

THE MUSIC INDUSTRY AND ITS ROLE IN THE GLOBAL ECONOMY

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Abstract

The paper presents the essence and structure of the music industry, analyzes its current state and outlines the latest trends in its development. The thesis is argued that this industry has a global character and is significant for the global economy. The annual report of the International Federation of the Phonographic Industry is presented and analyzed. Example of a leading company operating in the global music industry is also presented. The paper ends by outlining and commenting on some future trends in the evolution of this industry.

Keywords: global music industry, recording industry, International Federation of the Phonographic Industry, global economy

JEL classification: L82, F010

Introduction

The paper is focused on the essence and structure of the global music industry. The music as an economic good is discussed. Global recorded music as a main sector of this industry is analyzed in more detail. A thesis is argued that this industry is really global and is significant for the world economy. The paper aims at analyzing the current state of the industry, specifying the driving forces of its evolution, outlining the latest trends in its development and sharing some ideas about its future.

Is music industry global?

In order to answer this question, we have to give a definition of global industry. There are many different definitions. For example, according to Porter (1980) „a global industry is one in which a firm's competitive position in one country is significantly influenced by its position in other countries“. This means that a company operating in a global industry, carries out its business activity in more than one country, and its competitiveness has a global character. Ohmae (1990) comments that in a globalized industry there are only global players. In addition, Friedman (2005) points out that „The playing field is being leveled. The world is moving from a world of countries to a world of global industries and corporations.“ Many authors in the field of international economics and business consider that contemporary world economy driven by globalization and internationalization, it depends on global industries and competition is on a

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global base. Based in the cited and other definitions we can summarize that a global industry is an industry, in which the companies operate on international markets, offer global products, serve global customers and compete on a global scale. Global industries have the following specific characteristics:

- Global markets reach. Companies, operating in global industries, perform their business across national borders, i.e. they have business operations in many countries and regions of the world.
- Global competition. Companies compete on a global basis, i.e., with other global players in the same industry.
- Global products and customers. Companies offer global standardized products to global customers.
- Transnational strategy. Often companies need „to balance the need for standardization to achieve economies of scale with the need for adaptation to meet local preferences.“ (Yip, 1992). This is the so-called glo-loc principle, realized in the transnational strategy according to Bartlett & Ghoshal (1998). This strategy is characterized by a high pressure for global integration and a high pressure for local responsibility. In transnational strategy, the company combines the two pressures, taking advantage of specialized knowledge and learning on a global scale. Therefore, there is a high degree of interdependence of national and regional markets. This corresponds to the idea of Porter (1980) for interdependence of company's competitive position in different countries, cited above. I.e. changes in one country or region can significantly influence business activity and consumer behavior and demand in other countries and regions.
- Global brand. Most of the companies build powerful and recognizable global brands. Brand identity is strong, coherent and clear. Customers understand the value that the company gives them.
- Economies of scale. Due to their size and scale of their cross-border operations companies from global industries are able to achieve economies of scale and use them as a source of competitive advantage in the global market.

What about music industry? Is it global? We can confirm this because contemporary music industry consists of companies which operate across national borders, compete globally and reach audiences in all over the world. Moreover, global music industry is driven by new technologies (for example, streaming platforms, artificial intelligence, etc.) and is influenced by culture, cultural differences and cultural exchange. Tschmuck (2021) comments that „the music industry is one of the most dynamic and fascinating business sectors. Its business model has had to evolve and adapt to continually changing technologies that impact at every level from distribution to artist management.“ This comment shows that the music industry has a dynamic nature and emphasizes its dependence on new technologies, which requires it to constantly change as well, in order to adapt to the dynamics of the international business environment in which the companies of this industry operate. According to Krueger (2019) „the music industry is a leading indicator of today's economy; it is among the first to be disrupted by the latest

wave of technology, and examining the ins and outs of how musicians create and sell new songs and plan concert tours offers valuable lessons for what is in store for businesses and employees in other industries that are struggling to adapt.“ This quote highlights the importance of music industry in world economy. An online publication by BBVA Switzerland is entitled „The music industry: the 5th global market“ (BBVA). The same publication points out that „music industry contributes \$170 billion to annual GDP and supports 2.5 million jobs just in the United States“. According to the IFPI Global Music Report 2024, cited and analyzed by Wilson-Bushell & Clover (2024), the global recorded music market, which is the main part of music industry, records growth for the ninth consecutive year. The authors point out that „global recorded music revenues grew by 10.2% in 2023, a positive increase from the 9% growth rate recorded in 2022, climbing to a total of \$28.6 billion“. Moreover, the same authors mention that the US is the world’s largest single market for recorded music, and „US and Canada combined make up 41% of the global recorded music revenues.“ Below we will discuss the IFPI Global Music Report 2024 in more detail, but first let’s comment the essence of music as an economic good.

Music as an economic good

In the center of global music industry is music viewed as an economic good. Krueger (2019) says that „to truly understand and appreciate music, you need to understand economics.“ Tschmuck (2021) characterizes music as follows:

- **Luxury good.** Music is type of an entertainment good. From an economic point of view, the price elasticity of its demand is higher than 1, which means that a smaller change in price leads to a higher change in demand. Moreover, higher income results in a disproportionally higher demand, and the demand disproportionally decreases if disposable income is reduced.
- **Public good.** For example, it is not possible to limit or exclude people from listening to an open-air live music and also there is no rivalry in consumption, because the individual perception of music and enjoyment from music are not influenced and reduced by the presence of other listeners.
- **Merit good.** Music generates strong positive externalities when they are consumed, i.e. music consumption offers more benefits to society as a whole than to individual consumers. It follows that „consumer sovereignty should be replaced by social preferences“ (Tschmuck, 2021). The author indicates that „classical music is more meritorious than popular music, which is hardly subsidized“. This is true because classical music usually is associated with a high degree of cultural and artistic value, as well as with enriching and contributing to the well-being of individuals and society as a whole (Moenroe, 2023).
- **Club good.** According to the Club theory (Buchanan, 1965; Chohan & D’Souza, 2020) club goods are non-rivalrous (i.e. they do not wear out, and their value doesn’t decline with each subsequent use) and non-excludable (all individuals

are free to use them equally). The value of the music does not decrease with each repeated listening, and at the same time every user can listen and perceive the music individually without restrictions. Also, a good is a club good if access to it is restricted but with there is no rivalry in consumption. According to Tschmuck (2021) examples of music as a club good are music performances in concert and festival venues.

- Information good. Music contains a kind of information which can be transferred from one individual to other via knowledge transfer mechanisms. Moreover, music is an experience good, and the music consumer needs to collect information before perceiving and experiencing the music.
- Common good, i.e. a good that is non-excludable (all individuals can access it) but rival in consumption (there are some restrictions in its use). For example, sound recordings are usually protected by copyright. This means that permission must be obtained in order to use a specific recording.
- Private good. If music is excludable and rival in consumption, i.e. there are restrictions to its access and consumption, it is a purely private good. Examples are vinyl records, CDs and paid downloads of music tracks.

The ideas of Tschmuck (2021) give us much guidance on defining and characterizing music as an economic good. It is clear that music has specific and unique characteristics that differentiate it from other economic goods. Let's mention some of them:

- Music is an intangible good, it doesn't have a physical form, it cannot be touched or moved or stored;
- Music can be experienced, its value is manifested during and after consumption;
- Music has cultural and emotional value, it is difficult to determine its price and transform it into a commodity;
- Music is a form of intellectual property, it is protected by copyright laws;
- Music is an inexhaustible good, i.e. its consumption by one individual or group doesn't affect its quality and value;
- Music can be accessed by customers from all over the world and distributed worldwide, including via digital platforms;
- Music is a global good but regional preference sometimes play a significant role in its consumption due to cultural and other differences, which means that music embodies the glo-loc principle;
- Music distribution around the world is a form of cultural transfer and exchange between countries and regions.

Structure of the global music industry

There are several sub-industries that are part of the global music industry:

- Recorded music. It includes record labels – the big three major companies (Universal Music Group, Sony Music, and Warner Music Group) and independent

labels, known as indies. Distribution of music – physical channels and digital platforms, and providers of technologies are also included here;

- Live music. It includes organizers of live concerts and music events and festivals, as well as music tourism (as a part of cultural tourism);
- Music and artist creation and management, including composers, performers, text-writers, copyrights, licensing of music, career development, producers, etc.;
- Music publishing (music scores);
- Musical instruments production and distribution, including international trade;
- Artist merchandising.

Global recorded music industry – state of the art and trends

Now we will focus on global recorded music industry. From its beginning in 1877 when Thomas Edison invented the phonograph, this industry has evolved and changed significantly. The main driving forces for its development and transformation are the new technologies, consumers and their changing behavior, and the rise of new business models. We can distinguish between several eras in its evolution marked mostly by the development of sound recording and sound reproduction technologies. The first era is associated with the invention of sound recording (the phonograph) and playing (the gramophone and vinyl records). This period comprising the years between 1877 and the beginning of the 20th century is characterized by the foundation of the first record labels, for example Victor Talking Machine Company and Columbia Records. After the use of the radio as a main channel for music listening between the two world wars, the LP era follows (after the Second World War till the early 1970s). After that we have the CD and audio cassette era (from 1970s till 1990s). The introduction of the World Wide Web in 1991 leads to the digital era of global recorded music industry – compressed audio formats like MP3 and platforms for sharing and downloading music files. Finally, with the launch of Spotify in 2008, the contemporary era begins associated with music streaming and the revival of vinyl records.

The global recorded music industry is dominated by the so-called Big Three global companies – Universal Music Group, Sony Music Entertainment and Warner Music Group. The Big Three comprise over 70% of the market share. The other 30% are represented by smaller independent music companies known as indies (indie labels).

An interesting business case can be analyzed which is an example of a best practice in music industry – the independent music company Naxos Music Group focused on classical music and famous for its innovative business model. Naxos is in fact the leading classical music company in the world, as stated on its official website (<https://naxosmusicgroup.com/>). The company was founded in 1987 by Klaus Heymann, a German-born entrepreneur and music lover based in Hong Kong. Nowadays the group is a global network of companies which provide different services, mainly distribution and licensing, to many independent and major CD and DVD labels. The group has fifteen subsidiaries and 40 distributors. Naxos is known for its low prices on classical music

CDs and DVDs, which is due to hiring lesser-known but talented orchestras and up-and-coming artists. Part of the group is Naxos Global Logistics which offers services for many different types of products and industries, including media publishers, mail-order and online retailers for books and other media, electronics, car and motorcycle parts and home wear, and even clients from the fashion industry (<http://naxos-gl.biz/en/>). We can resume that competitiveness of Naxos business model is based on several elements:

- A niche specialization – focus on classical music;
- Efficient production costs and global partnerships – combination between affordability and high-quality recordings;
- Digital transformation – the introduction of the streaming service Naxos Music Library, devoted to classical music;
- Strong partnerships with universities, conservatories, music schools and public libraries;
- Support of many educational resources, for example the booklets of the CDS which contain detailed information of the work, its composer, the performers, as well as a music analysis of the corresponding work;
- A global distribution network devoted to the distribution of Naxos own recordings as well as the recordings of other indies;
- Artist development;
- Brand recognition.

Let's make a short SWOT analysis of Naxos Music Group. The main strengths of the company are its leadership in the classical music niche market, the low costs, the educational focus including information about composers, works and performers, the huge catalog of popular and less-known composers and artists, the digital streaming services and the global distribution network. Some of the weaknesses and problems that Naxos faces, are related to the limited profits resulting from the lower prices, the narrow focus on only classical music, the high dependence of CDs and DVDs which lose market share and consumer interest at the expense of streaming services and digital formats. The development of streaming services, the implementation of new technologies, the resurrection of vinyl records, the focus on customers and artists from emerging markets and the strategic partnerships with schools, universities, libraries and other educational institutions as part of the social dimension of sustainability give opportunities to the company to grow, achieve and maintain long-term competitive advantage and increase its reputation and profits. The competition from other indies as well as the Big Three and streaming platforms, the declining demand for physical music formats, the copyright and piracy problems in some countries in which the company operates form the main threats and risks. In resume, Naxos Music Group has a high potential to innovate, grow and strengthen its competitive advantages and global market position.

IFPI Global Music Report 2024

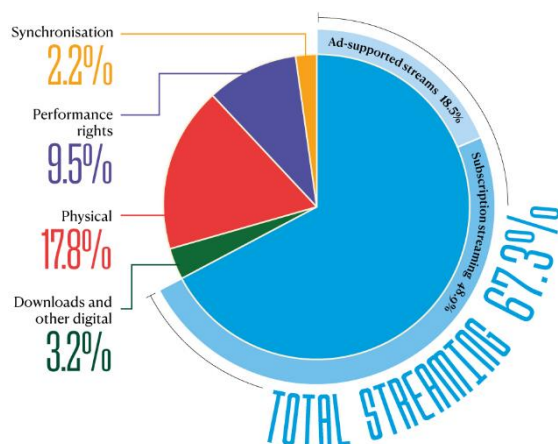
The International Federation of the Phonographic Industry (IFPI) is a non-profit organization representing the interests of recording industry worldwide. IFPI and its network of National Groups and Local Associations represents the interests of about 8000 members from 70 countries of the world. Its mission is to promote the value of recorded music, to campaign for the rights of record producers and to expand the commercial uses of recorded music (IFPI). Every year the organization publishes a Global Music Report which includes detailed data and analysis of recorded music revenues at national, regional and global level. According to the last report from 2024, analyzed by Smith (2024), Paine (2024) and other authors, the following trends in global recorded music industry can be identified:

- Revenue growth. The global recorded music market generated \$28.6 billion total trade revenues in 2023, representing a 10.2% year-over-year growth, the ninth consecutive year of growth.
- The top five markets are USA, Japan, UK, Germany and China.
- On a global scale, streaming services continue to dominate. Streaming revenues accounted for the majority of revenue growth and claimed a 67.3% of total revenues. Subscription streaming revenues alone grew by 11.2% and made up 48.9% of the global market, i.e. the leading type of streaming services.
- Physical formats like vinyl records and CDs were reborn. Revenues from physical formats grew by 13.4%, with vinyl records continuing to increase its importance. Sales of physical formats were worth \$5.1 billion in 2023 and accounted for 17.8% of the overall global recorded music market.
- A revenue growth is observed in all regional markets, with Latin America and China experiencing the biggest increases (by 19.4%, and 25.9%, respectively).

Figure 1 presents the global recorded music revenues by segment in 2023. The diagram shows that streaming services have the largest share, with subscription streaming services leading among them. In second place are physical formats, followed by performance rights in third place, downloads and other digital in fourth place, and synchronization in the last fifth place.

The Global Music Report 2024 also mentions some problems and challenges related to global recorded music industry, including streaming fraud and copyright (piracy), and some concerns over the impact of artificial intelligence on music composition, performance and copyrighting.

The data and analyses made by IFPI and published in its last Global Music Report highlight some of the future trends in global recorded music industry: the continued growth and especially in emerging markets; the dominance of streaming services; the new technologies like artificial intelligence, virtual and augmented reality, and the challenges that their implementation faces; the commitment to sustainability and the implementation of sustainable initiatives; and the challenges related to copyrighting in digital formats distribution, piracy and the need to develop new regulations in this field.



Source: IFPI – Industry data. <https://www.ifpi.org/our-industry/industry-data/> (last accessed: 30.09.2024)

Figure 1. Global recorded music revenues by segment in 2023

Conclusion

In conclusion, the global music industry is dynamic and it plays a significant role in the world economy. Recorded music as a main sector and its continuous growth has economic implications contributing to the digital economy development, job creation and economic growth of countries and regions, especially emerging markets, and income generation through intellectual property rights leading to an economic prosperity. The sector has cultural implications too with recorded music and its distribution serving as a cultural export, encouraging cross-cultural exchange between countries and regions, and thus contributing to the achievement of the social goals of sustainability. At the same time, challenges to the future evolution of the industry are new technologies and their accelerated development, as well as problems related to the regulation and protection of intellectual property rights. It is expected that in the future, global music industry will continue to evolve and maintain its significant place in the world economy.

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