

Critical Decision

Business At The Crossroads, Making Bold Decisions

By Hank Moore, Corporate Strategist™

Forces in the recording industry have announced intentions to cease production of compact discs and convert their music marketing to digital downloads. That is a dangerous course of action and stands to further devastate a music industry that has systematically killed the golden goose over many years.

The CD issue (including those who advocate obliterating the medium) is symptomatic of the bigger watersheds that have crippled and ruined large chunks of the music industry:

- Not understanding business basics.
- Taking decisions away from the creative people.
- Focusing only on the technology, not on the creative output.
- Not understanding the totality of the music industry, with recording as a stakeholder.
- Failure to learn from the past.
- The trends toward over-formatting of radio.
- Deregulation of broadcasting.
- Failure to collaborate, bundle products or combine efforts to create advantage.
- Failure to understand and nurture relationships with the retailing industry.
- Failure to plan for the present.
- Trends toward homogenization of culture that resulted in drastic cuts in the quantity and quality of original music programming available.
- The music industry responding to uncertainty by scapegoating the wrong people.
- The international marketplace responding as entrepreneurs by taking up the slack and addressing the "missed opportunities" by the American music industry.
- Making knee-jerk decisions based upon partial information and wrong hunches.



In 1877, Thomas Edison introduced the cylinder, developed originally for business office use. It was the earliest dictaphone, whereby messages would be recorded by a needle on a rolling tube. In 1888, Emile Berliner invented the phonograph record, for the purpose of transporting music to consumers. Columbia Records (now Sony) was founded in 1898, followed by RCA Victor Records in 1901. Edison missed his chance to influence the recording industry by sticking with the cylinder medium, not converting to phonograph records until 1912 and getting out of the recording business in 1929.

The radio industry began as a multi-city network that piped recorded music into department stores. In 1920, the first radio sets sold by Westinghouse to promote its first station, 8XK in Pittsburgh, PA. In 1926, NBC Radio signed on the air, followed by CBS the next year. In addition to news and other entertainment shows, a large portion of radio programming was attributable to music, and a long growth relationship with the record industry was sustained. Stars came on variety shows to promote their releases, and the era of radio disc jockeys was firmly secured in the public culture.

The media of music distribution was the 78RPM record. It was bulky, breakable and limited the amount of music on each side. Record companies put multiple discs into sleeves, calling

them "albums," terminology still existing today. Further packaging enabled various-artist albums and collections of "greatest hits" (those two categories accounting for half of all CD sales, which would be wiped out by going all-digital).

The two major labels developed non-breakable records playing at slower speeds, with thinner grooves and more music on each side, producing a cleaner sound. Columbia introduced the 33-1/3RPM long playing vinyl record in 1948. RCA Victor introduced the 45RPM vinyl record in 1949. Why those speeds? They were combined derivatives of 78RPM, known by engineers as "the mother speed." CDs play at 78RPM, a technological updating of Emile Berliner's 1888 invention of the phonograph record.

The 1930s and 1940s were massive-growth periods for the recording and broadcast industries. Along came other record labels: Brunswick, Decca, Capitol, Coral and jazz imprints. Movie studios got into the record business. Entrepreneurs brought Atlantic, King and other labels to showcase black artists and country music (two major growth industries attributable to the interrelationship of radio and records). Then came the international recording industry, which is the major user of CD technology.

The 1950's saw exponential growth of the recording industry. There were more retail outlets for the music than ever before or ever since. One could buy music at every grocery store, department store and unexpected locations. There was an industry of sound-alike records, sold at reduced prices. All families had phonographs, thus stimulating record sales and thus encouraging other technologies to bring music into cars (emerging as homes in our mobile society).

The emergence of teens as the primary record buyers was fed by TV shows, increased disposable income and recording artists catering to younger audience. Due to broad radio playlists, there was ample airplay for every musical taste, and the record industry continued to grow. Independent record labels proliferated, as did recordings by local artists around the country.

At every juncture, there were transition periods in the adoption and acceptance of new media. For the first 11 years of 45RPM records and LPs being manufactured, there were still 78RPM discs on the market. Throughout the tape formats, there were still records. With the advent of Compact Discs, there were still records and cassette tapes on the market. To now rush to conversion of all music to digital downloads is short-sighted and stands to kill markets and after-markets for CDs that still have another 20 years to run.

To kill the CD makes poor business sense. 78RPMs were phased out because better technology was developed. Quadraphonic was technology glitz but did not make good business sense. 8-track tapes were only meant to be an interim medium, until CDs were developed. CDs are the dominant medium and are economical to produce.

Killing CDs is a bean counter move and is contrary to the heart of the music business. CDs enable local bands to have records. Computer downloads are convenience items and impulse purchases. People's listening frequency and intensity is different (and significantly reduced) through computer downloads.

Nothing still says "record" like a CD in a plastic case, where the album is as much in the packaging as the content material on the disc. Lose the "record album," and the music industry will never be the same.

If I were advising the industry, I would steer them toward:

- ✓ Stimulating a culture where excellence in music would be encouraged, thus improving the quantity and quality of music being recorded.

- ✓ Creating a music industry where the products would be more worth buying. There are still higher profits in album sales, rather than Internet song downloads (the modern equivalent to the 45RPM single).
- ✓ Thinking of music distribution in directions other than just the Internet.
- ✓ Stimulating the global record industry.
- ✓ Encouraging TV shows to once again have theme songs and movies to get back to real musical soundtracks (not just the current drum crashing noise effects).
- ✓ Remembering that nearly half of all record sales and downloads involves repackaging older music product for new audiences.
- ✓ Finding ways to promote local acts around the world.
- ✓ Working with radio programmers to get playlists expanded. Music has to have the interactive exposure via radio. Nurture programmers of internet radio shows as the best new opportunity for expanding music exposure.
- ✓ Understanding the after-market of music resellers.
- ✓ Recognizing downloads as "low hanging fruit." Do not put all your industry's distribution in one area, because that one area will always change.

The much-needed regeneration of the music industry to make a comeback and reclaim its past dominance takes time, energy, resources and lots of heart to produce. Couch planning as the only way to avert a crisis. Changing technologies does not equate to planning and strategy development. ♦

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