
Intellectual Property Rights and Industry Evolution: The Case of the Recorded Music Industry

Joseph Lampel
Ajay Bhalla
Cass Business School
City University, London

Pushkar Jha
University of Newcastle Business School
Newcastle

DIME, London
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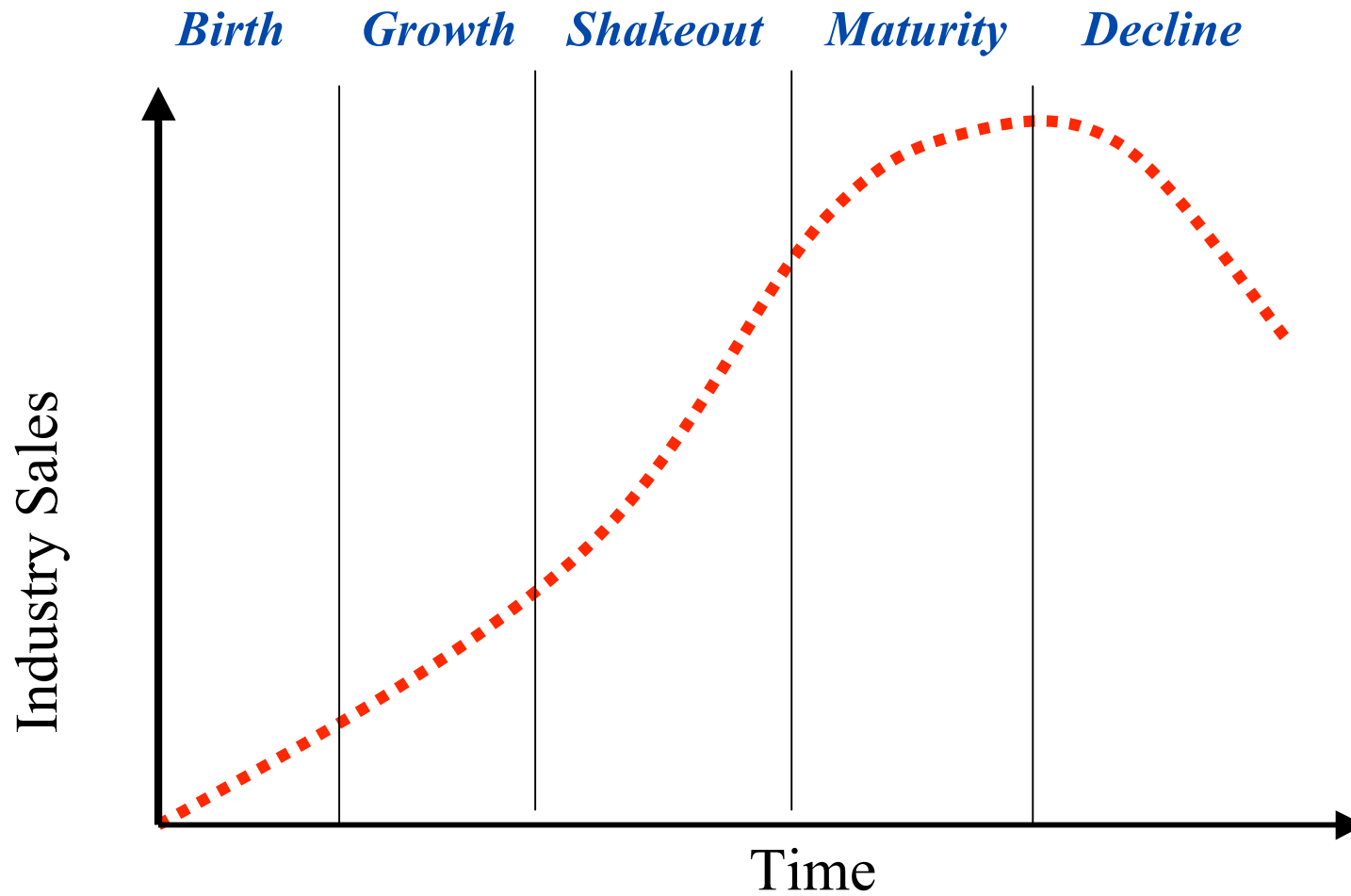
Overview

- **Generations Model of industry evolution**
 - **A generations model of recorded industry music evolution**
 - **Industry evolution and creative content**
 - **Industry evolution and IP regimes**
 - **Scenario for Generation ‘G’ in the recorded music industry**
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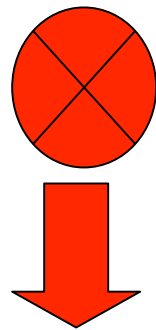
“This next block of silence is for all you folks who download music for free, eliminating my incentive to create.”

Industry Life Cycle Model



Creative Industry Evolution: Generations Model

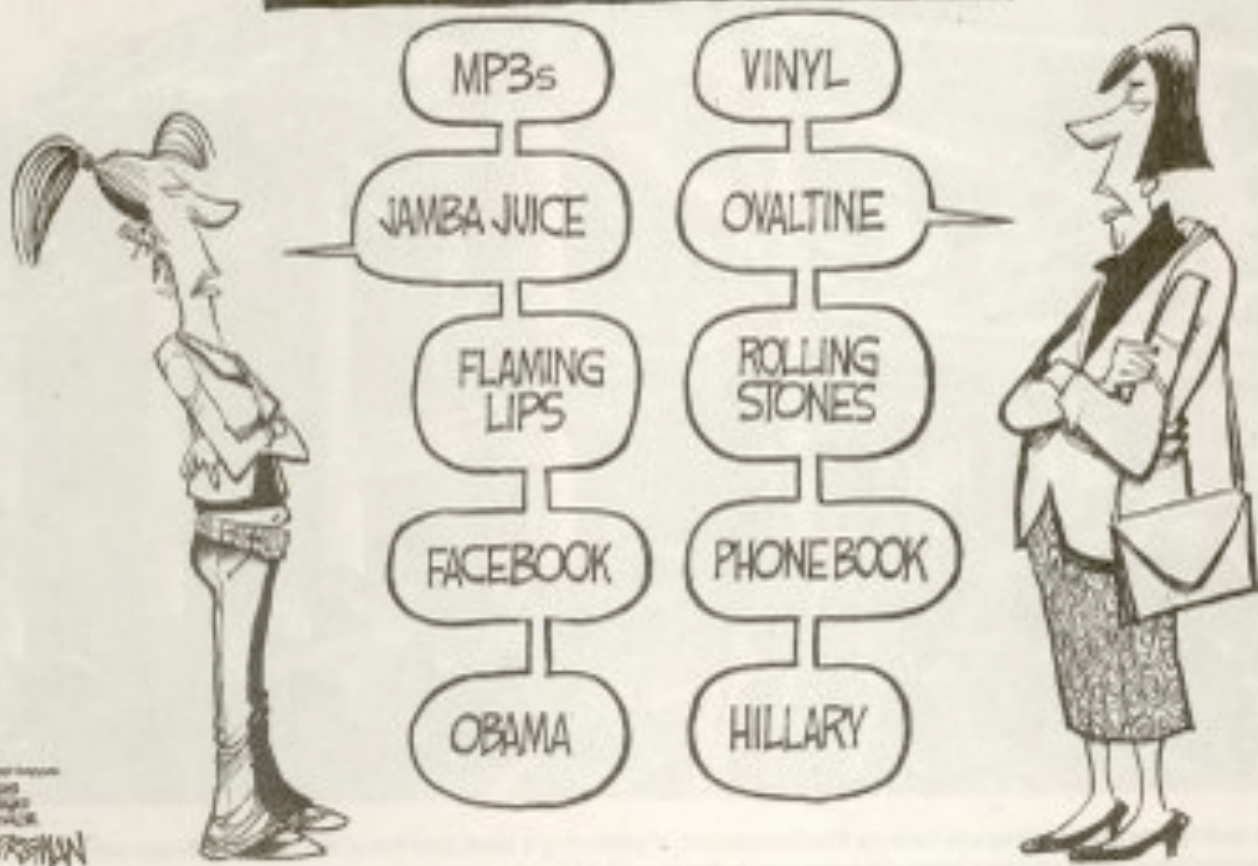
- **Succession of technological platforms**
- **Succession of business models**
- **Consumer tastes are age related**



Interaction

Generational Transitions

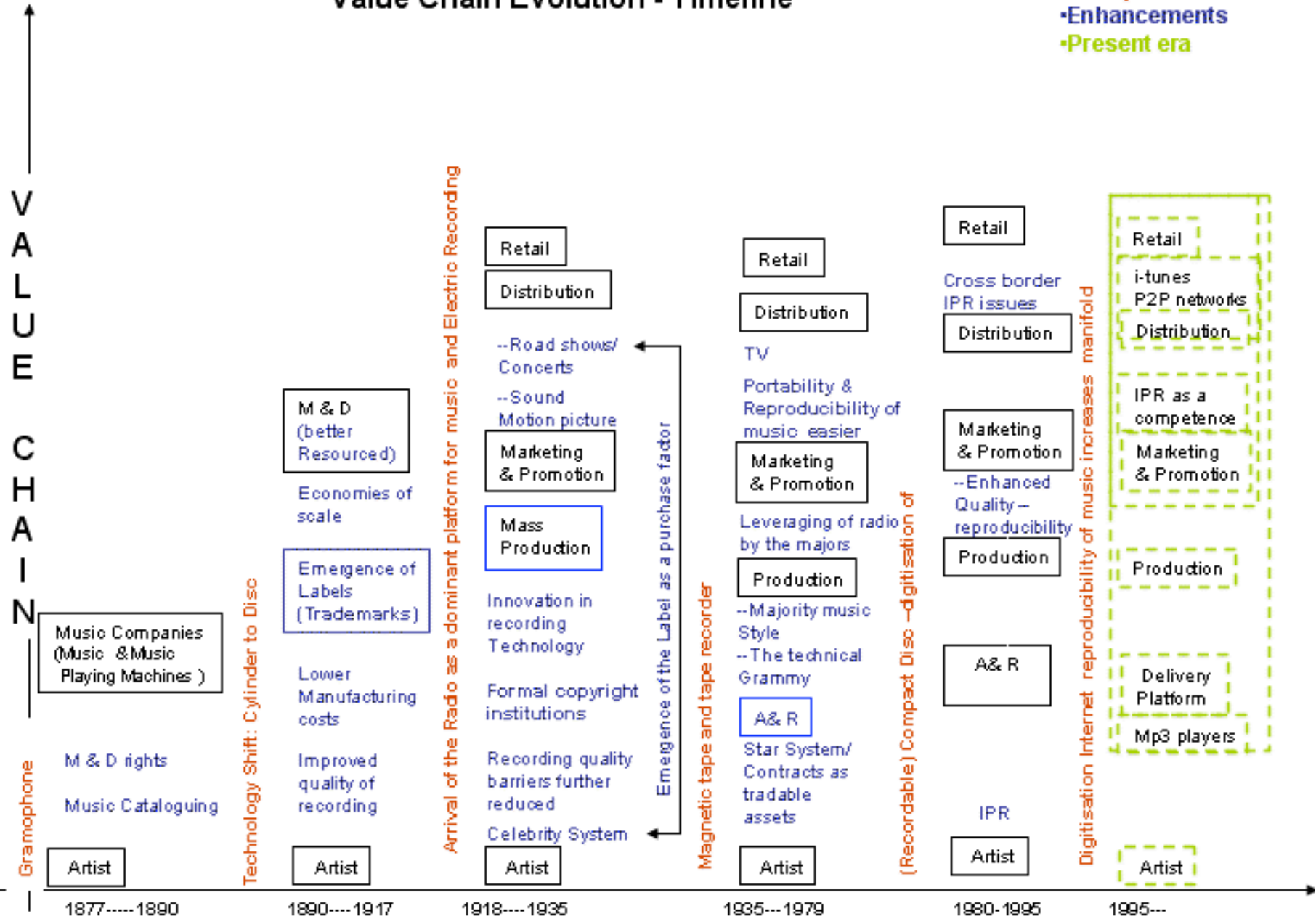
Generation Gap 2008



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Value Chain Evolution - Timeline

- Disruptions
- Enhancements
- Present era



Generations

Generation A [1877-1890]

Transition

- Arrival of the gramophone
- Recorded music takes off despite low quality of cylinders
- Distribution and sales are underdeveloped

IP Regime

- Patents focus on technology and manufacturing
 - No copyright regime designed for recorded content
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Generation B [1890-1917]

Transition

- Replacement of cylinders by disks: better quality, lower costs
- Economies of scale in marketing and distribution.
- Emergence of Majors using trademarks and with global distribution systems

IP Regime

- Copyrights overtake patents in importance
 - Emergence of industrial scale piracy
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Generation C [1918- 1935]

Transition

- Radio and of electric recording.
- Radio becomes an important strategic complement
- Advent of sound in motion pictures

IP Regime

- Radio initially poses threat to investments in content
 - Institutional mechanisms (e.g. ASCAP) emerge to protect content rights holders
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Generation D [1935-79]

Transition

- Introduction of magnetic recording technology.
- Television emerges as mainstream entertainment medium
- A& R begins to dominate the value chain (label system)
- Sales charts are established
- Industry institutions (e.g. Grammy awards) that signal quality are set up

IP Regime

- Copyright regimes adjusted for television broadcasting
 - Tax on blank tape and cassettes
 - Content piracy is contained
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Generation E [1980-95]

Transition

- Move from an analogue to a digital environment
- Laser-based compact disk technology in personal computers.
- Specialist music television channels (e.g. MTV)

IP Regime

- PCs digital capabilities increase illicit reproduction and distribution.
 - Piracy levels increase dramatically: Industry allocates resources to counter piracy by consumers.
 - Increase monetizing of back catalogues
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Generation F [1995- Present]

Transition

- Convergence of the internet with digital storage and playback technology
- Internet enables Consumer-to-Consumer exchange of music files (P2P).
- Established value chain begins to disintegrate
- Emergence of online business models

IP regime

- Industry takes legal action against P2P websites, but sales continue to fall.
 - Industry fights file sharing with legal online sales
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Industry Evolution and Creative Content in the Creative Industries

- Creative content and delivery technologies are loosely coupled
 - Creative content and delivery technologies co-evolve:
 - *performance of new delivery technologies drive demand for creative content*
 - *increasing demand encourages further innovations in delivery technologies*
 - Investment in creative content depends on capturing rents (appropriability).
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Industry Evolution and IP Regimes in the Creative Industries

- Capturing rents depends on translating IP rights into revenues.
 - New delivery technologies can both increase and reduce the ability of rights holders to translate IP into revenues.
 - The evolution of creative industries is therefore marked by swings between rents capture and rents erosion.
 - Prolonged rents erosion triggers search for new business models.
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Generation G?

- **Music piracy continues unabated**
 - **DRM presents technical and legal difficulties**
 - **Value chains continue to disintegrate**
 - **Established performing artists increase their power**
 - **Investment in new talent is falling**
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Scenarios for Generation G !

DECLINE

- Free use doctrine
- Industry Fragmentation
- Outsourcing of key activities
- Promoters and agents dominate
- Investment into product development declines

STAGNATION

- Artist management agencies - critical brokerage hubs
- Industry shrinks – major labels cut back on value chain activities like A&R

REBOUND

- Successful online business models
- Technological enhancements monitor usage and distribute content online
- Effective DRM
- Effective leveraging of online communities for investment in content development