

Marketing Concepts and Definitions

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SELLING RECORDED MUSIC

The concept of selling recorded music has been around for more than a century. While the actual storage medium for music has evolved, from cylinders to vinyl discs, magnetic tape, digital discs, and now downloads, the basic notion has remained the same: a musical performance is captured to be played back at a later time, at the convenience of the consumer. Music fans continue to enjoy the ability to develop music collections, whether in physical compact disc format or in collections of digital files on their computer hard drives. Consumers also enjoy the portability afforded by contemporary music listening devices, allowing the convenience of determining the time and place for listening to music. The ways consumers select to access music have been undergoing changes in the past few years, as physical sales have diminished and the industry scrambles to find new business models for underwriting the cost of developing new creative products.

Music consumption should not be confused with music purchases. The consumption of music by consumers has increased (Hefflinger, 2008), despite the fact that sales of recorded music albums have decreased over the past decade from 785 billion units in the United States in 2000 to 535 billion units in 2008 (SoundScan). In response to the decline in sales of recorded music, record labels are experimenting with new ways to monetize the consumption of their music. For example, new services like LastFM, Pandora, and MySpace Music offer music fans the opportunity to listen to music without actually purchasing it. Record labels are compensated through advertisement revenue sharing.

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Thus, recorded music is finding ways to make money much the same as television programming has done for over 50 years. For much of this time, the television programming industry relied solely upon advertising revenue to fund some of the most popular television shows in history. Other, more recent forms of revenue have come from premium (fee-based) programs and physical sales of shows (DVDs). Fee-based programming did not occur until the premium channels such as HBO and Showtime started developing their own proprietary shows. The physical sale of this commodity did not occur until consumers started collections of videotapes and DVDs. Even with these other forms of income, the bulk of revenue for producing television content still comes from advertising. Perhaps the recording industry can look to the television industry for ideas in developing new models to create revenue from creative products.

As the paradigm shifts from the physical sale of recordings to a more complex model of generating revenue, marketing efforts must also evolve to respond to the plethora of income possibilities.

WHAT IS MARKETING?

In today's marketplace, the consumer is showered with an array of entertainment products from which to choose, making the process of marketing more important than ever. Competition is fierce for the consumers' entertainment budget. But before explaining how records (recorded music) are marketed to consumers, it is first necessary to gain a basic understanding of marketing. Even the concept of a record or album has undergone changes recently. *Record* is short for recorded music—that much has not changed. An album is still a collection of songs released as a unit, whether it's in CD format or something else.

Marketing is simply the performance of business activities that direct the flow of goods and services from the producer to the consumer (American Marketing Association, 1960). Marketing involves satisfying customer needs or desires. To study marketing, one must first understand the notions of *product* and *consumer* (or *market*). The first questions a marketer should answer are, "What markets are we trying to serve?" and "What are their needs?" Marketers must understand the consumer's needs and develop products to satisfy those needs. Then they must price the products effectively, make the products available in the marketplace, and inform, motivate, and remind the customer. In the music business, this involves supplying consumers with the recorded music they desire.

The market is defined as consumers who want or need your product and who are willing and able to buy or pay. This definition emphasizes that the

consumer wants or needs something. A product is defined as something that will satisfy the customer's want or need. You may want a candy bar, but not necessarily need one. You may need surgery, but not necessarily want it.

THE MARKETING MIX

The **marketing mix** refers to a blend of product, distribution, promotion, and pricing strategies designed to produce mutually satisfying exchanges with the target market. This is often referred to as the *four P's*, which are:

- Product – goods or services designed to satisfy a customer's need
- Price – what customers will exchange for the product
- Promotion – informing and motivating the customer
- Place – how to deliver and distribute the product

Product

The marketing mix begins with the product. It would be difficult to create a strategy for the other components without a clear understanding of the product to be marketed. New products are developed by identifying a market that is underserved, meaning there is a demand for products that is not being adequately met.

The product aspect of marketing refers to all activities relating to the product development, ensuring that

- There is a market for the product.
- It has appeal.
- It sufficiently differs from other products already in the marketplace.
- It can be produced at an affordable and competitive price.

An array of products may be considered to supply a particular market. Then the field of potential products is narrowed to those most likely to perform well in the marketplace. In the music business, the artist and repertoire (A&R) department performs this task by searching for new talent and helping decide which songs will have the most consumer appeal. In other industries, this function is performed by the research and development (R&D) arm of the company.

New products introduced into the marketplace must somehow identify themselves as different from those that currently exist. Marketers go to great lengths to position their products to ensure that their customers understand why their product is more suitable for them than the competitor's product.

Product positioning is defined as the customer's perception of a product in comparison with the competition.

Consumer tastes change over time. As a result, new products must constantly be introduced into the marketplace. New technologies render products obsolete and encourage growth in the marketplace. For example, the introduction of the compact disc (CD) in 1983 created opportunities for the record industry to sell older catalog product to customers who were converting their music collections from long-playing records (LPs) to CDs. Similarly, when a recording artist releases a new recording, marketing efforts are geared toward selling the new release, rather than older recordings (although the new release may create some consumer interest in earlier works and they may be featured alongside the newer release at retail).

The Product Life Cycle

The **product life cycle (PLC)** is a concept used to describe the course that a product's sales and profits take over what is referred to as the *lifetime of the product*—the sales window and market for a particular product, from its inception to its demise.

It is characterized by four distinct stages: introduction, growth, maturity, and decline. Preceding this is the *product development* stage, before the product is introduced into the marketplace, and following the four stages we have a withdrawal of the product from the marketplace. The *introduction* stage is a period of slow growth as the product is introduced into the marketplace. Profits are nonexistent because of heavy marketing expenses. The *growth* stage is a period of rapid acceptance into the marketplace and profits increase. *Maturity* is a period of leveling in sales mainly because the market is saturated—most consumers have already purchased the product. Marketing is more expensive (to the point of diminishing returns) as efforts are made to reach resistant customers and to stave off competition. *Decline* is the period when sales fall off and profits are reduced. At this point, prices are cut to maintain market share (Kotler and Armstrong, 1996).

The PLC can apply to a variety of situations such as products (a particular album), **product forms** (artists and music genres), and even **product classes** (cassettes, CDs, and vinyl). Product classes generally have the longest life cycle—the compact disc has been around since the early 1980s (and is currently in the decline phase). However, the life cycle of an average album release is 12 to 18 months. It is at this point that the label will generally terminate most marketing efforts and rely on catalog sales to deplete remaining inventory.

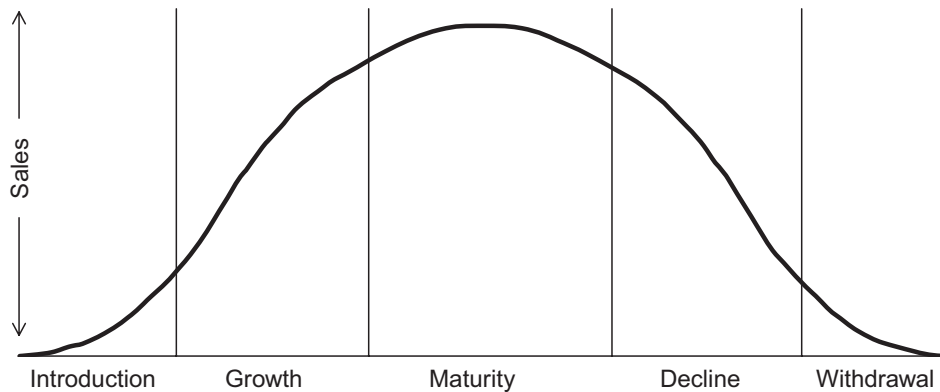


FIGURE 1.1 *The product life cycle.*

Diffusion of Innovations

When a product is introduced into the marketplace, its consumption is expected to follow a pattern of diffusion. **Diffusion of innovations** is the process by which the use of an innovation is spread within a market group, over time and over various categories of adopters (American Marketing Association, 2004). The concept of diffusion of innovations describes how a product typically is adopted by the marketplace and what factors can influence the rate (how fast) or level (how widespread) of adoption. The rate of adoption is dependent on *consumer traits*, the *product*, and the company's marketing efforts.

Consumers are considered *adopters* if they have purchased and used the product. Potential adopters go through distinct stages when deciding whether to adopt (purchase) or reject a new product. These stages are referred to as *AIDA*, which under one model (affective or driven by emotion) is represented as attention, interest, desire, and action. Another model (cognitive or driven by thought) uses awareness, information, decision, and action. There can be elements of both models present in the decision-making process for most products, which tend to have an emotional and rational basis for their purchase. These stages describe the psychological progress a buyer must go through in order to get to the actual purchase. First, a consumer becomes *aware* that she needs to make a purchase in this product category. Perhaps the music consumer has grown tired of her collection and directs her *attention* toward buying more music. The consumer then seeks out *information* on new releases and begins to gain an *interest* in something in particular, perhaps after hearing a song on the radio or attending a concert. The consumer then makes the *decision* (and *desires*) to purchase a particular recording. The **action** is the actual purchase.

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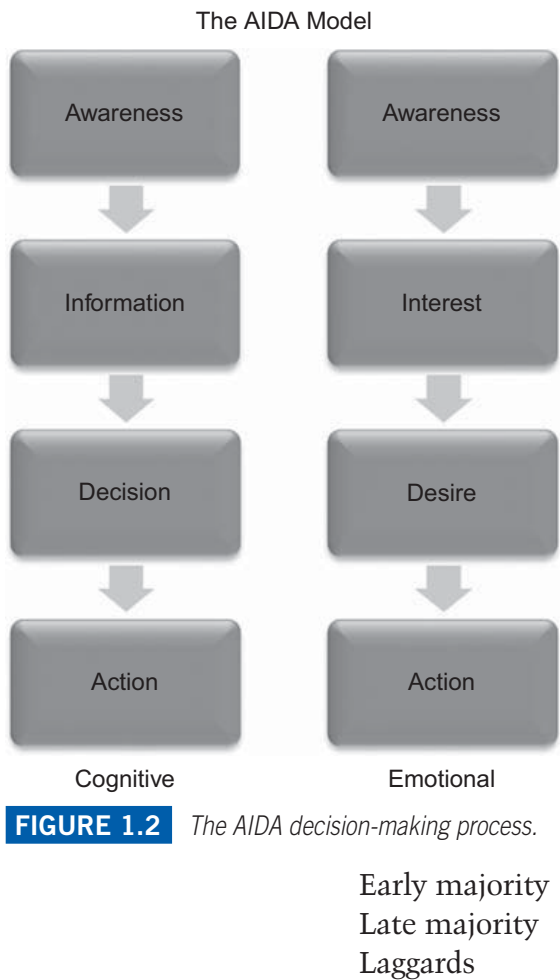


FIGURE 1.2 The AIDA decision-making process.

This process may take only a few minutes or several weeks, depending on the importance of the decision and the risk involved in making a wrong decision. **Involvement** refers to the amount of time and effort a buyer invests in the search, evaluation, and decision processes of consumer behavior. If the consumer is not discriminating and dissatisfaction with the decision is not a setback, then the process may take only moments and is thus a low-involvement situation. On the other hand, if the item is expensive, such as a new car, and if the consequences of a wrong decision are severe, then the process may take much longer. Several factors influence the consumer's level of involvement in the purchase process, including previous experience, ease of purchase, interest, and perceived risk of negative consequences. As price increases, so does the level of involvement.

Consumers who adopt a new product are segmented into five categories:

Innovators
Early adopters

Early majority
Late majority
Laggards

Innovators are the first 2.5% of the market (Rogers, 1995) and are eager to try new products. Innovators are above average in income and thus the cost of the product is not of much concern. *Early adopters* are the next 13.5% of the market and adopt once the innovators have demonstrated that the new product is viable. Early adopters are more socially involved and are considered opinion leaders. Their enthusiasm for the new product will do much to assist its diffusion to the majority. The *early majority* is the next 34% and will weigh the merits before deciding to adopt. They rely on the opinions of the early adopters. The *late majority* represents the next 34%, and these consumers adopt when most of their friends have. The *laggards* are the last 16% of the market and generally adopt only when they feel they have no choice. Laggards adopt a product when it has reached the maturity stage and is being "deep discounted" or is widely available at discount stores. When introducing a new product, marketers target the innovators and early adopters. They will help promote the product through word of mouth.

Products (or innovations) also possess characteristics that influence the rate and level of adoption. Those include:

Relative Advantage: the degree to which an innovation is perceived as better than what it supersedes. Compatibility: the degree to which an innovation is perceived as consistent with existing values, past experiences, and needs. Complexity: the degree to which an innovation is perceived as difficult to understand and use. Trialability: the degree to which an innovation may be experimented with on a limited basis. Observability: the degree to which the results of an innovation are visible to the receiver and others. (Rogers, 1995)

One way marketers can increase the potential for success is by allowing customers to “try before they buy.” Listening stations in retail stores and online music samples have increased the level of trialability of new music. Marketers can improve sales numbers by ensuring the product has a relative advantage, that it is compatible, that it is not complex, and that consumers can observe and try it before they purchase.

Hedonic Responses to Music

Researchers in the fields of psychology and marketing strive to understand the hedonic responses to music. **Hedonic** is defined as “of, relating to, or marked by pleasure” (www.thefreedictionary.com). Hedonic products are those whose consumption is primarily characterized by an affective or emotional experience. Marketers use this principle to study why people enjoy listening to music and what motivates them to seek out music for this emotion-altering experience. Recorded music is considered a tangible hedonic product, compared with viewing a movie or attending a concert, which is an intangible hedonic product. “The purchase of a tangible hedonic portfolio product, such as a CD, gives the consumer something to take home and experience at her convenience, possibly repeatedly” (Moe and Fader, 1999). This convenience factor has fueled the increase in *consumption* of music, despite the fact that sales of recorded music have been falling this century.

Consumers like music for a variety of reasons, mostly connected to emotions or emotional responses to social situations involving music. A brief glance through marketing articles and blogs offers the following reasons.

- To evoke an emotional feeling or regulate a mood
- To evoke a memory or reminisce
- As a distraction or escape from reality

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- To create a mood in an environmental setting or a cultural/sporting event
- To combat loneliness and provide companionship
- To foster social interaction with peers
- To calm and relax
- To stimulate (such as to stay awake while driving)
- For dancing or other aerobic performances
- To enhance/reinforce religious or cultural experiences
- For therapeutic purposes (such as pain reduction)
- To pass the time while working or waiting

By understanding the situations that drive consumers to purchase or consume music, marketers can be more effective in providing the right music to the right customers at the right time. Even retail placement of music can benefit from understanding the context in which the music will be consumed. For example, music designed to inspire sports fans may be made available in locations that fans are likely to visit on their way to or while attending a sporting event.

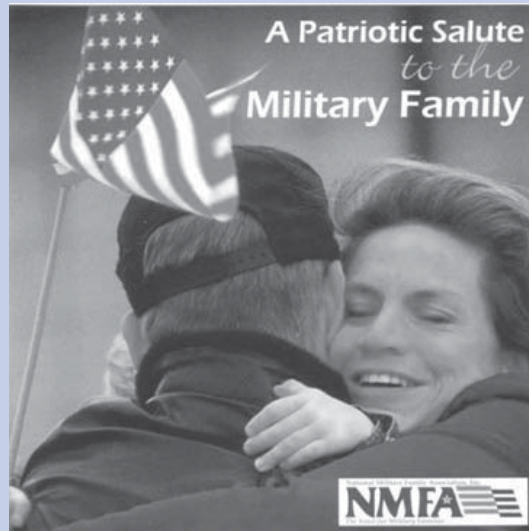


FIGURE 1.3

Altissimo! Recordings is dedicated to the continuing production and distribution of the vast array of music from the wonderful musicians of U.S. military bands, orchestras, ensembles, and choruses. The album *A Patriotic Salute to Military Families* is a collection of marches, bugle calls, and ceremonial and Americana music featuring performances from the bands of ALL branches of the U.S. military. The songs are used for many military and patriotic events, and the album charted at number seven in the *Billboard* Top Classical Albums Chart in July 2002.

The Boston Consulting Group Growth-Share Matrix

Most companies produce a glut of products, some of which perform better than others. The Boston Consulting Group has come up with a method for classifying a company's products based on market growth and market

share. The resulting growth-share matrix can quickly indicate the potential for future sales of a product. Market growth is indicated by the vertical axis, with high growth at the top. Relative market share (relative to the competition) is indicated by the horizontal axis, with high market share located on the left side. Products are placed in quadrants based on their relative market share and growth potential in that market.

Stars: Stars are high-growth, high-share entities or products. Because the market for such products is still growing, they require heavy investment to finance their rapid growth. In the recording industry, a genre of music showing growth (such as rock during the late 2000s) would be considered in the high market-growth category. An artist with a high relative market share (such as Coldplay) would be considered a star.

Cash Cow: These business entities generate a high rate of return for little ongoing investment and therefore are very profitable for the company. These are established products with brand recognition and require fewer marketing dollars per unit sold. In the recording industry, established artists such as Metallica and U2 fall into this category.

Problem Child: The problem child or question mark is a business unit that requires lots of cash and generates little return. These are low-share products in a high-growth market. The goal is to build these into stars by increasing market share while the market is still growing.

Dogs: These are low-growth, low-market share units with no promise of success. For record labels, this category may represent artists who are no longer successful (or never had much success) in producing music in a genre that has stopped growing or an artist who never “breaks.” The dogs should be relegated to niche markets at best.

The overall goal for a company after reviewing the portfolio of products is to attempt to move the problem children into the star category and to groom the star products to become tomorrow’s cash cows, while discontinuing the dogs.

Price

Pricing is more complex than “How much should we charge?” Pricing structure must be based on maximizing marketing success. Once the wholesale

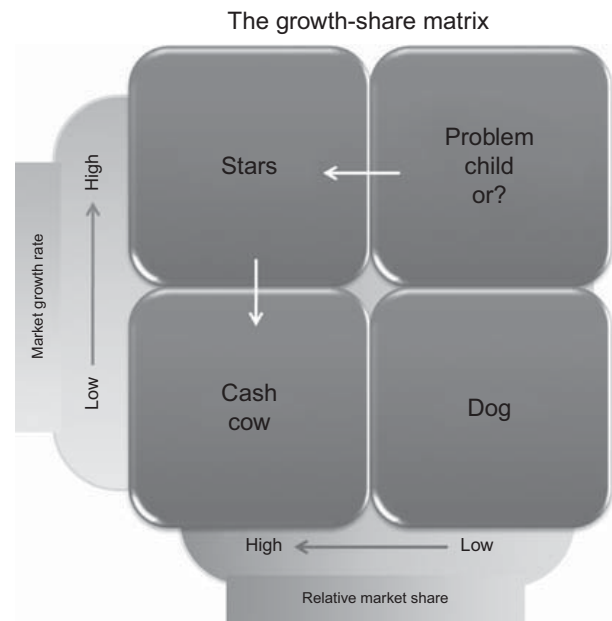


FIGURE 1.4 The growth-share matrix. (Source: The Boston Consulting Group)

and retail pricing is determined, price-based incentives must then be considered. For example, should the product be put on sale? Should coupons be issued? Should the retailers receive wholesale price breaks for quantity orders or other considerations?

There are generally three methods for deciding the retail price of a product: cost-based pricing, competition-based pricing, and consumer-based (value-based) pricing.

Cost-Based Pricing

Cost-based pricing is achieved by determining the cost of product development and manufacturing, marketing and distribution, and company overhead. Then an amount is added to cover the company's profit goal. The weakness with this method is that it does not take into account competition and consumer demand.

$$\text{Breakeven Point (units)} = \frac{\text{Total Fixed Costs}}{\text{Price} - \text{Variable Costs per Unit}}$$

When determining cost-based pricing, consideration must be given to the fixed costs of running a business, the variable costs of manufacturing products, and the semivariable costs related to marketing and product development. Fixed costs include items such as overhead, salaries, utilities, mortgages, and other costs that are not related to the quantity of goods produced and sold. In most business situations, variable costs are usually associated with manufacturing and vary depending on the number of units produced. For recorded music, that would include discs, CD booklets, jewel cases, and other packaging. ***However, within the marketing budget of a record label, the costs of manufacturing and mechanical royalties are considered fixed once the number of units to be manufactured is determined and the recording costs have been computed.*** Then there are other (semi) variable costs, which can vary widely, but which are not directly related to the quantity of product manufactured. They would include recording costs (R&D) and marketing costs. For purposes of the following formula, the costs of marketing are considered variable costs, and the recording and manufacturing costs, having already been determined for the project, are considered fixed at this point.