musicians, by nature, are not Internet marketers.* (Interviewee L)

This can happen simply due to their lack of competences and capabilities to utilize the media. This can also occur because the tendency of musicians regarding the social media is divided. There is group of musicians which is tech-savvy and willing to communicate with fans, but there is another group of musicians reluctant to use social media or are not interested in the platform. It is difficult to criticise the ones who are not willing to use the social media, as it clearly depends on the personality or preference of musicians.

In addition, several interviewees argued that they are in a much more difficult position than they used to be. Record labels are keen on signing 360-degree deals with musicians to obtain revenues from diverse sources because they have to give away their music for free to promote themselves online. In addition, because music consumers are constantly looking for newness, record labels tend to drop far more quickly than before those musicians who cannot deliver success or financial returns. The tendency to look for newness has also affected individual musicians’ careers. One interviewee argued that:

*Everybody wants to look for a new, unsigned act, because somehow they’re a precious jewel that no-one has discovered. Well, once they’re discovered, people discard them even before they’ve got a deal* (Interviewee C).

Difficulties also exist in terms of the nature and abundance of the online space and the excessive rate of technological development, including the following issues. 

Given the increased importance of communicating with fans, virtually every musician interacts with fans through social media platforms. Therefore, building fan bases and spreading their music is not easy for musicians. Young and Collins [39] who interviewed Australian musicians, also demonstrated such difficulties in utilizing social media.

Theoretically, in circumstances in which every person can upload and spread his or her music on the Internet or through social media, quality music may not be reachable and music fans may be bombarded by music that does not provide them with much value. Similarly, an interviewee (Interviewee S) pointed out the tendency to focus on viral marketing campaigns to obtain attention from music fans. The interviewee further stated a problem with a de-emphasis on music or the content itself:

*If the music itself and the artist is not exciting and interesting and the content itself is not ... then it’s just like a sugar rush. It’s just like drinking a soda, getting a quick rush and just throwing the can away. It’s not a relationship. ... There has to be something that binds with the fans that means something that connects; otherwise, all the digital tips and tricks don’t really mean anything.*

From a different perspective regarding the pace of technological development, one respondent pointed out that technological advances occur faster than changes in actual consumer needs and demands. He went on to say:

*We have about ten cloud services due for launch this year ... Now I can tell you from the work I am doing now with consumers, people are not just ready for that. This is an early adopter niche of consumers that are looking*
for a service like that. Once again, we have a situation where the technology is three or four years ahead of actual consumption. (Interviewee O)

One consumer survey conducted among a generation of 14- to 24-year-olds showed that they still see ownership of music as important, and 89% of the respondents stated that they wanted to own music even given the existence of various streaming music services [40]. This attitude among the young generation questions whether new future technologies in the digital music market that would significantly change the way of music experience would attract consumers. For instance, Spotify, one of music streaming services, offers a premium service to subscribers to enable them to access their music library through their mobiles or different computers.

5. Discussion

We found that music consumers desire a new relationship with record labels and musicians. In this age, we argue that music fans should not be treated as passive value receivers. Because music is now available for free through either illegal sharing or legal services such as Spotify, music fans are calling for new ways to experience music. Therefore, to music consumers, the value of music is not limited to the traditional perspective of value-in-exchange. Music is a starting point for further activities and creativity for consumers, which can be observed in examples such as fan funding models [28] and music communities on the Internet [6]. If we look at the ways in which music fans communicate and share their passion for music with their peers and musicians, it clearly shows that music consumption is not limited to the point at which consumers buy physical goods such as CDs. This indicates that to music fans in this age, music is an intangible source and requires service appliances or platforms on which they can participate in value creation. Therefore, music companies should move away from the traditional marketing concept that consumption was not a concern for marketers at all [41]. The managers of music companies should be aware that activities that consumers are doing using social media can be critical resources that create value as Psy’s Gangnam Style shows.

Given the rise of social media and interacting music fans, the findings show that record labels’ internal practices are changing, such as changes in the preferred format from album to single, a realization of the short life-span of music, signing acts through social media spaces or through those with strong fan bases on social media channels, and a preference for 360-degree deals with musicians. The emergence of new media technologies and its adaption by consumers has affected the internal practices of record labels. This change is to response to new consumer demands and utilize emerging popular music culture. Therefore, this change is to be competitive and sustainable in the turbulent industry. Teece [42] argued that the essence of a business model “reflects management’s hypothesis about what the customer needs, how they want it and what they will pay, and how an enterprise can organize to best meet customer needs, and get paid well for doing so”. However, in the case of the record labels, we understand that there is a still gap between theory and reality. They have been reluctant to change their traditional business processes. Above mentioned changes are passive reactions to the emerging phenomenon while keeping their core traditional business practices. In addition, it is found out that marketing through social media is still approached as a short-term strategy and the limited budgets allocated to this area make it difficult to form long-term strategies or marketing campaigns in which consumers might be able to participate, co-create value and offer long-term benefits.

Finally, various books and studies have championed the abilities of Web 2.0 [17, 21]. However, unlike these prior studies, the final key finding of this research is that such concepts come with several issues, such as difficulties in utilizing the potential of social media and interacting with fans; a lack of long-term strategies by record labels; and advancements in technology or business models that are ahead of consumer demand. The past experience of emergence and adoption of new innovation also show a similar pattern as Teece [42] asserted that, “history shows that, unless they can offer compelling value propositions to consumers/users and set up (profitable) business systems to satisfy them with requisite quality at acceptable price points, the innovator will fail, even if the innovation itself is remarkable”. We concern
that these limitations and drawbacks could be important sources of information for record labels or other businesses in the music industry, especially within the digital music sector, launching new business models or strategies.

There are innovative and successful cases in the music industry that harness Web 2.0/social media. Like-minded musicians such as Jill Sobule and Amanda Palmer have been trying to realize the value that Web 2.0/social media offer. In terms of Amanda Palmer, she has been able to be connected with a profound solid fan base by interaction through the Internet with fans. Passion to her connection with fans was demonstrated by how she made a music video which was done with her fans who showed up on a short notice gig which was communicated through her twitter [43]. Her twitter currently has around 915,000 followers. The case of Jill Sobule shows that a fan-funded model can work. Her latest album, California Years (2009), was funded by her fans through her websites [44]. The two examples show that audiences and fans do not just want to consume the ready-made value. It demonstrates that they can be value creators and would like to be involved in the value creation activities.

Other examples that musicians are also actively engaged in the network in order to be connected with fans include the fan-funded model like Sellaband and Artistshare [28]; remix programmes on iPhone like Touch Mix and online mashup websites like Ujam. On the iPhone, users can download applications like Touch Mix to remix music as a musician like Deadmou5 made available his music. A hip-hop musician, K-OS, made available vocal and instrumental tracks of his new album, Yes (2009), before official release and asked fans to remix it. Selected remixed music was released with the album in the market [45]. In addition, Nine Inch Nails also made their music available for fans to remix it, upload the remix version on their website to be listened to and reviewed by other fans [17,28]. This can be another revenue stream for musicians and record labels. It can also increase interactivity and encourage creativity from users. The common feature in all the new models is the harnessing of people’s participation and creativity. If the music industry can absorb the diverse innovation into their system, this sort of innovation is not only beneficial for the firm’s revenue in the short run. It also captures consumers’ attention and diversified creativity, which can be a source for future sustainability in the long run.

Previous research suggests the concept of value co-creation with consumers [8-10]. Based on the results of interviews and the existing examples in this section, we found out the trend also happens in the music industry. Therefore, we suggest that the record labels need to rethink their conventional business model which has been dominated by the idea of producing physical goods. They need to see their business as a service industry which can satisfy the needs and the creativity of audiences. This would be a critical way for marketing which could increase their future revenue streams and core fan base. It would be a threat for those who seek lucrative profits by keeping the traditional business model. But it would offer an opportunity for record labels that can encourage and integrate with the users’ needs and other business models.

As this research suggests, the global trend of the music industry requires an interactive relationship with consumers and record companies need to utilize the opportunities occurred by the new technologies and its uses by people. We regard that this research can offer important implications for K-Pop phenomenon. From a few years ago, K-Pop has become a global trend. To sustain the unexpected success, record companies in South Korea should be aware that music consumers nowadays want a new relationship with producers. Therefore, music companies in South Korea should understand that music fans in this age are not mere consumers rather they contribute to creating and sharing of value of music. In this networked age, the music labels should find ways to communicate and interact with their consumers.

6. Conclusion

The phenomenon in the music industry can be summarized as record labels not being able to offer value propositions or strategically developed platforms. Currently, these platforms are led by consumer demand and technological advances. Rather than seeing the situation in terms of value co-creation, record labels are responding to or are simply following the phenomena occurring from the rise of social media forms, the development of external innovation and business models,
and their use by music fans. In this age, music consumers want new and active relationships with record labels and musicians. They want to communicate and participate and do not want their role limited to that of passive value receivers at the end of the value chain.

The main contribution of this study is that it provides a picture of the current relationship between record labels and music consumers and their different views on the value of music and value creation. In particular, note that value creation is not currently being processed entirely through careful planning or management because record labels do not yet have clear strategies in this area and seem reluctant to adapt to the age of interactive media. The distinction between record labels’ and music consumers’ views on value and value creation can be seen quite clearly. Record labels have not transformed their approach to the marketing and value of music and are still dominated by a value-in-exchange mindset.

However, music fans want new services and business models through which they can participate and communicate. Networked audiences call for ways that allow them to co-create value and experience music and do not want their role limited to that of a mere consumer. Therefore, record labels need to be proactive in attracting communicative music fans. The traditional institutions in the music industry must learn more about how the business is shifting and must develop business models that make use of the underlying idea of Web 2.0—the architecture of participation—to create an environment in which active dialogue exists and value is co-created between themselves and the consumers. Therefore, the music industry needs to learn from their consumers and markets to gain competitive advantage.

The academic contribution of this study is that it provides a better understanding of the impact of the Internet on a turbulent industry (the music industry) that is in a transition period. Jones and Lenhart [46] pointed out the lack of research on popular music and media use and that, remarkably, even less research exists on popular music and the Internet. Therefore, this study attempts to fill the gap and is a starting point for further research. Its practical contribution is that it provides a better understanding of social or interactive media forms and consumer demand in terms of value creation, which could be useful to managers of record labels or other music industry practitioners. Consumers are found to demand interactive relationships and to have a critically different perspective on the value of music. This study also reveals that record labels can play an important role in these new developments through their invaluable experience and expert knowledge in areas such as promotion and artist development. As this study showed, the era of Web 2.0 and the concept of value creation do not automatically guarantee success in cases such as Wikipedia. Strategies must still be developed carefully to connect music fans, record labels, and musicians.

This study also has limitations. Although the findings can provide critical value to understanding the current circumstances in the popular music sector resulting from the influence of social media, transferring and generalizing these findings would be difficult because they reflect common criticisms of qualitative studies [47]. Further investigations that provide a more detailed understanding of the influence of social media on the popular music sector are required. Furthermore, investigating how the traditional media sectors—the radio and music magazines—related to the music industry have been affected by the rise of the social media platforms would be interesting. This enquiry would provide a much broader picture of the current transition occurring in the popular music industry and its culture.

References


[32] U. Flick. *An Introduction to Qualitative Research*. 2nd


Appendix

Descriptions of Interviewees

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<tr>
<th>Interviewee</th>
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The Emergence of New Media and Its Effects on the Popular Music Industry

Hwanho Choi [Regular member]

- Jul. 2009 : University of Liverpool, Business Studies and Popular Music, BA(Hons)
- May. 2011 : University of Manchester, Management, MRes
- Sep. 2010 ~ Current : University of Manchester, Business and Management, PhD Candidate

<Research Interests>
Marketing, Consumer Culture, Value Co-creation, Social Media, Music Industry

Jaekwon Chung [Regular member]

- Jun. 2004 : University of Portsmouth, Business Economics and IT, BA(Hons)
- Jul. 2007 : University of Liverpool, MBA
- Dec. 2011 : University of Liverpool, Management Studies, PhD
- Mar. 2013 ~ Current : Kookmin University, Assistant Professor of Marketing

<Research Interests>
Marketing, Perishable Food, Pricing, Retailing, Arts and Cultural Industry