Competitiveness, Local Production Systems and Global Commodity Chains in the Music Industry: Entering the US Market

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POWER D. and HALLENCREUTZ D. (2007) Competitiveness, local production systems and global commodity chains in the music industry: entering the US market, Regional Studies 41, 377–389. This paper traces the principal channels and barriers that determine the conditions of success for musical products entering the US music market. It is shown that music distribution channels and retail environments exist in a networked commodity chain dominated by a limited set of oligopolistic global firms. The journey of a foreign musical product to market in the USA is a difficult one through a set of globally interlinked but highly fractured and localized commodity pools and channels. It is suggested that to understand success or failure in music sales and better develop regional production milieus, one must first understand those who control the distribution channels and retail environments through which sales are made.

Music industry Economic geography US music market Commodity chain Competitiveness Local production systems

POWER D. and HALLENCREUTZ D. (2007) La compétitivité, les systèmes de production locaux et les chaînes d’approvisionnement mondiales dans l’industrie de la musique: prendre pied sur le marché américain, Regional Studies 41, 377–389. Cet article cherche à localiser les principaux circuits et barrières qui déterminent les conditions préalables à l’entrée des produits de musique sur le marché de la musique américain. On démontre que les circuits de distribution de la musique et les surfaces de vente existent sous forme d’une chaîne d’approvisionnement en réseau dominée par un nombre limité d’oligopoles mondiaux. Pour un produit de musique étranger, prendre pied sur le marché américain s’avère difficile, en passant par un nombre de bassins et de chaînes d’approvisionnement reliés sur le plan mondial mais à la fois hautement fissurés et localisés. L’article laisse supposer que, dans un premier temps, il faut comprendre ceux qui contrôlent les circuits de distribution et les surfaces de vente par lesquels les produits se vendent pour comprendre la réussite ou l’échec des ventes de musique et mieux développer l’espace de production régional.

Industrie de la musique Géographie économique Marché de la musique américain Chaîne d’approvisionnement Systèmes de production locaux


Musikindustrie Wirtschaftsgeografie Musikmarkt der USA Warenkette Konkurrenzfähigkeit Lokale Produktionssysteme

POWER D. y HALLENCREUTZ D. (2007) Competitividad, sistemas de producción local y cadenas globales de mercancías en la industria discográfica: cómo entrar en el mercado estadounidense, Regional Studies 41, 377–389. En este ensayo exploramos los principales canales y obstáculos que determinan cuáles son las condiciones necesarias para que los productos musicales puedan llegar al mercado musical en los Estados Unidos. Demostramos que los canales de distribución de las discográficas y los minoristas funcionan como una cadena de mercancías conectada y dominada por una serie limitada de empresas internacionales oligopólicas. El viaje que hace un producto musical extranjero hasta llegar al mercado estadounidense es un proceso difícil que tiene que pasar...
**INTRODUCTION**

Research on the music industry has long tried to understand why it is that certain places have been unusually productive crucibles for the creation of popular music (HESMONDHALG, 1996; SCOTT, 1999a, b, 2000; DU NOYER, 2002). Cities such as New York, Los Angeles, and Nashville, Tennessee, and London in the UK have often been pointed to as accounting for a disproportionate share of hits and artistes. It is perhaps not surprising then that explanations of success on global music markets have also tended to focus on the role of certain places in creating musical innovation and commercial success. SCOTT (1999a) suggests that spatial agglomerations in the music industry are important because they are not just:

- spatial accumulations of physical capital, but also evolving pools of human skills and aptitudes.

(p. 1874)

These pools or communities of workers, he continues, are:

- the preserve of accumulated traditions and conventionalized sensibilities … and they function as potent frameworks of cultural reproduction and arenas of socialization.

The message here, as in many modern agglomeration accounts, is that spatial clustering and agglomeration seem particularly important to the development of different types of ‘soft infrastructures’ that are in turn crucial to commercial success. Competitiveness then, even in highly global product markets such as music, relies on local capacities and milieus where the sharing of:

- conventions, common languages and rules for developing, communicating and interpreting knowledge

(STORPER, 1995, p. 206)

makes for better and more competitive products.

This account of competitiveness being rooted in local milieus and knowledge creation resonates well with a growing theoretical literature in economic geography and related disciplines that stress the importance of local capabilities for firms’ ability to create and sustain international competitiveness. Indeed, a veritable flood of literature and new approaches to economic geography have emphasized the centrality of the local in the determination of competitiveness, e.g. innovative milieus (CAMAGNI, 1991; MAILLAT, 1995), untraded interdependencies (STORPER, 1995), industrial clusters (PORTER, 1990), regional innovation systems (COOKE and MORGAN, 1998), industrial systems (SAXENIAN, 1994), and Neo-Marshallian nodes (AMIN and THRIFT, 1992). The popularity of such approaches has meant that whether one is talking about biotechnology or music, it is now largely assumed that strong products built in knowledge-based production centres are what determines long-term success (MALMBERG and POWER, 2005).

It is undoubtedly true that due to their unique mixes of creative and productive factors, certain places have been especially good at making commercially successful music. However, it is problematic to make a further assumption that is deeply embedded in the literature on the music industry (and indeed other artistic or cultural industries; POWER and SCOTT, 2004), i.e. that it is almost entirely due to the competitive, sometimes even artistic, qualities of the music produced in these places that market success is secured. Whilst quality products and production are, of course, central to explaining competitiveness, the present authors think that there has been a neglect of systems of distribution, retail, and market dynamics in explaining product success and market entry. As NEGUS (1996, 1999) and others (DU GAY and NEGUS, 1994; ALEXANDER, 1996a) have pointed out, distribution and marketing cannot be neglected. This literature draws attention to the idea that it is crucial to connect the widespread appeal of an artist (or genre) with the systems of production and distribution that have put a ‘global’ superstar in the position to be globally popular in the first place. There may be many musical styles and artistes around the world that have the potential to be universally enjoyed by large audiences, but in reality some of these genres/artistes are more likely than others to be prioritized by the global music industrial system (NEGUS, 1996).

In contrast to causal explanations centred on dynamic creative milieus, a growing literature on the complexities and inequalities inherent in global commodity chains points out that no matter how good a product may be, the conditions of access to markets are crucial in deciding a product’s success (GEREFFI, 1994; GEREFFI and KORZENIEWICZ, 1994). Just as with other commodities that flow freely around global markets, popular music products encounter a range of gatekeepers in their journey to foreign ears. Thus, it is extremely important to export-oriented musicians...
and firms to understand the channels, entry points and problems associated with getting access to their target markets.

It is suggested here that in order to understand why certain products are successful one cannot just look to the place of production. It is argued that in order to understand consumer product markets, one should work from the interlinked assumptions that (1) successful products tend to be based on strong local production systems, but (2) the processes and dynamics of the selling, distribution and retail in destination markets have profound effects on products’ success. It is not only then in local ‘buzz’ (Storper and Venables, 2002) and innovation systems that competitiveness has its roots, but also in ‘pipelines’ (Bathelt et al., 2004) and commodity chains (Gereffi, 1994). Gereffi argues that the success of many products is more often determined by globally dispersed buyers’ demands than by the way the product is produced in a local production centre (Gereffi, 1994; Gereffi and Korzeniewicz, 1994).

The objective of the present paper is not to discuss the nature of regional innovation systems, etc. or the failings of ‘new regionalist’ and ‘institutionalist’ accounts to take full account of processes operating at different socio-economic and spatial scales. Nor is its objective to examine or explain ‘pipelines’, commodity chains, and the (territorialized) power relations within and across value chains — although it touches upon these issues. Rather, the aim is to explore empirically the need for more complex approaches to economic geography and for the need to explore further the relationship between localized production and market dynamics. This is done by focusing on the complex relations of access and gate-keeping that structures the US market for recorded music.

In the rest of the paper the conditions and problems of entry foreign musical products incur in relation to the US music market are examined. In particular, the paper focuses on the processes associated with ‘breaking’ and selling a foreign musical product in the USA. Above all, the paper focuses on the sale of physical media — music embedded and sold on various types of plastic: audio formats (singles, LPs, CDs, DVD audio, etc.) and music video formats (DVD, VHS, VCD). The authors do not deny that the new possibilities afforded by electronic distribution of music over the internet or mobile telephony have had a seismic effect on the music industry (LeysHon, 2001, 2003; Alderman, 2002; Ku, 2002; Power and Jansson, 2004; LeysHon et al., 2005) and are likely to recast the music industry even further in the future. What is acknowledged is that — like many other consumer products — music is still largely sold in physical formats in physical retail spaces.

The paper argues that one of the reasons that foreign content has been less successful within the US market has been due to difficulties in accessing US distribution channels. Four elements in accessing such channels are singled out for treatment: the process of promoting or ‘breaking’ an act; the licensing and distribution system; the role of retailers; and the current restructuring of the US market’s priorities.

METHODS

The results reported in this paper draw not only on extensive analysis of available academic, popular, and industry press and literature on music and the US music market, but also on qualitative research undertaken by the authors. The majority of the material collected came from a series of face-to-face interviews carried out with music industry actors in New York during October 2002. Further interviews in 2003 and 2004 complemented this initial series. Executives from all the major record companies, several of the highest grossing ‘independent’ record companies, smaller record labels, the largest distribution firms, several of the biggest music retail chains, and New York-based foreign trade promotion authorities were interviewed. Telephone and email interviews were also carried out with companies and industry organizations located outside New York, principally in Los Angeles.

In the following text some of the interviewees and their firms will be named, but for reasons of confidentiality many of the respondents will not be named or directly referred to. In the course of the research the authors were frequently presented with legally binding agreements not to name specific sources or their employer. When interviewing and contacting the larger firms (both the ‘majors’ and ‘independents’) all the contacts first cleared the meeting with their firm’s legal department/lawyers. In several cases meetings that had been arranged were cancelled at the last minute due to ‘legal advice’. Whilst legal concerns undoubtedly affected the sample, respondents were found to be more than happy to talk at liberty once it was understood that company secrets were we not of interest. This level of paranoia about information leaking out and being attributed signals both the level of competition in this knowledge-based industry and also the importance to firms/actors of their reputations.

In addition to the research conducted in the US, the paper draws on research undertaken as part of two broader projects on the popular music industry in Sweden and the Nordic countries (Hallencreutz, 2002; Power, 2003). Carried out during 1999–2004, these two projects involved over 150 face-to-face interviews, complemented by numerous informal contacts and conversations with industry actors at various industry events.

The interview sample for all the above was selected to represent firms and organizations operating in four broad core sectors (Fig. 1). Whilst attempts were made to approach and cold-call actors, the difficulties and...
demands of corporate interviewing (SCHOENBERGER, 1991; CLARK, 1998) meant that the vast majority of the interviewees came through earlier contacts. Though such a snowball method involves sampling problems, in this case it gave invaluable information on the structures and conditions of access to different players and on the hierarchies and networks of the industry.

THE MUSIC INDUSTRY AS AN INDUSTRIAL PRODUCTION SYSTEM: THE GLOBAL MUSIC MARKET AND THE USA

Although the modern music industry has its roots in the early 20th century – when technological innovations made reproduction rather than concerts and sheet music the basis of the industry – its present shape and size owes much to European and American youth’s rising incomes and personal experimentation from the 1950s onwards (ELIOT, 1990; FIRTH, 1992; BURNETT, 1996; SADLER, 1997; ANDERSEN et al., 2000). In order to meet this rising demand, an industrial system has grown up that encompasses a wide range of firms and specialisms.

Music’s industrial system involves aesthetic and industrial production which is embedded in a number of distinctive economic and culture-producing functions and intermediaries that support different phases of the production chain (SCOTT, 2000). The production of music is less a series of linear activities undertaken by different atomistic firms/creators than a number of intersecting areas – networks – where ideas and commodities are circulated amongst individuals and firms. LEYSHON (2001) suggests interlinked networks characterize the music industry:

1. A network of creativity, formed from the fusion of networks of composition and representation, wherein music is created through multiple acts of performance;
2. A network of reproduction, which is a narrower definition of the original network of repetition, and which includes the manufacture of multiple copies of audio recordings; third, a network of distribution, as described earlier; and, fourth, a network of consumption, incorporating retail organizations.

The lines between creativity, innovation, production and distribution are often very fuzzy. Actors and organizations are frequently involved in several different networks. A consistent theme within the music industry has been the existence of large global firms – the ‘majors’ – that have total control over the entire value chain: from sourcing and nurturing creativity, to industrializing it, distributing it, and even retailing it. After a long process of consolidation the global music business is now dominated by just four global conglomerates that together accounted for 71.7\% of 2005’s global sales of physical music media (INTERNATIONAL FEDERATION OF THE PHONOGRAPHIC INDUSTRIES (IFPI), 2005): Vivendi-Universal; BMG-Sony Corporation; the EMI Group; and AOL Time-Warner, Inc.

However, it would be wrong think that the music industry is just about the majors. There is a large pool of ‘independent’ music companies ranging greatly in size and specialism. Some of the larger independents mimic the organizational range and scope of the majors, whilst many others are small or focused on niche markets. Beyond the confines of single firms, the increasing use of project working as an organizational form within the industry further binds together disparate actors and innovation paths. Indeed, throughout the history of the music industry interactions and relations between majors and independents has been key to innovation and market dynamics (LOPES, 1992; ALEXANDER, 1996a, b). This picture is further complicated when it is remembered that there is seldom just ‘music’ and that different genres and sub-genres exist, often with very different consumers and allied industrial systems (NEGUS, 1999).

Despite the diversity of genres and organizational forms, all those involved in music face consumer
markets that are highly competitive: fickle, fashion-led consumers who have an almost limitless number of musical products and genres to choose from; competition from other entertainment products (films, magazines, games, etc.); and the existence widespread levels of piracy. Given these conditions very few records ever recover their production costs and even fewer create significant returns (cf. Leyshon, 2001). The risks involved and the importance of getting to consumers in the best way possible means that music is an increasingly demand-driven marketplace where those actors nearest the end consumer have a powerful presence in determining the conditions within the industry. Media organizations (television, radio, film, magazines, new media) as well as large retailers have indeed forced ‘backwards integration’ onto the industry (Dugay and Negus, 1994).

Nowhere perhaps are all of these aspects of the music industry more apparent than in the USA. The US music market has long played a leading role in music industry innovation, and due to its sheer size it has had a determinate effect on many of the world’s other music markets. In 2003 the retail value of the global music market was worth US$32 billion; of this the US market accounted for 37% of world sales or almost US$12 billion (IFPI, 2004). In addition to dominating the global market the US has also produced and exported some of the biggest stars, record labels and stylistic innovations (Hirsch, 1992; Frith, 1992; Burnett, 1996; Sadler, 1997; Scott, 1999a):

To be a truly world-wide superstar is impossible without success in America.

(Chris Wright, founder of Chrysalis Records, quoted in D’Arcy and Brindley, 2002)

Despite being the world’s largest and most influential music market, it is also one of the least internationally oriented markets. In 2003, 93% of sales in the US were of domestically produced products (IFPI, 2004), leaving only a small slice of the total market for foreign repertoire. The USA is the third least internationalized music market in the world, with only Pakistan and Egypt importing less international music (1% of each country’s market value is accounted for by foreign repertoire; IFPI, 2001, pp. 174–175).

However, the sheer size of the market and the fact that artists that are successful in the US tend to become successful around the world means that for countries with export-oriented music industries, such as Sweden or Ireland, expanding their US market share is a very attractive proposition (if not a priority). The inward-looking nature of the US market makes this a difficult goal to attain. With this in mind a study was made of what it takes to establish – or in the industry’s terminology, ‘break’ – a musical product in the USA.

On the basis of the research done, four key themes emerged as of especial importance to the success of a musical product (be it the music of a particular act or a ready made product such as a compilation album, etc.) that is attempting to enter, or already has entered, the US music market. The rest of the paper is divided between these four aspects.

**GETTING IT TO PEOPLE’S EARS: BREAKING AND PROMOTING MUSIC**

The market for music is one characterized by almost infinite choice as each year over 10 000 new albums are released in the US alone. Faced with such information problems it is therefore little surprise that both consumers and firms rely heavily on the powers of the media to filter and disseminate information on what is available.

Whilst there are many channels for the promotion of music – music press, television, promotional tours and performances, film, and the internet – it is radio (principally FM radio) that remains the predominant promotional channel in the USA. All the interviewees pointed to radio play as the essential ingredient for entry into the market; though music featured in television adverts or Hollywood films were key exceptions. Furthermore, they pointed out that radio play must be intensive for the song to get onto potential consumers’ agendas: the authors were often told by industry actors that a record needs a coherent ‘radio story’. Estimates of how many times a record needed to be played in order to be picked up by the public varied between those interviewed, but these estimates all fell into the range of between 50 and 200 times a month on a single station. Furthermore, they suggested that these 50–200 plays per month needed to be at certain peak times of the day, though these ‘peak’ times varied somewhat depending on the type of record and target audience.

America is a large country with a correspondingly large number of radio stations. In June 2005 there were 13 557 AM and FM radio stations licensed by the US Federal Communications Commission (FCC). Since changes in the regulation of radio station ownership in 1996, a period of restructuring has hit the industry. Between 1996 and 2001, 20% of radio stations changed ownership, and there was a 25% decrease in the number of owners (Federal Communications Commission, 2001). This restructuring has meant that ownership has become increasingly concentrated. One company, Clear Channel Communications, owns over 1000 radio stations and accounted for, in March 2001, 26% of the industry’s annual revenue (Federal Communications Commission, 2001). These large radio concerns and radio networks are therefore the most important to record companies. It is clear that this consolidation of the industry has made stations even more eager than before to garner extra revenue.
sources and the record industry has long been a lucrative source.

Getting songs onto the stations’ play lists has always been a costly procedure for record companies. Historically, US radio play was decided upon through a system dubbed ‘payola’, which basically involved the bribing of radio programmers to place songs on the airwaves. Payola reached its heights in the 1950s, but by the 1960s the direct payment of radio stations employees became illegal (for fuller histories of payola in the US music industry, see Denisoff and Schurk, 1986; Eliot, 1990; Dannen, 1991; Segrave, 1994; and Caves, 2000). Despite the effective criminalization of payola, the system can be said to live on in different forms. In August 2005 following the New York Attorney General’s investigation of Sony BMG Music Entertainment the FCC launched its own investigation into the continued practice of payola in the music industry.

The principal form in which it survives today is the trend since the 1980s of having independent ‘promoters’ working as intermediaries between the music and radio stations. These promoters filter the available music and work out priority lists for the stations they serve. These promoters have managed, by various methods, to gain exclusive control of stations’ play lists and are hired by record companies interested in having a song on the promoters’ stations. The independent status of these promoters fees stations from accusations of impropriety and distances record companies

for songs from outside the USA. In an interview with this task. Danny Goldberg – CEO/co-owner of Artemis Records and formerly CEO of Polygram-Mercury Records and Warner Brothers Records and President of Atlantic Records – said that it was not uncommon for independents, such as his, to receive several hundred thousand dollars from a major to ‘see if a buzz can be created’ (from an interview conducted in October 2002). Other respondents suggested that it was generally accepted that at present US$500 000 was required to ‘test’ a record.

Such testing can take many forms depending on the product’s genre, but for rock and pop testing involves hiring a team to organize a targeted press campaign, a set of performances, and above all organizing/paying for airplay. Sometimes independents undertake this task in the hope of creating a hit and thereafter selling it themselves. More usually the initial testing is carried out by smaller, or independent, record companies either directly contracted by a major to carry out the work or which pay for the testing themselves in the hope that once the product’s viability has been proven the product will be taken on or licensed by a major. In this way smaller firms in the US function in similar ways to information technology and biotech firms that front load the risk inherent in product development themselves in the hope of raising further venture capital or successfully selling the company to a larger concern or through a public offering.

Thus, the initial attempt to create a ‘buzz’ is most often merely a strategy to get a larger company, or sometimes a distributor, to take an interest in a product/act and fund a larger coordinated promotional and sales campaign. A larger campaign includes a wider variety of promotional techniques including: recording a video and organizing its airplay, travelling sales teams, tours and performances, a costly nationwide radio offensive, and (to be dealt with below) a budget for store-level promotions. Officials at BMG, EMI, and Sony said that detailed studies of the costs of breaking
and promoting acts are produced but these are highly sensitive documents and not even widely shared within the organization themselves. However, the industry actors interviewed said that larger campaigns were estimated to cost, for a pop or rock act, from a minimum of US$2 million to a maximum of around US$10 million. Respondents suggested that on average most US Top 10 albums were backed by sales and promotions budgets of US$5–6 million.

GETTING IT INTO PEOPLE’S HANDS: LABELS AND DISTRIBUTION

Whilst heavy radio play is the core element of promotional efforts to break records in the US, they are little use if the single/album is not readily available to consumers. Despite the fact that the internet and mobile telephony are having profound effects on the sale and distribution of music, at present music is still predominantly sold as a physical commodity – embedded as it is in a piece of plastic (IFPI, 2005). As such it needs shipping, warehousing and distribution to retail outlets. A distribution deal usually allows the music to be reproduced in the US, thus avoiding the tariffs and expenses incurred in importing large volumes of plastic and the extra costs of going through two distributors. Due to US law importers must pay mechanical royalties in the USA even though these have already been paid in the country of origin, i.e. they pay double royalties. Such deals are further necessitated by the de facto division – partly due to copyright laws and partly due to agreements between the major record companies – of the world’s music market into a series of territories. This means that a US major will not distribute a product from its sister majors in other countries and vice versa. In practice then each national branch has control over what gets released and over pricing levels in its territory.

In general, one may say then that the two main reasons why foreign musicians and firms seek US distribution deals are the system of territories and the cost advantages US manufactured products enjoy over imports. However, a third reason for the necessity of such deals, especially for a newly breaking product, lies with the structure of the US distribution market and the central role distribution firms play in placing products on the retail market in the right way and in the right place.

In the USA music gets distributed by companies that fall into one of three main categories: a major record company with its own distribution network; independents that are distributed by the distribution wing of a major; and independents that distribute their product through independent distributors. The first two categories dominate the US market, i.e. the majors. At present major-owned distributors are responsible for around 85% of the music distributed to retailers and wholesalers. Independent distributors’ market presence has continually decreased during the last 30 years and today they are overwhelmingly involved in specialized and niche markets and in selling to the decreasing number of small independent retailers. Also the growth since the 1960s of rack retailers – firms that organize the music sections/racks in department stores, supermarkets, etc. that account for around 40% of US sales (NATIONAL ASSOCIATION OF RECORDING MERCHANDISERS (NARM), 2001) – has further consolidated the distribution system in that large rack buyers will not deal with small firms or in small quantities.

All of the majors directly own distribution companies that are more or less vertically integrated into their operations. These distribution arms provide the parents with much of their profits, often employ far more people (Warner's distributor WEA employs three times as many as Warner Music itself), and are strategically important sales tools. These extensive and powerful distribution systems allow the majors to ensure the complete integration of their promotional efforts with product stocks and releases in targeted areas. Extensive distribution systems also make majors more flexible as they are capable of making available substantial extra units of records that ‘come out of nowhere’. Distribution firms are thus a blend of sales, marketing and physical distribution.

Many independent record companies also distribute through the majors’ distributors. This is largely due to the costs associated with building up nationwide warehousing and distribution systems. It may also be because US retailers pay for product in arrears and have traditionally been notoriously slow, even recalcitrant, in paying their bills. Legal costs and bridging costs associated with lax payment practices are often cited by independents as a key reason for outsourcing distribution. The bigger companies can largely avoid the extremes of slow payment due to their power to withhold large catalogues and the biggest stars from retailers (CAVES, 2000, p. 158).

It is commonly said within record companies that distributors have no marketing power and are relatively powerless to do anything to help break an act (MUSIC BUSINESS INTERNATIONAL, 1997). Interviews with distributors and retailers suggested this is not entirely true.

First, distributors have an effect on the price of the product. The larger the distributor the larger the economies of scale that apply to their operations, in particular in warehousing, shipping and logistics. Furthermore, their control over the supply of the highest volume titles means that they have the power to demand from retailers higher prices and lower discounts for the products they represent. This is important as music sales are, in general, highly price sensitive. In addition, the music business is one where traditionally high levels of ‘discounting’ apply. Discounting in the form of ‘normal
distributor free goods’ means that major distributors give away around 15% of the units they ship. This practice is widely seen merely as a way of reducing royalty liability: companies only pay artists royalties on goods that are *sold* to retailers (Passman, 1997). However, an additional 5–10% of product shipped are often given away in the form ‘special campaign free goods’ which act as powerful promotional tools commonly used in the early stages of breaking a new product. Thus, the power of the distributor over price and ‘discounting’ have important effects for the readiness of retailers to buy new titles and ultimately to the level of royalties musicians receive.

A related aspect of distributors’ sales role is that they commonly engage in ‘bundling’: insisting that buyers take one title in order to receive a second. Music distributors often only sell certain new releases as part of larger bundles. This ties retailers into accepting new products they might not otherwise risk ordering in significant levels. Though not as widespread as in the film or television industries bundles – especially discounted promotional bundles – are an important placement and pricing tool, though one that only the majors’ distributors have the power to use effectively.

Second, research revealed that distributors are central to product promotion. Whilst they have no direct contact with consumers, they have direct and long-term relationships with the record stores’ ‘buyers’. The major distributors all employ large sales and promotions teams. Interviews with WEA USA, for instance, revealed that they employ over 70 specialized retail marketing teams across the country. These teams mainly target particular regions, but the big distributors also have teams dedicated to particularly large buyers. WEA, for example, has teams in Minneapolis to serve the mass merchandiser Best Buy and in Arkansas serving Wal-Mart. Specialized sales and marketing teams allow distributors to build close, long-term relationships with retailers and wholesalers.

The main way in which distributors influence the promotion, or breaking, of a product is through ‘priority lists’. Every month distributors receive lists of priority products (and associated sales and promotions budgets) from record labels in order to guide the distributor’s sales and promotions efforts. However, a large distributor that represents many labels will receive many lists. Respondents pointed out that the distributors have considerable leeway in ‘prioritizing the priorities’. Whilst this second level of prioritization is said to usually favour the products of the distributors’ parent group, this is not always the case. The distributors have the power to say no to a title and are after all profit-seeking firms that earn fees on per unit sales. In order to maximize fees they conduct their own cycle of product profiling and assessment to ascertain which products will be prioritized and where to spend sales and promotions budgets. Historically heads of distribution firms have been extremely active in the labels’ discussions over priorities and general group strategy. It is for these reasons that the executives of the major distribution companies are commonly thought of as some of the most influential figures in the US industry.

Interviewees suggested that it was widely assumed that the majors’ distributors overwhelmingly favoured US repertoire as this was easier to sell in large volumes and more likely to be backed by the scale of radio campaigns needed to drive hits. That the mainstream distribution system is almost completely focused on domestic products can be seen in the fact that even foreign branches of the majors are forced to use the less powerful independent distributors for US distribution. Interviews with the French and Swedish music export authorities and Swedish record companies revealed that acts already signed to European branches of a major often turn to independent distributors in order to place their product on the US market. The links between US and European branches of the majors are not always smooth and evidence suggests that horizontal integration of operations can be lacking. Jean-François Michel, Director General Bureau Export de la Musique Française, noted that French branches of BMG and Universal have both had to use independent US distributors rather than those of their own company. However, he added that Warner Music France and Sony Music France were generally not afforded such freedom from the corporate group with the result that historically they have had a much narrower range of their products available in the USA. Christer Lundblad, head of Export Music Sweden until 2004, said Scandinavian divisions of the majors were also either low priority for their US counterparts or ended up using independent US distributors. Difficulties in accessing the majors’ US distributors means foreign products can be at a considerable disadvantage in unlocking promotion and sales resources and the networks needed to ensure both product availability and recognition.

**AT THE STOREFRONT: THE POWER OF RETAILERS**

The US music retail market consists of a constantly changing mix of specialized retailers, rack retailers, mail-order and on-line sellers. In 2000, specialized record stores accounted for 42% of the year’s total sales of musical products and related merchandise, whilst mass merchandisers/rack retailers took 41%, tape/record clubs 8%, the internet 3% and the rest accounted for by various outlets such as television shopping and mail order (NARM, 2001). By 2003 the figures were 33, 52, 4 and 5%, respectively (RIAI, 2004). Whilst very little of the popular music market is at present on-line, this will change; estimates are that 70% of classical music is now sold on-line (Black, 2002). Despite the continuing evolution of the balance between these different retail forms,
the specialist music multiple/chain retailers remain especially important for the early career of both new artistes and the new products of established stars. When asked about the crucial difference between specialist retailers and other retailers Mike White – Executive Vice-President and General Manager of Sales, Marketing and Operations WEA – said: ‘Mass merchants [such as rack retailers] do not break artists. They sell hits’ (interview conducted in October 2002). Specialist stores are where new music first arrives and remain the focus for music buyers’ attention. What they stock and advertise is taken note of and most importantly it in these stores that sales data for the charts are collected; stores that are chart data sources have a powerful role in the industry (McCOURT and ROTHENBUHLER, 1997). Access to specialist music stores, particularly the large speciality music chains (such as Tower Records, HMV and Virgin), is a key priority for labels and distributors.

Accessing US specialist music retailers’ stores is not however an easy or cost-free process. In common with retailers in other sectors those selling music understand that different areas of stores attract customers’ attention better and lead to higher sales volumes. In recent years a micro-geography of pricing and product placement has emerged in US music stores. Certain highly visible areas of a store such as inside the entrance, chart and recommendation walls, listening stands, end-of-aisle displays (‘endcaps’), and well-situated portable displays (‘A-frames’) almost guarantee higher sales volumes. Interviewees said that whilst no exact figures could be quoted, a generally accepted rule of thumb was that prominent new releases in key in-store locations sell three to four times the volume they would if merely placed in racks. For less well-known or unbroken artistes this figure was said to be at least 15 times the normal sales volume.

Retailers charge labels/distributors undisclosed sums to get their products into desirable in-store locations – known as ‘price-and-positioning’ costs. Whilst the retailers interviewed would not comment on these charges, record companies and distributor executives said the fees were in the order of US$1 per unit to about US$1.50 per unit for the highest turnover locations in the stores.

In addition to ‘price-and-positioning’, retailers charge record labels and distributors for advertising. Research revealed that retailers in New York City charge record companies US$50 000–10 000 to have a promotional poster in an individual store’s window. Furthermore, retailers universally demand what are known as ‘cooperative advertising funds’ to pay for television adverts, the retailers’ own magazines/circulars, flyer and poster campaigns, etc. Through this the record labels effectively pay for the retailers’ advertising. Such advertising costs vary greatly between the retailers, but respondents from both record companies and retailers agreed it can amount to tens of thousands of dollars per retailer per release. More recently retailers have begun to differentiate between seasons, and it is now common practice to charge record companies 50–100% more for ‘cooperative advertising’ and ‘price-and-positioning’ in the two months running up to Christmas. All these payments are in addition to the normal discounts and free goods retailers are given.

Industry respondents said that payments to retailers for in-store visibility, etc. account for around half of a release’s marketing budget. In the case of big releases, this can amount to several million dollars:

With the exception of independent radio promotion, price-and-positioning is the cost that senior label and distribution executives consider the most onerous in marketing music.

(CHRISTMAN, 2002, p. 1)

Label and distributor executives complained not only that these costs are spiralling, but also about what they considered the poor store-level execution of the product placement they had paid for. They also complained that cooperative advertising funds were seldom spent and end up as an extra income source. Such expenses are perceived of as symptomatic of the lack of interest in music many retailers now exhibit: ‘They like what you give them money for’ (interview with Mike White, Executive Vice-President and General Manager of Sales, Marketing and Operations WEA, October 2002). The power of retailers in the area of pricing also appears in more under-the-counter practices. In 2002 the government brought a lawsuit against the majors and certain large retailers due to their practice of pricing-fixing. The lawsuit resulted in the majors and retailers agreeing to pay US$143 million in compensation to consumers.

Finally, it is important to note that the physical space (square footage) for retailing music has decreased. Many specialized music retailers have closed: 1200 US music retailers closed in 2000–03 (KUSEK and LEONHARD, 2005). Decreasing sales points and enormous costs involved in placing products in existing stores weigh heavily even on the majors. For relatively unknown artistes or independent record labels the scale of these changes and costs represent significant barriers to entry.

THE CADILLAC SHOWROOM: THE FOCUS ON BIG HITS IN A SHRINKING MARKET

Some economist had a theory of creative destruction. I see the destruction but right now I don’t see the creation.

(from an interview with Danny Goldberg, CEO/co-owner of Artemis Records, New York, October 2002)

Perhaps the most important difficulty foreign exports to the US music market face is the fact that the market has in the last few years been in crisis. Between the first half of 2001 and the first half of 2002, total US music shipments dropped 10% (from 442.8 million to
398.1 million units) or a 7% decrease in wholesale revenues. A combination of factors is behind this continuing downward trend: CD copying and internet piracy (Cooper and Harrison, 2001; IFPI, 2001; Leyshon, 2001; Shirky, 2001; Alderman, 2002; Alexander, 2002); the end of the CD replacement market; and the growth of alternative home entertainment formats such as computer games and DVD (in 2002 the US DVD market was estimated at around US$20 billion). In response to a shrinking demand for music US retailers have begun to place greater emphasis on other merchandise, in particular DVDs and computer games. Mass merchandisers have already transferred much of the space once devoted to music to DVD. Even large speciality music chains have dramatically cut the range of music they carry and are sacrificing ‘deep catalogue’ (older or more specialized titles) for other entertainment products, principally DVD.

In the early 1990s when the music industry was awash with cash and able to finance large numbers of releases the costs associated with breaking an act were generally overlooked. Now that the market for the music industry’s traditional products is in decline the industry’s bigger actors are refocusing their energies and restructuring their operations. In particular, companies reported that they were attempting to develop new product lines such as on-line music, CDs with a high level of DVD content, and music DVDs. They have also begun to introduce new forms of contract with artistes that allow them to share in the artistes’ potential touring, merchandising, advertising and film earnings. All those interviewed, both majors and independents, said that they have been forced to downsize their overheads and operating costs, e.g. by firing staff; closing regional and overseas offices (which has led to an increased concentration of the industry in New York City); and concentrating on the ‘major territories’.

For the majors and the largest independents the current situation has meant that they are changing their corporate culture to one focused on producing and promoting acts they believe to be potential global superstars. This process means that all majors have reduced existing rosters and started signing fewer new acts. The firms’ main adjustment policy has been to concentrate on a greatly diminished number of priority products. When interviewed in 2002, Patrick Reilly – Vice-President of Corporate Communications for BMG – said that BMG had reduced its global priority list from a mid-1990s level of around 25–30 products to around five to ten per year. Several of these five to ten, he said, would be new breaks but others would be drawn from ‘deep catalogue’, such as Elvis compilations. Not only are these priorities more limited in number, but also they must not have been broken significantly elsewhere, i.e. the corporations’ US costs are so high that they need a product capable of being rolled-out on a global basis so that additional revenue from international rights and territories can cover the initial launch costs. This means that US branches of the majors now have increased power to determine distribution and release timing in other markets (especially Europe and Japan).

The types of products the majors are now focused upon are known in the US industry as ‘Cadillacs’: well-established, mainstream, heavy and reliable sellers that have a long life expectancy. Executives from the independents interviewed suggested that this might mean a splintering of the US market with the majors focusing almost entirely on catalogue and ‘Cadillacs’ and the independents left to develop and break new and niche music. Interviewees suggested that because the majors and some of the ‘independents’ were part of larger media concerns, they were particularly vulnerable to difficulties in the music market. There are already indications that parent companies are reassessing whether project capital now devoted to breaking musical acts would be better spent launching magazines, computer games or any one of the myriad products their groups are involved in.

These types of market dynamics are widely seen in the industry to favour the more flexible independent US record companies who do not rely on the same economies of scale and have not the same overheads as the majors. In many ways then the music industry is undergoing a very similar restructuring process to the one many commentators have claimed has already occurred in the film industry (Christopherson and Storper, 1986; Scott, 2005). If the restructuring of the music industry follows the example of the film industry, then one can expect the majors to concentrate more on ‘Cadillacs’, thus leaving increased space for flexible specialized independents both to develop/market their own products and to work with the majors through project-based subcontracting and outsourcing. Spatially it seems likely that music will follow film with a similarly paradoxical process of simultaneous spatial consolidation and fragmentation. Just as in Hollywood, the majors will seek to centralize their control-and-command functions in one place – New York – and intense competition between smaller centres around the world will continue as they vie with each other to be the ‘locations’ for shooting and producing the next big thing.

CONCLUSIONS

Whilst the paper has outlined four main barriers to entry, all respondents pointed to a cultural and knowledge gap between the USA and the rest of the world as potentially the most insurmountable. Aside from a different business culture and operational context, most foreign musicians and music industry actors lack sufficient personal contact and local knowledge to access networks in the USA. The music business is one where trust and personal relationships are central.
It is increasingly rare in the USA to get a gatekeeper (be it a radio or label gatekeeper) to listen to unsolicited material. Gatekeepers filter the enormous amounts of marketable music by only allowing in material that comes through trusted personal contacts. In relation to the US market it appears that five distinct tasks are crucial to placing a product: securing the support of a major financial backer capable of supplying a marketing and sales budget; securing a good licensing or distribution deal; employing a well-connected sales and promotion team; securing/buying radio exposure; and securing/buying good access to retailers. Each of these tasks represents something akin to a 'pipeline' (Batheilt et al., 2004) for products’ entry into the market and has associated gatekeepers. These ‘pipelines’ are far from fixed, though, and therefore it seems imperative for potential exporters to tap into the networks of personal contact leading to gatekeepers. Whilst these gatekeepers apply aesthetic and taste-based appraisals to all new products it appears that money is the most effective way of accessing gatekeepers and the pipelines they control.

The combination of high entry costs and a difficult market means the US industry will undoubtedly undergo further restructuring. What is clear is that whilst the US market is difficult for domestic product, it is many times more difficult for foreign product. Indeed, many of the largest foreign artists are now turning their backs on America and concentrating on getting big elsewhere. This bodes badly for the likelihood that in the near future America’s export success and cultural influence may be better balanced by a more open market to its foreign competitors. Moreover, a key finding of this paper is that at the point of entry into the US market not only produces barriers of entry, but also makes it imperative that globalized music firms recoup their US costs through prioritizing US products abroad. This suggests the dominance of a US repertoire on world markets is sometimes more to do with commercialization costs in different markets than it is with cultural imperialism.

The structures and dynamics reported on above have important implications for economic geography and for those interested in the development of music industry competitiveness at a regional level. Throughout the research no one ever questioned the fact that excellent musical products were produced outside the USA. Rather it was the structure of the US market, conditions of access, and gatekeepers to key activity areas that were pointed to as reasons for why foreign products occupy such a small place in the market. This indicates that one should not automatically assign analytical priority to the dynamics (clustered or not) involved in producing and developing advanced, innovative or first-rate products. The manufacture or recording of musical products should be considered only a first step in the commodification and commercialization processes that largely determine their success. In these processes it is often at the level of marketing, distribution and retail that success is best assured. This implies that power over the commercial success of export-oriented products is largely ‘located’ outside the local production milieu. Thus, if one is to understand success or failure in music sales, one should not focus only on ideas of local production and innovation. One must also attempt to understand the actors and processes that structure the marketing, distribution and retail of products in different markets. Whilst the geography of production and innovation is vital to industrial success, it can only ever be part of what is often a much more complex story.

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