Diversity of Offerings – a Profit-making Strategy for Media Content

Anders EDSTRÖM-FREJMAN
Royal Institute of Technology, Media Technology and Graphic Art,
100 44 Stockholm, Sweden
Tel: +46 8 531 81 500, Fax: +46 8 534 60 690, Email: frejman@kth.se

Abstract: Radio and TV have been characterised by two trends over the past decades; an increased number of channels and greater concentration of ownership. Competition for listeners/viewers between larger and larger conglomerates appears to have resulted in a decrease in the range of output, despite a marked increase of commercial recordings and registration of new works. These observations are supported by a comprehensive statistical analysis over the last decade in Sweden complemented with similar US studies. The study concludes that the traditional music industry's business model needs to be radically revised to meet consumers' preference for access to more diversity. Current "legal" digital services offered by the established industry have not been able to compete with "free" P2P services, not merely because of the price difference, but rather because of lack of diversity and rigid demands regarding Digital Rights Management (DRM) systems.

1. Introduction

Recorded music has fulfilled a number of roles in traditional broadcasting channels. It has been used to attract and retain loyal listeners, and as such has provided an audience for advertisers in commercial radio/TV. It has also functioned as a shop window for the recording industry, where products can be presented to listeners who might then purchase the recording in a retail outlet. Over the past 10-15 years, however, these same traditional electronic media have been characterised by two trends: the number of channels has shown a radical increase as a result of de-regulation and new technology. At the same time, after a period of diversity, concentration of ownership has increased.

The result of increased competition between larger and larger groups of media companies appears to have been a decrease, rather than an increase in diversity of output in these media channels. The decrease cannot be linked to a decrease in production within the creative industries providing material for distribution. On the contrary, production of new recordings of music as well as the registration of new musical works (by rights holders with copyright organisations) has shown a marked increase over the same period, not least as a result of the availability to creators of high quality, affordable digital technology.

More recently, there has been a clear shift of consumer loyalty away from mainstream media's music offerings to the alternatives offered by the Internet, and not least P2P applications. This has caused considerable problems for traditional record companies. They have seen a loss of revenues as consumers have gained access to a wide range of cultural products on-line, without having to purchase physical CDs. On the other hand, increased P2P activity on the net is paralleled by another development, namely an increase in concert revenues and live attendance at such venues. What's more, a number of studies suggest that some groups of P2P users even increase their purchases of physical products, as a result of the discoveries they make on the Internet.

The evidence presented in this paper shows that a move towards diversity in media delivery channels, i.e. the exact opposite of the current trend in many mainstream forms of delivery, is an attractive consumer proposition. However it is also a proposition that is hard to merge with traditional music industry business models.

Closer collaboration with network operators rather than seeking to hinder such activities, and thereby encouraging diversity of choice could be a valuable long-term strategy for the content industry.

2. Objectives

The paper seeks to understand how the enormous interest in and energy/resources devoted to P2P services can be used to support the growth of content industries. What changes in established business models and views of IPRs are necessary for such a goal to be realised? How can the music industry better utilise the clear marketing potential of music available over digital networks, rather than merely see this availability of terms of lost physical sales of products?

3. Methodology

The development of the de-regulated Swedish radio market has been used as a Case-study in order to explain the mechanisms behind the observed uniformity in modern media channels.

A complete database copy of the gramophone archive of the Swedish Public Service Radio, Sveriges Radio, has served as a blueprint for a theoretical range of choice in this study. The database consists of more than 2,4 million works (both domestic and foreign) released between 1894-2002, with detailed genre classification. This database expands on average by approximately 95,000 works per annum, reflecting Swedish Radio’s desire to have access to as many commercially available recordings as possible. This is a significant figure, considering that some national commercial radio channels offer their listeners a total of less than 1000 different works per annum!

This data has been matched with comprehensive airplay reports to the Swedish Performing Rights Society (STIM), covering both Public Service and Commercial Radio in Sweden, in order to pinpoint trends over the past decade. The results have been compared to similar studies from the US.

Literature on digital music distribution, diversity in radio and studies on how gatekeeper’s decision-making processes have changed over time has also been studied.

Findings have been compared to available data covering individuals’ use of P2P file sharing applications over the Internet to find and download music.

4. Observations

4.1 - Concentration of ownership in commercial radio

In 1993 the Swedish radio market consisted of four nation-wide public service channels. When the market was de-regulated in 1993, about 80 local licenses were auctioned, on the fist occasion, to some 50 license holders. Among them, three broadcasting networks, that gained about 25 licenses.

The high annual franchise fees (resulting from the bidding process) and a lack of experience among entrepreneurs contributed to a rapid concentration of ownership during the following years. Ten years later, in April 2003, 66 of the 92 present licenses were owned or controlled by three networks; NRJ, Mix Megapol and Rix FM [1].

The scenario of concentration in ownership resembles developments in the USA. According to a study [2] made by the Future of Music Coalition, the two networks, Clear Channel and Viacom’s common share of nation-wide listeners is more than 40 percent.

4.2 – Gatekeepers decision making processes

The Swedish radio study [3] from 2000 includes 25 structured interviews with gatekeepers (those who decide on which music will be played) at both commercial and public service radio covering more than 75% of the Swedish radio market. All gatekeepers refer to the importance of charts and polls, as well as to target groups being crucial for their decisions.

Gatekeepers at public service radio clearly express that music on the “outer edges”, for example accordion, folk music, jazz and older music, is gradually excluded to the benefit of mainstream music (as a direct result of polls of “listener preferences”). Such “niche” music can scarcely be found in the commercial radio networks that use US play list programming formats as templates. In the same survey gatekeepers at commercial radio stations stated that they create hits through giving certain titles frequent plays. These self-fulfilling hit-choices make it harder for other similar works to reach play lists. Commercial monitoring services as Music Control [4] continuously help gatekeepers to follow each other’s play lists and reinforce this trend.

Somewhat paradoxically, the same gatekeepers also refer to the “high risk” of playing too much unknown music, i.e. works that listeners haven’t heard before. Gatekeepers fear that listeners will flee to other channels and therefore “play safe”. The result is a decrease in the range of choice offered by most radio channels, whether their raison d'être is public service/non-commercial or advertising financed.

The next section presents the empirical data that illustrates the extent of streamlining of output in mainstream radio channels.

5. Results

5.1 - Empirical studies of mainstream radio output

The comprehensive database analysis shows that about 24 percent of commercial recordings released during 1992-2002 have reached the play lists of the national radio stations under the same period. In this context “national” is defined as a radio station geographically covering 66-99 percent of the potential listeners aged 9-79. In Sweden this comprises three commercial networks and four public service channels.

The number of different works listeners could hear each year on any of the national Swedish radio channels (1992-2002) remained at around 50,000, despite an increase in total air-plays - the time devoted to broadcasting music - from 200,000 to over 700,000 (fig 1).

Public Service radio still remains the main source of diversity, but there are changes in channel outputs, as we will note shortly.

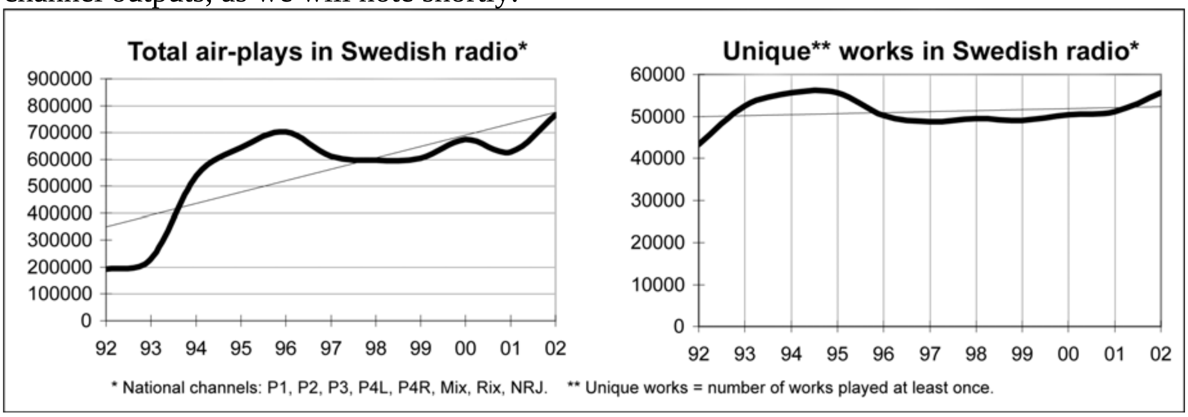

Figure 1: Number of air-plays vs. number of unique works played at least once in any of the national Swedish radio channels.

In 2002 the public service channel P3 reported some 72,000 performances of 18,000 works. The play lists of the three national commercial networks, Mix, Rix and NRJ comprised 2833, 4156 and 1036 unique works respectively in 1994. By 2002 the size of the play lists had shrunk to 1082, 952 and 481 works respectively, despite a total number of performances of between 100,000-150,000 per commercial network/annum. In other words there was a decrease in the size of play lists (diversity) between 54 and 77 percent.

Mix, Rix and NRJ represents three different formats: Adult Contemporary, Hot Adult Contemporary and Contemporary Hit Radio. These radio formats as well as most others all originate from the USA.

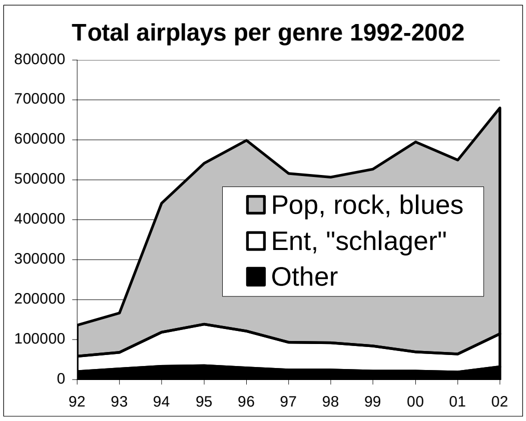

Figure 2: Usage of genres

Percentage overlap top 200, year 2002 (1994)

	P3	Mix	Rix	NRJ
P3		15 (18)	24 (30)	43 (37)
Mix	15 (18)		47 (20)	29 (26)
Rix	24 (30)	47 (20)		44 (19)
NRJ	43 (37)	29 (26)	44 (19)	

Figure 3: Overlapping play lists

The share of each genre has also changed over the years. The broad mainstream genre “pop, rock, blues” dominates the airwaves completely (fig 2 & fig 4 left) as a result of commercial radio. The fact that public service radio tries to follow commercial radio in terms of target group thinking, and market share focus, has influenced their own play list programming and has thereby reinforced this trend.

The radio channels 200 most frequently played tracks during the years 1994 and 2002 have been compared and fig 3 shows the change in percentage overlap between play lists. The increasing overlap in programming between formats, coupled with a decrease in played works is clear. It supports findings in a US-study [5] from by Future of Music Coalition as well as a recent Finnish study from the IFPI-affiliate ÄKT, and the copyright organisation Teosto [6].

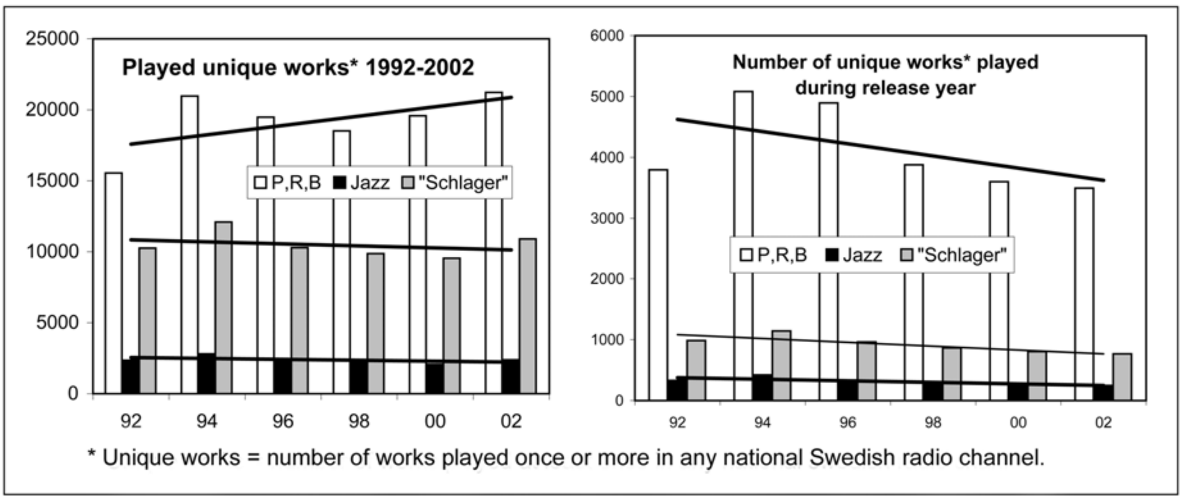

Figure 4: Left: Works played once or more (in any of the national Swedish radio channels) during year 1992-2002 for three different genres. Right: Works played once or more the same year as they were released.

It has also become harder to get works aired on radio channels during the year of release. An interesting fact is that there is apparently no exception for the dominant genre “pop, rock, blues”. Despite an increasing number of played unique works each year (fig 4 left) a decreasing number of new works in the genre reaches the play lists each year (fig 4 right).

5.2. – Increasing production of commercially available content

The above trends cannot be explained by a decrease of availability of recorded music products. The number of registrations of new musical works at The Swedish Performing Rights Society, IFPI’s statistics [7] over new music products released in the Swedish market and Sveriges Radios fast growing gramophone archive, all indicate the same tendency; There is an increasing production of available content from which gatekeepers can theoretically choose content in both the market and society at large. On top of this, affordable, high quality digital technology allows more and more individual and groups to produce their own recorded materials, and make them available either in a physical format (CD) or via the Internet.[8]

Every year, as we have noted, some 95,000 works are added to the Swedish Radio's record library and nearly 42% works of the total of the 2,4 million have been published during the last decade. The broad genre “pop, rock, blues” dominates followed by the genre “light entertainment music, dance combos and Swedish schlager”.

5.3. – Decreasing interest for radio channels

Some interesting figures about media consumption in Sweden can be gleaned in reports from the national radio audience survey company, RUAB, a company owned jointly by public service and commercial radio. According to figures [9] from 1996-2003, both commercial and, above all, public service radio have experienced problems in recruiting and retaining listeners in target groups 9-19 and 20-34. Figures over the listeners’ average time spent on radio shows a decrease by almost 12 percent, from 185 to 163 minutes/day, from 1997 to 2003.

A similar US study [10] shows time devoted to radio had decreased primarily among younger listeners; down 11 percent among teens aged 12 to 17 and down 14 percent among adults aged 18 to 24 between 1993 to 1999.

The most likely cause of this is a shift of consumer loyalty in certain demographic groups to alternatives on the Internet. At the height of Napster's popularity, the service is estimated to have had some 60 million users. The current figures for KaZaA, Morpheus and similar services are in the region of 100 million world-wide [11].

5.4. – Revenues have moved from record companies to the ISPs

A reason for the success for Napster, Morpheus and KaZaA has been the enormous range of choice. The music industries' attempts to offer “legal alternatives” in the Internet environment such as PressPlay and MusicNet have experienced major problems.

Despite much publicised launches in late 2001, they still have few subscribers and are not at all available outside the USA. Even spokesmen for these industry-sponsored services attribute their difficulties to the greater diversity available via P2P services such as KaZaA, despite the greater functionality, quality and reliability of the approved alternatives.

Consumers have spent and are still spending considerable sums on downloading music via P2P services. As a result some music industries revenues have been transferred, as it were, to Internet service providers, (ISPs) and telcos. A detailed Swedish study [12] concludes that the ISPs’ revenue per annum from consumers downloading music exceeds the annual net revenues of the recording industry. But the recording industry, which has been most vocal in the campaign against P2P services, is only one part of the music industry. Live concerts and touring is another area where incomes do not normally benefit the recording sector. These sectors seem to have benefited from P2P activities.

5.5. – Upswing for the touring business

Concert revenues and live attendance have been boosted as a direct result of an increased Internet usage, according to the touring business itself [13]. The concerts haven't become bigger but a wider range of genres has gained audiences and the total number of attendances has increased.

The concert community have experienced booming ticket sales over the Internet. On March 1 2003, the world's biggest online ticket reseller Ticketmaster [14] reported all-time-high selling 1,000,000 tickets in 24 hours, 53 percent of which were sold via www.ticketmaster.com. Many of these were concert tickets of which some sold via the print-at-home feature introduced already in 2000.

The Internet has successfully provided possibilities for improved communication with loyal fans, more targeted presales saving millions of marketing expenses and better consumer experience. The result has is win-win situation for promoters, performing artists, tour organizers and fans. Once again, this has not directly helped the recording industry - record contracts with artists rarely give the record company a share of concert revenues.

6. Conclusions

We are facing a time when even established record companies are experiencing problems in (a) bringing products to the attention of a broad audience, despite spending enormous amounts on marketing, and (b) losing money from decreased record sales. At the same time, radio is losing its younger listeners, i.e. the future target group for advertisers.

A consequence of concentration in ownership in traditional media channels is a decreasing number of gatekeepers and an unambiguous shift towards format thinking in terms of music usage. The number of programming formats and upcoming formats indicates however only a fictitious diversity due to the increasing degree of overlap between works on play lists.

A conclusion that can be made from this study's comprehensive statistics is a proven decrease in diversity in traditional broadcasting channels despite an increased production of media content.

A second conclusion is that present market strategies will only create losers in the long term. Large groups of listeners prefer diversity and therefore flee radio. Record companies and artists strive for airplays and thereby sales but face an increasingly harder market due uniformity in radio stations fighting each other for the same type of audience.

The music industry's early campaign against Napster and its successors has also had the counter-productive effect of boosting consumer interest in P2P services. This has led to a further increase in consumer demand for diversity.

Although the popularity of P2P services is not the only explanation for recent falls in global record sales (down 8 percent in units 2002), the unauthorised sharing of copyright protected material on the Internet and via CD-R's is equivalent to millions of Music CDs, some of which might have otherwise been sold.

Sweden's consumption [15] of CD-Rs has risen from 15 million (1999) to 70 million (estimate for 2003). Even so sales of "legal" recorded CDs have remained fairly stable (around 24 million per annum).

IFPI estimates [16] that P2P services had approximately three million users and 500 million files were available for downloading in May 2002. Some 200,000 web or FTP sites hosted or linked to some 100 million illegal music files. This pictures the enormous economic impact of P2P services.

The traditional music industry has much to learn from concert promoters' successful use of the Internet for value added services. For example by letting enthusiasts enjoy exclusive presales of tickets, get touring information in advance etcetera. In fact, in some cases their web services have offered additional functionality when consumers insert certain music group's CDs into the computer**.** [17]

The music industry as a whole needs to find ways of benefiting from the energy devoted to Internet usage and P2P services - at the same time improving profit margins through less advertising, cutting distribution costs and building relationship with loyal fans. But the industry value chain is long and intricate, with a number of interested parties whose relationships are not conducive to various forms of disintermediation. We have noted that record companies do not as a rule benefit directly from increased concert revenues (previously the benefit was indirect via more record sales). Value added services could provide exclusive presales or limited special editions of new singles, albums or accessories before they reach the stores. The traditional recording industry, however, has been wary of such moves, fearing they would alienate their longstanding relationships with physical retail outlets.

A second way to extend the survival of physical products (read CDs) would be to develop the packaging in order to reinforce the consumer's experience. E.g. unique numbering, exclusive inlays or designed cases, in other words; addition of value, even providing products personalised for an individual consumer.

The traditional music industry is also facing a huge educational problem when shifting from selling physical products to distributing digital music files. One issue is that digital music on the Internet has always been and is still considered as "free" by many of its users (even if this myth has been exploded by studies of consumer spending on downloading activities). The challenge is in persuading toady's users to shift to future "copyright safe" file formats, where DRM systems are not perceived as being over intrusive. Up to now the only successful "legal" offerings have come from outside the traditional industry (e.g. Apple's 2003 initiative). Even the flagship PressPlay (owned by Universal/Sony) has been sold to Roxio, a manufacturer amongst other things of software for CD and DVD burning.

We have seen very little evidence of co-operation between network providers and content owners. As mentioned earlier, huge resources have been devoted both in terms of time and money by consumers downloading mp3-files while connected to ISPs services, a direct loss to the traditional recording industry (but to the benefit of other parts of the music industry).

As this study demonstrates, neither the established recording industry, nor the existing radio industry seem to be following strategies which are compatible with such long-term business opportunities.

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