

Key Findings

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Voice of the Customer (Finally) Driving Music Industry Evolution

One of the hardest things about observing evolution — even business evolution — is that the pace is so slow that the turning points are not apparent except in retrospect. Does anyone remember when Digital Equipment Corporation or Wang Laboratories became irrelevant? They are gone today and have been for many years but at one point they ruled an important swath of the computer industry. Yet they fell into insignificance and disappeared.

Maybe a few astute business observers can pinpoint such a moment as it happens but for most of us it takes some time and distance from the event and only then in the shadow of a company's demise, can we say, "Aha! It was then and there."

Such a turning point probably occurred last week for the music industry when a federal appeals court ruled that companies that produce file sharing software could not be enjoined from doing so by music companies concerned that the technology could also be used to illegally copy music from one computer to another. The music industry could appeal to the Supreme Court but the outcome is likely to be the same.

At the heart of the decision was a 1984 federal court ruling that said that the now ubiquitous VCR could not be banned for the same reasons. Because the technology also had many legitimate uses the court could not hold manufacturers responsible for how the technology was employed by end users.

Music's tipping point

Rest assured that the music industry is not about to go away, but it is well on the way to a major transformation — made difficult by its resistance to change and nevertheless made inevitable by the habits of its customers. At the heart of music's internecine conflict with its customers is the issue of copyrights but from another perspective this is a pure customer relationship management issue and the industry has mishandled it since the get-go. The customer is simply telling the vendor how it wants to transact and the vendor is doing a good imitation of the "hear-no-evil" monkey.

In its zeal to protect copyrights the music industry has gone to great lengths to inform customers of all the opportunities they have to pay for music. If you like a particular song or collection, then by right you should pay for it — once. But the industry has never

successfully addressed ways in which a music lover might legally listen to a song both at home and at work or in the car without either schlepping a bunch of tapes or CD's around or by purchasing additional copies at full price.

The industry's challenge — duplication

Duplicating devices have been around for a long time — there were even low cost 8-track recorders — but they never seemed to have the negative impact on sales that new technologies have. With the arrival of the Internet and file sharing software, pirated versions of songs can be distributed around the world in seconds seriously eroding an artist's ability to earn a living from his or her work and compromising the industry's profit potential.

Perhaps if the music industry had taken a more positive and proactive stance to the issue of copying when it was simply an issue of making a spare cassette for personal use, we wouldn't be in the position we are in today. To have done that would have required listening to the customer or at least observing how the customer was using the industry's products, which amounts to the same thing in this case.

Video industry offers alternative vision

In contrast the video industry took a more customer centric approach and has reaped significant rewards. Although blank tape continues to sell and people use it for all sorts of purposes including taping TV programming, copying and storing family memories, taping the kids growing up, and the like, serious problems with piracy — at least in the US and other developed countries — does not seem to be a big problem. And why should it when, for a few bucks you can rent a movie while you're out getting bread and milk.

Music ought to be an even easier fix and the solution has already been premiered by companies like Apple Computer with its iPod and iTunes product and service. For a buck or so, a listener with the intent to do the right thing can download a song and be done with it — even easier than renting a video. True, the music industry might be leaving money on the table if it goes whole hog on this but maybe not.

CRM = making nice with your customers

It is the nature of markets that as products reach commodity status, they decline in price. The recording industry, artists and executives, don't always make it up on volume, but nobody goes broke as a direct consequence either. And the music industry offers what may be the fastest refresh rate of any other industry with products coming out daily so there is always new product for which they can charge full fare.

Making songs easier to legally buy and use doesn't mean the problem would be solved. There are plenty of countries around the world that may have signed global trade agreements but that still do an abysmal job of copyright protection and other solutions will need to be found by purveyors of all types of intellectual property, but first things first. The music industry has been fighting a very slow battle of attrition with its customers for decades and it's time the industry started listening to its customers and stopped biting the hand that feeds it.

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