

**Personal Relevance and Identifying Consumer Needs in the South
African Music Industry**

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ABSTRACT

The South African music industry is in crisis. Recent data suggests that the industry has declined by an average of 13.2% per year for the past 5 years. The industry seems to be unable to accept responsibility for this state of affairs and consistently blames external factors for its woes. A new look at the marketing strategies for the industry is urgently required

The primary objective of this dissertation is to raise the debate around current marketing strategies, to show that these strategies are not able to facilitate growth in the industry, and need to be radically reassessed. Anticipated results were achieved during the interviews that were conducted. There is a general belief throughout the industry that the reason for the decline is beyond the control of retailers or suppliers. Blame was placed on the increasing sales of cellular phones, gambling, the national lottery and piracy. None of the interviewed stakeholders considered a change in marketing strategy to be beneficial.

It is recommended that marketing strategies be reviewed. The tendency to operate on a 'product and price' advertising strategy should be removed, and a strategy put in place that responds to the wants and needs of consumers. This strategy should include a great degree of personal relevance for the consumer. Retail stores should focus on establishing brand identity for their stores rather than focusing on product and price.

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To both my sets of parents, thank you for the support, both financially and emotionally.

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As is everything I do, this Dissertation is dedicated to my Daughter Isabel. Three months old and already ruling the roost.

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Chapter 1 – Introduction

1.1 Background

The music industry is thriving. It is currently a \$15 billion a year industry, and in 2001, global album sales rose by 7%. However, Wharton Management Professor, Stephen Kobrin believes that in the face of the new digital age, that music retail needs to be reassessed

"I think CDs are done, It's ridiculous to record ones and zeros on a disc so people can buy something with eight songs on it, six of which they don't want.

While it may be pirating now, I think that digital music will eventually be rentable. I might download an opera to my computer and get use of it for three days. I remember my daughter, when she was younger, listening to a song for what seemed like half-a-second. Why should she buy a disc when she only wants to hear it for a few days? The payment streams will change. Someone will be making money from the music, but I don't know yet who will collect the rents. Yet I assume it will be figured out." (Gurley, JW 2000)

Despite this seemingly healthy industry, the industry lost \$5 billion in revenue to piracy in one form or another (King 2002). With the ease of access to the Internet, as well as the ease of supply of CD writers to the general population, this figure can only increase. While globally the industry did increase its fortunes in the past year, the South African situation is radically different. The local industry has lost ground every year since 1997. In 1997, the industry recorded an increase of 6%. This was the last year that the industry showed growth. . In the 1998 trading

year, the industry declined by 6.1%, in 1999 the figure was 13.6%, in 2000, which was supposed to be a bumper year due to the Millennium celebrations, the industry showed its worst ever decline of 37.4% and in 2001 the figure was 32.6%. In real terms, the industry has declined by 65.7% in 5 years, an average decline of 13.2% per year. (RISA report March 2002).

There are several reasons for the decline in the local industry. The introduction of pre-paid cellular cards has had an impact, as too has a relaxation in the gambling laws and the introduction of the national lottery. Piracy in Southern Africa is estimated to be in the region of 40% of sales (Rose 2001). At present Internet use in Southern Africa is at 7% of the population. With this figure expected to triple by 2005, the implications for Music are not good. It is entirely possible that the piracy figure may actually be higher than is speculated. When LG Electronics launched the Digital Audio Recordable CD in 2000, they were able to sell 250 000 units within 3 months. This exceeded their targets from Korea by 2000%, indicating the scope of demand for CD duplication. In the same time period, sales of Compact Disc reported by RISA just topped the 5 million mark. Given that LG electronics have an 8% market share in the blank CD market, this indicates that sales of blank discs could well have topped 3 million. (Le Breton 2001).

With the increase in piracy, coupled with the reported decrease in sales of compact disc and cassette, the industry is at a crossroads. It can either divert millions of Rands into combating the spread of piracy, or it can accept that piracy is just too easy given the availability of digital duplication technology, and the policing of piracy is all but impossible.

1.2 Need For The Study

The local South African music industry seems to be unaware of any major problems. The belief that the decline in revenues can be linked to the impact of cellular phone sales, the lottery and a relaxation of gambling laws is prevalent throughout the industry. Personal interviews conducted with key stakeholders in the industry revealed that the majority believe that these reasons are the central cause for concern. Of the 12 people interviewed, 9 believed that the indicated reasons are most to blame, one believed piracy was to blame (Rose) and two believed that market was in a slump due to poor economic prospects (Crawford and Thompson). Three interviewees (King, Stemp and Williams) believed that a combination of factors from consumer apathy, to lottery, cellular and gambling issues, to piracy were the cause.

None of the interviewed persons believed that marketing of the industry was at fault. This is indicative of an attitude that is pervading the industry. Most retailers and suppliers believe that the slump in the industry is beyond their control. They believe that it is the fault of external factors that impact on their businesses, and that all they can do is grit their teeth for a rocky ride. There is a belief that the industry will improve, and those prospects will be good if the businesses can weather the storm.

From observations conducted throughout the second quarter of 2002, the common belief amongst front-line sales staff is that the problem stems from piracy to cellular, gambling, lottery, to consumer apathy, to poor product offerings. None of the sales staff believe that there is anything wrong with the way in which they conduct themselves, their appearance, and the store layout or advertising campaigns. Only two of the observed

stores (Jet and Musica) have any form of ongoing training programs. These were found to be beneficial by staff. Staff from other stores did not feel that the lack of training was impacting on their ability to perform their functions. Management's attitude therefore seem to flow down to staff, where there is a belief that things will get better once external factors are brought into line.

The common attitude that can be found throughout the industry is that the pressures on the leisure rand from cellular, gambling and the lottery, coupled with piracy is the root cause of the problems with the industry. There is not any awareness of marketing as a tool for improving the fortunes of the industry. The industry does not find itself accountable for the problems it is facing, believing rather that the problems are beyond their control.

This dissertation shows that by addressing marketing issues in terms of consumers' wants and needs, that consumer loyalty and brand identity can be harnessed to improve the fortunes of retailers in a far more competitive leisure industry. While it is accepted that cellular phones, lottery and gambling have had an impact on music retail, that this is not the major cause of the problem. In addition, piracy, while its impact is substantial, can be contained if the ability to purchase on-line is simplified. In addition, piracy can also be contained by retailers who operate in a brick and mortar situation by identifying and meeting consumers' wants and needs.

1.3 Problem Statement

The Problem Statement of this dissertation is

- A uniform approach to business and a lack of differentiation has placed the South African Music Retail Industry in a position where it is faced with diminishing sales in the face of rampant piracy and external pressures on the leisure Rand.

1.4 Objectives of this Dissertation

1.4.1 Key Objective – Rethinking Marketing Strategy

The key objective of this dissertation is to highlight that a new approach in the marketing process of the music industry needs to take place. This objective will ensure that companies take ownership of the problems that they are facing. Companies need to realise that by attracting consumers to their stores and keeping them there, that their fortunes will improve. The existing marketing attempts that have been characterised by advertising product and price need to be changed to reflect the wants and needs of consumers. In achieving this objective, other complimentary objectives will be achieved in this study.

1.4.2 Digital Piracy and On-Line Music Retail

The objective of the study of digital piracy is to highlight that recent attempts to combat the spread of piracy have been in vain. International companies have now changed tack, where they embrace the technology and are examining the way that piracy operates, and are attempting to

understand how it works. This is in order to utilise this technology within the boundaries of the law so as to expand the possibilities for on-line retail. This dissertation will focus in detail on the Napster issue in light of initial attempts to block the company, to the situation today where Napster has been incorporated into the Bertelsmann Media Empire, as a part of BMG Records. The understanding of the Napster issue will act as an example to the local industry of the importance of on-line retail as a portion of the marketing mix.

1.4.3 The Importance of Personal Relevance in the Marketing Mix

The example of BMG's use of reality television shows Big Brother and Pop Idols as marketing tools serve as an example of how important personal relevance is to the consumer. BMG have been able to establish South African and British sales records in a market where sales have been diminishing. This indicates that the desire created by personal relevance has been able to counteract the desire to pirate the product. The examples that are highlighted show that personal relevance is able to draw consumers into stores where product and price advertising is not. The personal relevance issue is fundamental to the new marketing mix for the industry.

1.4.4 Retailers Need To Practice Differentiation and Branding Strategies

There has been very little change in the way in which music retail is practised in South Africa. Retailers have to be made to understand that there is a lack of differentiation in store layout, advertising strategy, pricing strategy, service delivery and staff appearance. This has lead to a lack of loyalty amongst consumers who cannot discern any difference between a Game Music Bar and a Musica due to a uniformity of retail

practice. This is a problem that is common across all retailers with few exceptions. In achieving this objective, this dissertation has examined two retailers, Jet Music and Rythmic Beat. These retailers have introduced differentiation to their retail stores, and it is interesting to note that these two stores have recorded significant growth in a diminishing market.

Due to a lack of differentiation, there has also been a distinct lack of branding strategy by retailers. Due to an over reliance on price and product advertising and a lack of company focussed marketing, companies cannot establish any brand identity. Instead of being known as CD Warehouse, CD Warehouse has a reputation for being “that big CD shop”. The desire to purchase product has overshadowed any loyalty to a specific store, resulting in consumers going to a store for convenience rather than loyalty.

1.5 Methodology and Scope

1.5.1 Methodology

Methodology that has been used is a series of interviews that have been conducted over an eighteen – month period with key stakeholders in the Kwa Zulu – Natal region. Due to the relatively small size of the industry, with the majority of the business being conducted by 5 major record companies and 13 music retailers, it has been possible to interview a representative of each major record company and most important retail companies. The same format of questions was followed with all retailers (Appendix 1). The analysis of results has been conducted manually due to the small size of the sample. The size of the sample was limited to companies with a turnover in excess of R1 million per year. This was done due to increase the level of focus. Small retailers would introduce

unnecessary bias, and due to their small size have a relatively minor impact on the industry.

Retailers interviewed or observed were Musica, MFP, CNA, Game, Look & Listen, Jet Music, Rythmic Beat and CD Warehouse. Jaguar Enterprises and Revolver Records were not prepared to be interviewed. Hey Jude, Atlantis Music, Premier Music and Manhattan Music were excluded for being too small.

Additional time was devoted during the interviews to a general discussion session with each of the interviewees. These sessions were recorded and provided much of the background information that was accumulated in this dissertation.

Details of Interviews conducted are

- Crawford, Russell - BMG Durban – 24th October 2001
- Crawford, Russell - BMG Westville – 4th April 2002
- Hill, Quinton - Sony Durban – 1st March 2002
- Kennedy, Carey - Gallo Durban – 17th May 2002
- Kershaw, Patrick – Musica & CD Warehouse
Umhlanga Rocks – 13th May 2002
- King, Nigel - BMG Durban – 20th March 2002
- King, Nigel - BMG Durban – 23rd July 2002
- King, Nigel - BMG Westville – 4th April 2002
- Le Breton, Louis - LG Durban – 6th February 2001
- MacMillan, Kevin - EMI Durban – 4th February 2002
- Ramsey, Warwick - Universal Westville – 11th April 2002
- Rose, Stuart - RISA Umhlanga Rocks – 11th December
2001

-
- Stemp, Nick – Rythmic Beat Springfield Industrial Park – 23rd
May 2002
 - Swanepoel, Darryl - Nu Metro Durban – 2nd April 2002
 - Thompson, Dave – BMG & M-Net Idols
Johannesburg – 24th May 2002
 - Williams, Ed – Jet Music Victoria Street Market, Durban –
28th May 2002

Research on global Internet issues was conducted entirely on-line, making use of secondary data. This follows a qualitative format.

1.5.2 Scope of the Study

The scope of the study of the retail industry will be limited to Kwa Zulu – Natal, although an examination of the South African market will be included as it is relevant to the scope of the study. The on-line industry will be examined in terms of the global market as the Internet knows no boundaries, and the international industry is a serious competitor to the local industry.

1.6 Dissertation Outline

Chapter 1 includes a background to the problems facing the local music retail industry, the problem statement, objectives of the study, the need for the study and methodology and scope of the study. Chapter 2 includes an analysis of the global on-line music industry in terms of retail, piracy and advancements in technology. It examines the Internet as a viable

marketing tool and focuses on Napster and BMG and their efforts to introduce legal digital downloads of copyrighted music product. It also includes viable opportunities for the South African retail industry.

Chapter 3 focuses on the South African market in terms of BMG's efforts in introducing personal relevance to the music industry. The impact of Big Brother and Pop Idols is examined in terms of their effect on the industry. This chapter will also examine the marketing efforts of the other major recording companies in terms of their diminishing market share. Chapter 4 examines the Kwa Zulu – Natal retail market in terms of the uniformity of approach by the 13 retailers. It analyses the efforts of Jet Music and Rhythmic Beat in terms of their ability to show considerable growth in a declining market.

Chapter 2 – On Line Music Retail

2.1 Introduction to the Industry

In 1984, Universal Studios took Sony to court in an effort to block the distribution of Video Cassette Recorders, which it claimed were encouraging the piracy of Copyrighted films. The court battle was decided in favour of Sony, who claimed that it was not trying to break the law, neither was it encouraging piracy, rather it was allowing consumers the opportunity to record ‘out of time’ programs. Napster it seems was not going to be so fortunate.

Napster was created in 1999 by college drop out, Shawn Fanning. It was the first of the Person-To-Person file sharing sites that allowed for subscribers to browse one another’s hard-drives for MP3 files. Napster provides music enthusiasts with an easy-to-use, high quality service for discovering new music and communicating their interests with other members of the Napster community. The service enables users to locate and share music files, send instant messages to other users, and create Hot List bookmarks. Thirty-seven million Americans have downloaded free music from the Internet since June 2001, a 40% increase, according to a study released by the Pew Internet and American Life Project (King 2001). The legal setbacks of music-swapping service Napster seem to have fuelled the increase, which spans all Internet users regardless of their experience, age, prosperity or race, the study's author said. According to the study by the Pew Internet and American Life Project, 29% of American adults say they have downloaded music online (King 2001). That figure was only 22% in late July 2000, when the recording industry won its suit against Napster in U.S. District Court. "The level of sharing and downloading closely tracked the court case," said project

director Lee Rainie, the author of the study. In July 2000, the average Napster user shared about 130 music files. That jumped to 200 in January 2001, when an appeals court heard the case.

"My guess is that the music industry will have to get a lot thinner. It's going to have to squeeze out a lot of the intermediaries in the middle," says Greg Meyers, an adjunct marketing professor at Wharton and strategist for Qwest Interactive, the Internet consulting unit of Qwest Communications. "The only thing that's sure is that the way it is now is not the way it's going to be." (Moe & Fader 2001)

2.2 On-line Music Retail Situation Analysis

Today, much of the price of a \$16 CD goes for production, distribution, marketing, transportation and other costs, he says. Digital distribution over the Internet is much cheaper, and traditional music companies will have to cut costs and prices to compete. In September 1999, Madonna became the first recording artist in history to record an official gold album in the USA before a CD had been pressed. Warner/Maverick Records initially released the "Music" album on the Internet as a paid download. The price charged was \$14.50. This was a price discount of \$1.50 off the regular retail price. Despite the relatively high price, considering that there was no artwork or manufacture costs, the available 500 000 copies were snapped up in a single day. This showed a desire by Internet consumers to make use of the opportunity to buy on-line.

Napster and similar data-sharing companies have been made possible by the development of fast Internet connections and the shift of music and other information to easily transmitted digital formats. Napster's role is to maintain a vast index of music its users are willing to share, and to provide the software for doing it. A user seeking a song or album logs on

to Napster through the Internet, finds someone who has the tunes and extracts them from that person's computer. Napster is different from most consumer Internet products or services. Typically we use our browsers to access large Web sites. By contrast, Napster is a software application that uses the Internet--there is no browser. More interestingly, Napster allows its users to share information among PCs rather than between a big Web server and a PC. Users tell Napster where music files (mostly in MP3 format) are located on their hard drive, and then Napster shares this information with the world.

The result is that each Napster user can share music files with any other user. Download Napster, type in the name of a song, and Napster will show you other Napster users with that song on their PC. Double-click on the song you want, and you are now transferring it to your PC. This activity bothers the music industry for two reasons. First, in addition to exchanging music that is intended to be freely traded, users are also able to transfer any and all music that can be "ripped" to a digital file--without, of course, paying a royalty. This applies to all 50 billion compact discs in circulation. The second reason the industry is concerned is that Napster accumulated a remarkable nine million users in only six months. By comparison, it took America Online 12 years to reach nine million users. (Gurley 1999)

At first glance, it may seem beyond question that Napster is in the business of thwarting copyright laws. But the company says it does not provide music itself, and its web site cautions users who trade among themselves to obey copyright laws. The record companies insist Napster

exists only to help people exchange music without paying the artists and producers. It is thus a knowing, willing enabler of copyright infringement, they contend. Hence the court action that has resulted in Napster's temporary closure.

As interesting as the lawsuit may be to aficionados of copyright law, services like Napster's are sure to proliferate regardless of the outcome of the Napster case, says Meyers. Already, Napster has competitors, such as Gnutella and Freenet. Some use encryption technologies that make it impossible to tell who is sharing files with whom, thus making copyright infringement impossible to police.

Napster's survival, even if it wins the lawsuit, is hardly certain. Napster's strength is its enormous membership list, enabling it to offer a vast selection of music. But patrons of Internet businesses are notoriously fickle. With just a few clicks, one can switch to a competitor. "As long as there's a free alternative, why would anyone pay?" asks Meyers, pointing to Napster's central dilemma.

To flourish, Napster has to generate revenue and, eventually, profit. Currently, much of the money it has raised privately is going to legal fees. But users may flee Napster if it charges large fees. Small fees – say only a few cents per song – might not drive users away, especially if authorised downloads are of better quality than pirated ones. And some users undoubtedly feel that artists should be paid for their work.

Bertelsmann and Napster need to do more than just mollify music seekers who like the free format. They also have to find a way to compete with people eager to *provide* music for free. In June of 2002, Napster filed for bankruptcy. This has seen all of Napster's assets and operating systems being incorporated into the Bertelsmann group for a future re-launch. The

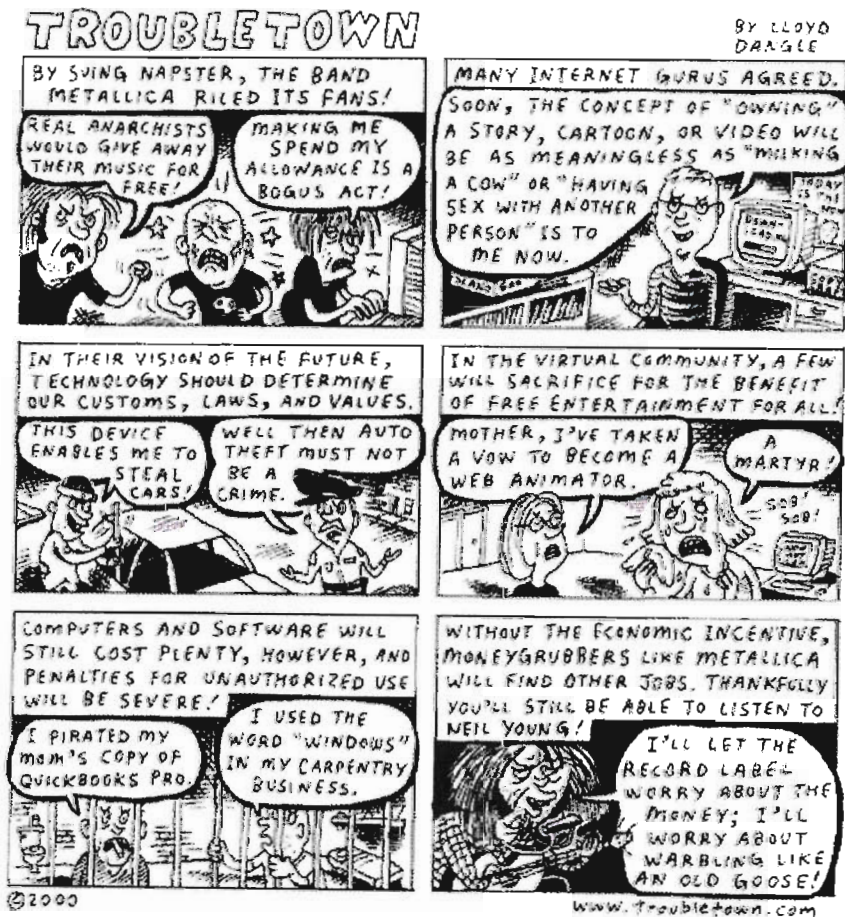
company will operate as a label of BMG, and retain its identity. The site will remain at www.napster.com (King 2002).

Sheen S. Levine, a Wharton lecturer and doctoral candidate who studies the behaviour of Internet users, notes that Napster thrives because people allow access to their hard drives to complete strangers. The person who provides music to others gets no pay and doesn't even demand a promise that the other user will reciprocate. The Napster music provider does not sell, or even trade. The music is a gift.

"It's not a phenomenon that we see anywhere else but on the Internet," Levine says. "This culture of sharing over the Internet is something that dates back to its early days. Today, most of the stuff that you have online is free." Levine has studied people who use Napster and other sites and believes they have a variety of motives. People who write software and then offer it for free may simply find satisfaction in creating something others want. Other users get a kind of anti-establishment kick out of defying standard business conventions. In addition, "we may not be as opportunistic as we think we are," Levine says. "People do things to benefit society." (Moe & Fader 2001).

But if millions of people are willing to pay good money to buy CDs, then load them onto hard drives and offer the material to others for free, traditional music sellers are in trouble. Indeed, Napster is too. "Napster was not born as a business idea, Napster was born as part of this movement toward sharing," Levine says. "How they are going to make money off that nobody knows.... I don't see how they are going to charge money and keep their users."

The Napster court case has resulted in the closure of the company temporarily. The action was brought by the five major record companies citing copyright infringement, as there is no way of collecting royalties from an essentially free service. In October 2000, BMG did an about face, when they dropped their own action against Napster, opting rather to buy a controlling interest in the company. This decision was based on the fact that there were 50 million registered subscribers to Napster, which gave BMG a huge database from which to launch its on-line marketing business. The Pew Internet survey indicated that of the subscribers, 31% were prepared to purchase the product after downloading. The majority, 69% were not and when surveyed, stated that they didn't care about copyright laws. BMG's motivation behind this action was that it was possible to convince the majority that continued disregard for copyright laws would inevitably lead to permanent damage



being done to the industry and its stakeholders. Heavy Metal band Metallica launched its own action against Napster in 1999, when it discovered that all of the band's repertoire was available on-line, and that this was leading to a loss of income.

In September 2001, Napster and BMG reached a settlement with the National Music Publishers Association, whereby BMG agreed to pay \$26 million for past copyright infringements, and an additional \$10 million for future royalties as a down payment. The only stumbling block now is the pending case involving the four remaining major recording companies that own the performance rights. Once this is settled, Napster will have legal access to 700 000 tracks. The agenda of the remaining companies (Universal, Sony, Warner and EMI) needs to be questioned. Is this a question of preserving performance rights, which BMG and Napster seem prepared to pay for, or is it a case of sour grapes at being left out of the loop? Napster has also been able to conclude a distribution deal with MusicNet, a competitor founded by Warner, EMI and BMG. The new Napster, when it re-opens for business in October 2002, will operate as a paid download service. Currently, CDNow offers a similar service, as do several Artist web sites. The average charge per track is \$1.50.

In November 2001, BMG increased its stake in the on-line business when it bought CDNow, which is the largest on-line music retailer in the world. The intention is that links will be inserted from Napster to the CDNow site, meaning that subscribers have the option of downloading a track and then making the purchase on-line. If this purchase is concluded, then the price of the download will be refunded to the purchaser.

Music piracy is not going to go away due to the ease of duplication. Due to its nature, Compact discs are recorded digitally. Until the past few years, MP3 usage wasn't widespread because files consumed a lot of space on a hard drive and required lots of bandwidth to be easily transferred. However, both bandwidth and storage space are becoming ever more plentiful and cheaper. Within six years the amount of drive space or bandwidth needed to trade high-quality music will be negligible. E-mailing an entire album of music to a friend will be no different than forwarding a Microsoft Word document today.

“Every multimedia PC is capable of converting a music CD to a digital MP3 file. This means that more than 100 million encoding devices already exist. It's unlikely that we would recall either the PCs or the CDs. Could we produce new CDs that are "unrippable"? This is not likely if you want them to work in the 200 million CD players that are already in people's homes, offices, and cars.

Could we create a new type of CD or encrypted file type that couldn't be copied? The potential certainly exists to do this. However, as long as recorded music can be played, it will be extremely easy for someone to rerecord this into a digital file. No ifs, ands, or buts. The music industry believes a Holy Grail exists that can save the day. They assume that a technological solution is imminent. But the wait for a white knight will be a long one.

Could litigation and legislation stop Napster? The Recording Industry Association of America has sued Napster in an attempt to

shut it down. Napster claims that, just like Betamax and the RIO MP3 player, the service has appropriate uses and therefore should not be liable just because its customers use it for illegal purposes. Even if a judge enjoins Napster, there are five or six more companies that have already launched similar products. I'm equally pessimistic that legislation can stop this movement. Make these illegal, and someone will launch one from another country. Shutting this down would require the Internet equivalent of wiretapping, which would send privacy advocates into frenzy.

Another barrier that will make Napster difficult to stop is community. Napster's 37 million users are passionate about it. Universities attempting to shut down Napster to prevent network overload are met with active protests. Today's college students are quite serious about their freedom to transfer digital files--whatever the content of those files may be. Stewart Brand's famous statement that "Information wants to be free" has become a rallying cry of this fervent young community. “ (J William Gurley 2000)

2.3 Internet Security

The search for the “Holy Grail” as Gurley puts it, is on going. The biggest problem with this is that it is diverting resources from the real issues at hand, that is the education of the public to halt the continuation of illegal practices. In May 2001, with the launch of Windows XP, Microsoft claimed to have devised a system that would allow for digital fingerprinting of audio recordings. This would render their illegal copying impossible. Such technology could be included as a default playback mechanism in future versions of the Windows operating system.

If the music industry begins to include watermarks in its song files, Windows would refuse to play copyrighted music released after a certain date that was obtained illegally. Using this new technology as a springboard, SDMI also got involved and in July 2001, SDMI announced that it had pioneered an uncrackable code. No details for the techniques were released, but SDMI were so convinced that they had managed to find the "Holy Grail" that they launched a challenge to hackers to break the code.

Two weeks later, Princeton University Professor, Edward Felten announced that, with a team of researchers, they had indeed cracked the code, and were due to publish a paper detailing the methodology at the end of August 2001. Felten, said he would not present the paper at the International Information Hiding Workshop, being held in Pittsburgh, Pennsylvania, citing threats of legal action. Felten was sent a letter by the SDMI, suggesting that he could be sued if he released information on how to break the "watermarks" encrypted into digital music files. SDMI has ties with the Recording Industry Association of America (RIAA). "Litigation is costly, time-consuming and uncertain, regardless of the merits of the other side's case. Ultimately, we, the authors, reached a collective decision not to expose ourselves, our employers and the conference organisers to litigation." Felten stated. (Felten 2001)

Despite Felten's concerns an SDMI official said that the foundation never intended to bring legal action in the matter. "The Secure Digital Music Initiative Foundation does not, nor did it ever, intend to bring any legal action against Professor Felten or his co-authors," said Matthew Oppenheim, secretary of SDMI and a senior vice president for the RIAA. (SDMI Press Release 2001)

"We sent the letter because we felt an obligation to the watermark licensees who had voluntarily submitted their valuable inventions to SDMI for testing." Oppenheim said the RIAA "strongly believes in academic freedom and freedom of speech" -- concerns raised recently by critics of the SDMI stance. "This issue, however, is about the competing interests of scientists, those of watermark technology companies that have invented new technologies, and those of Professor Felten, who seeks to describe how to circumvent those technologies."

The dispute goes back to a promotion sponsored by SDMI; a foundation formed to protect the music recording industry's besieged digital interests. Believing it had found a way to prevent songs from being illegally copied, SDMI offered a US\$10,000 reward to anyone who could break its anti-piracy technology. Professor Felten and his academic hacking group answered SDMI's challenge. They abstained from clicking through to an agreement on the SDMI Web site that would have legally bound them to keep their findings private but worked on the problem independently. "We believe that people benefit from learning the truth about the products they are asked to buy," Felten said. Felten has acknowledged that team's preliminary findings were published on the Internet, but claims the leak did not come from him or from members of his team.

Eventually in October 2001, Felten did publish the paper. The Industry Standard reports;

"Someone thumbed his nose at copyright protection Wednesday without getting arrested, indicted or sued. Princeton professor Edward Felten and a grad student told security experts at a

conference how to crack digital watermarks that are supposed to prevent copying.

Not the sexiest story out there, but for Felten, boring news is good news. After all, this is the talk Wired News called "entirely anticlimactic" because nobody got hauled off in handcuffs.

Felten went ahead with the presentation after the Recording Industry Association of America promised not to sue him over it; he'd put off revealing the details earlier this year after he received a nastygram from the music industry and other copyright fans. The RIAA said it never planned to sue Felten, according to the Washington Post. The Boston Globe's Hiawatha Bray said the music industry backed off because "Felten is a scientist, and the law makes an exception for scholarly researchers." Anyway, News.com reported that the talk was billed as the "presentation the RIAA does not want you to see." Not bad marketing for a paper the Post described as "a dry, technical analysis."

SDMI is a failure. Not one of their supposed security devices have worked. The latest, a Norwegian student cracked a modification of IBM's Big Blue in 36 hours. The amount of time and money that has been ploughed into SDMI could have been far better utilised for responding to consumers' needs.

Sony Music recently announced and introduced a CD that could not be played in a CD ROM drive. The week after this was released as a possible solution to the problem; it was discovered that by colouring over the CD Identification track with a black Koki pen nullified the security track.

The simple truth is that efforts to stop digital music piracy don't work. For every possible solution there is an army of people waiting to "crack the code" Efforts to stop the spread need to be abandoned. The old adage of "If you can't beat them join them" needs to be applied.

2.4 On-line Consumer Needs

Based on the information received from various Internet articles, publications and interviews with key personnel, the following has emerged, as a workable profile of consumer needs with regards to the on-line music industry.

- Consumers are not satisfied with high prices being charged for largely inferior products. Most albums that are released today contain one or two desirable tracks and the majority of the product is not wanted
- Consumers are unaware of the implications of royalties. Due to their ambivalence to the issue, consumers are not aware of how piracy is affecting Artists and Recording Companies. Many consumers do believe that artists should be paid for their work
- Most consumers have access to computers which act as encryption devices for digital products
- 31% of consumers surveyed by Pew Internet were prepared to buy albums after they had downloaded them
- Due to improved bandwidth, download speeds have improved, making it easier to download music than go to a store and buy it.
- There is a 40% increase in the number of adults that are making use of downloaded music

- There is very little brand loyalty to sites like Napster. If one site is closed, then people will move to another competitor. Actively pursuing one site therefore has little effect on the problem.



2.5 Global Solutions to On-line Piracy

RealNetworks appears on the verge of controlling the digital music security platform after the company brokered a deal between three major labels and Napster. The recording industry has continually demanded that Napster adopt security measures that include tracking software and digital rights management.

Warner Music, BMG, and EMI agreed to licence music to Napster once the company developed a secure system. According to sources familiar with the deal, Napster will roll out the first version of its new secure format in the summer with content from independent and non-major label artists. Sounds easy enough: Create a secure system, get the content. So far, that goal has been rather elusive until RealNetworks stepped in.

The MusicNet deal now offers not only a potential distribution network that would rival any offline retail store, but also sets up RealNetworks to develop the standard for music delivery on the Internet. Once Napster proves it can deliver content in a secure manner, it will then be allowed to deliver music from the major labels. The major labels appear to be forcing Napster to prove its competency. The thing is, for Napster to deliver music through MusicNet they will have to use the RealNetworks security system.

RealNetworks should be able by virtue of its huge customer reach set the standard for delivering music over the Internet in a way that protects content providers from having their product ripped off. This is because standards can't be developed until everyone is on board. Until Napster's deal with MusicNet, the five labels and the technology community didn't have a real reason to come together, outside of the potential revenue boost that might come from adopting a standard.

When RealNetworks and MusicNet CEO Rob Glaser said "if you combine the reach of RealNetworks, AOL, and Napster, we have a very far reach," he might have made the understatement of the year. By a conservative estimate, the new service could reach over 100 million users.

While 100 million is a lot by any standard, when compared to television ratings, the reach gets more impressive. According to the Nielsen ratings, just under 11 million people tuned in to watch the No. 1 rated show, *60*

Minutes. That might be apples to oranges, though, comparing ratings to potential reach.

So the MusicNet reach would also be comparable to the reach of televisions across America, as Nielsen's estimates that just over 100 million households in the country have TVs. That gives the company a huge online distribution base, one that each of the labels will want to have for their music. Sony and Universal the other two major labels, aren't part of MusicNet; those companies started their own service called Duet. (King 2002).

RealNetworks knew that if Napster negotiated a deal with Duet, it could get shut out. After all, Napster has 70 million registered users, and if Napster had access to all the music content, it could set the security standard. So there is a clause in the Napster/MusicNet licensing agreement that keeps Napster from deploying its NAP Security Wrapper as the standard, secure digital media file. And this is how RealNetworks positioned itself to become the default security setting in digital music.

"We are precluded from working with Duet, but we want to work with all the labels on this," said Napster CEO Hank Barry during Tuesday's press conference announcing the MusicNet deal. "We're hoping we can have Sony and Universal music through MusicNet, since clearly there is a desire on the part of the consumer to have an integrated music experience."

The moves by the major record labels seem to suggest that there is a definite shift in consciousness. Record companies and artists seem to

have lost the spirit of Rock 'n Roll in favour of the spirit of the dollar. In the heyday of Rock 'n Roll, musicians were in business for the love of music. While this paper does not seek to advocate that musicians should not be paid what they deserve, the fact remains that the industry has changed significantly. The top of the charts is characterised by “one-hit-wonders”, artists that will probably only have one song that will make an impression on the public. Due to the high royalties that are paid, these artists often never have to work again. An album that achieves Platinum status in America (sales in excess of 1 million copies) will net the artist \$3.5 million. This excludes appearances and endorsements. Gareth Gates was paid 750 000 pounds to be the face of Pepsi for 2002 (Thompson 2002). Top artists that previously would release at least one album a year, often two in a calendar year, today release an album every two to three years. Whitney Houston, arguably one of the most successful female studio artists of all time, has a back catalogue of just 5 studio albums, two greatest hits and one soundtrack collaboration in a career stretching 15 years. Her earnings in the 2001/2002 year were a reported \$65 million (Crawford 2002).

This apathy on the part of artists to produce regular quality offerings has also contributed to the slump in the industry. A vibrant on-line business where artists were paid a royalty based on a single track costing a dollar, rather than on sales of an album at \$16 would inevitably force artists to produce more frequently or risk their bank balance. In addition, poor releases would also not get public attention, as they would involve a single track. This paper does not advocate the death of the album, as good quality albums do exist, but rather it does advocate the death of the album that is released with one good track

2.6 South African Perspectives on On-line Retail

If the major labels are able to reach consensus on the role of Napster in the future of on-line music sales, it will give the industry the boost that it requires. Bricks and Mortar stores will not fade away, as there will always be the consumer who relies on the “touchy feely” factor, that is the consumer who buys an album due to artwork, sleeve notes and the quality of the recording. These people are typically the type of person that enjoys browsing through CD racks in the pursuit of an elusive or unknown recording. In addition, more than 20% of music sales in major chains like Look & Listen are impulse buys that rely exclusively on the skills of the salesperson to match the consumers’ taste to a new artist. In 1995, Daniel Chetty, formerly Look & Listen’s top salesperson accounted for 90% of the total SA sales of an unknown artist, Jonata Brooke, purely on the basis of enjoying the album and playing it for customers. Similarly Mark Federer, owner of Music Mania in Kloof accounted for the second highest sales of Ezio’s debut album, “Black Boots on Latin Feet” for the same reason, Music Mania had a monthly turnover of R30 000 as opposed to Look & Listen's R1.5 million per month, the highest seller. The role of the passionate salesperson will be as important in a future business, but the on-line consumer will typically be looking for the most popular tracks and will not require a sales professional to help with their choice. It is a fact that Bricks and Mortar retailers will have to accept that their business will diminish as the on-line industry gains in momentum. They too will be faced with the choice, “If you can’t beat them, join them”. Currently only three companies in South Africa have on-line purchasing systems. Two of them, Musica and Look & Listen are Bricks and Mortar establishments. The third, Kalahari.net operates in the same way as CDNow. Of the three, none of them offer a download option,

although Musica does have limited sound clips to allow clients to preview a track from top albums. Retailers in SA have been reluctant to start Internet services due to the high cost involved and the low returns on their investments. It needs to be remembered that this is the way that business will be done in the future, and by trying to get in when the market is booming, will be like closing the barn door after the horse has bolted. In addition, as the Internet knows no boundaries, international companies will be able to capture significant shares of the local market. Amazon.com can deliver a DVD quicker to a home in Durban than Kalahari.net. Amazon is in America, while Kalahari is in Cape Town. The local industry needs to get on-line now, and offer the same if not better service than their international competitors or risk losing out altogether. In addition, despite the high exchange rate, it is still cheaper to buy new DVD's from Amazon than it is from SA based Internet companies. (Test purchases conducted in April 2002 by author)

2.7 Summary

The "Pandora's Box" that was opened by Napster in 1999, has served to inject new life and new possibilities into an industry that has been stagnating. The music industry had tended, especially in the South African context to rely on age-old retail techniques that were inhibiting any real possibility of growth. The results of the "on-line invasion" have forced the industry to rethink its own position in the long-term.

The growth of the on-line market has meant that Record Companies and retailers have been forced to realise that there is a huge and generally untapped market that is very price-sensitive and very sensitive to changes in music style and taste. This market is the future of the industry, and unless steps are taken to break into this market and make it financially

viable, that this could well provide a knockout punch to an industry that is in peril. The fact that the digital age has made piracy and on-line access a reality that cannot be removed has meant that the old adage of “If you can’t beat them, join them” needs to be applied. Retailers have to offer the on-line client a viable alternative, and Record Companies need to use the technology both as a viable marketing tool, and as a future source of revenue from both a rental and retail point of view. There is a real possibility that the Record Companies of today will become the most significant players in the retail market of tomorrow.

Chapter 3 – Personal Relevance as a Component of the Marketing Mix

3.1 Background of the South African Music Industry

The South African Music Industry is in its worst slump ever. Figures published by RISA (Recording Industry of Southern Africa) show that the slump has been sustained since 1997. In the 1998 trading year, the industry declined by 6.1%, in 1999 the figure was 13.6%, in 2000, which was supposed to be a bumper year due to the Millennium celebrations, the industry showed its worst ever decline of 37.4% and in 2001 the figure was 32.6%. In real terms, the industry has declined by 65.7% in 5 years, an average decline of 13.2% per year. It is significant that over the last year, when the industry has shown huge losses, that some companies have been able to show gains. BMG from a recording side achieved a figure of 156% of business plan, exceeding estimates by R39 million in turnover and exceeding unit sale projections by a huge 75 000 units.

There are three distinct parts to the industry. The largest unit sales are in the Black Market and are restricted almost entirely to cassette. The largest selling album of all time in South Africa is Lucky Dube's "Slave" album, which recorded sales of 1.1million copies in 1987. The largest selling Band of all Time is the Soul Brothers who have recorded sales in excess of 6 million albums over a 20-year career. The introduction of compact disc to the industry in 1990 was largely ignored by the black market. In 1998, Brenda Fassie's album "Memeza" recorded sales of 670 000 units, of which only 30 000 copies were on CD, the bulk of these CD's were purchased by the Indian and Coloured population groups. The recent trend of Kwaito music has seen an increase in sales of Compact Disc, again in part due to the coloured population group, but also in no small

part to the growing Urban Black Market, which has embraced the compact disc. TKZee's album Halloween became the first Black Music release to sell in excess of 100 000 copies on CD. The reasons for this were the introduction of Kwaito Music into so-called coloured night clubs, a growing acceptability of Kwaito amongst all population groups, heavily discounted pricing, making the albums affordable, and a growing black middle class who were prepared to spend money on CD's. Traditional Black Music and Church Choirs still remain almost exclusively in the domain of cassette sales. Imvuseleo Yase Natali, a Choir from the Stanger area in Kwa Zulu - Natal sold in excess of 100 000 copies; yet the percentage of CD's was less than 1% of the total sales.

Music piracy in the black market is rampant and according to Stuart Rose, local RISA piracy investigator, piracy represents about 30% of the total units sold in the Kwa Zulu - Natal and Eastern Cape regions. In the Transkei, this figure is estimated to be around 80% due to the levels of poverty. A new release from Brenda Fassie costs R39.95 as an original, but a pirate copy will be available at R10.00. Piracy has recently been included in the SAPS Fraud Squad's jurisdiction. This has meant that for the first time, that the police are able to get involved in these cases. Piracy in the rural areas of the province is far higher due to the prevailing economic conditions, coupled with a lack of manpower on the ground to police these areas. There is only one investigator employed by RISA in the area from Queenstown in the South to Pongola in the north and inland as far as Volksrust.

Distribution of product is almost exclusively in the hands of wholesalers. There are four main operators in the region. Revolver Records, Reliable Radio, Atlantis Music and Jet Music. Of these Reliable is the largest, but

does not offer a travelling service, relying on a 'cash and carry' style of business. Due to low overheads, Reliable is able to offer prices lower than the record companies. This is a legacy of inactivity on the part of the recording companies, who would rather allow the wholesalers exclusive access to territories, give them large discounts and not concern themselves with employing people on the ground. This has given rise to an almost total lack of decent black music stores within the CBD's of the major cities, due to expansion of the wholesalers.

The second definite segment of the market is the Afrikaans market. Average cassette sales (28%) and higher CD sales (72%) typify this market. The Afrikaans market is further segmented into Youth product and the more established standard singers and Boeremusiek, which is aimed predominantly at the older market. In addition there has been a recent addition in the last 6 years of Sokkie Musiek, which appeals to both young and old, and is typically well known songs done to a club music beat. Despite its low demographic base, Afrikaans constitutes a significant percentage of Sales of recorded music, with artists like Patricia Lewis and Jurie Els able to sell 200 000 copies per album. This indicates that while the market is small, it is not prone to piracy and is fiercely loyal to its superstars. Select Musiek, an independent Afrikaans record company with artists like Blackie Swart and a significant catalogue of Sokkie Danstreffers (Sokkie music compilations) has a market share of 2%. CCP, the label that has Brenda Fassie, Mandoza, Rebecca Malope and other top Black artists only has a share of 6%.

The third segment of the industry is basically everything else. This is made up of the International products, although in recent times, Gallo Records and Sony have introduced a Black International division, indicating that an additional segmentation is on the cards. This segment is

by far the most powerful segment, contributing in excess of 60% of the turnover in the industry, although in terms of unit sales, this is second to the Local Black segment, who contribute 53% of units sold. This is due to the lower price of cassettes as opposed to Compact disc.

Statistically, the Southern African market is the 27th largest market in world. It is larger than Spain and Portugal, the same size as Australia, but significantly smaller than the major players like America and Britain are. Demographically, the market has the 10th largest population, yet it is unable to tap this large potential. Australia with less than half the population accounts for similar sales figures. Platinum Album sales in SA is 50 000 copies. American platinum is 1 million copies. America is therefore 20 times the size, with 5 times the population. This indicates two possibilities. The American economy is stronger and the American public buy more albums.

American replenishment cycles operate on a daily replenishment. The SA cycle is weekly. This is problematic as most companies order stock on a Monday. There is a high incidence of out-of-stock by weekend, which is the Industry's peak trading period. Coupled with this, the principal CD Pressing plants, both located in Midrand outside Pretoria, Sonopress and CDT, both operate at maximum capacity and are unable to deal with high trading volumes. Typically record companies will go out of stock of key releases at the wrong time. In 1999, Gallo Records miscalculated the appeal of their premier album for the Christmas Trading Period. "The Hits" went out of stock on December 13th. Replenishment stock was only available to dealers on January 4th, too late for the crucial last week before Christmas period. During that period, Now That's What I Call Music volume 26, from Universal Records despite being an inferior product became the top seller, recording sales of 50 000 above

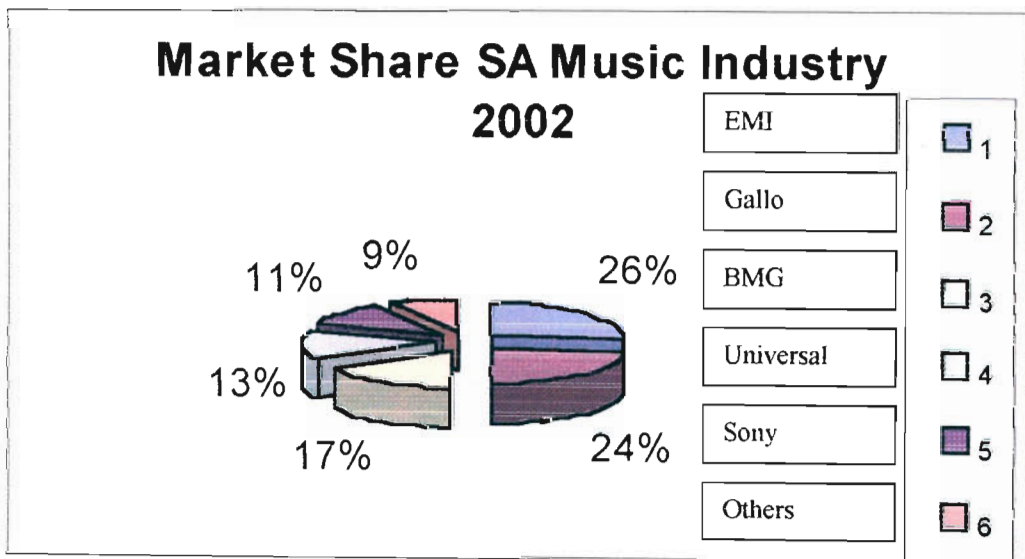
expectations. Carey Kennedy, Gallo Regional Manager indicated a potential loss of sales for Gallo of 100 000 copies due to the hold-up.

Distribution in South Africa is problematical. All warehousing is in Johannesburg, and a courier company EWC is tasked with deliveries for all record companies and video distributors. EMI and BMG are the quickest, with a turn around time of two days from placing the order to delivery. Gallo, Universal, Sony, David Gresham Records operate on a four to five day turn around time. There are two warehouses, EMI and Gallo, who do distribution for the other companies. The delay in the Gallo service (Gallo, Universal, Sony and David Gresham Records) stem from poor warehousing systems, which they seem powerless to improve.

There is a legacy of suspicion between the Sales and Marketing divisions in all record companies. The two departments operate autonomously of each other and there is very little co-operation between the two. This is a trait that is common to all of the companies, although to a lesser degree with BMG who seem to present more of a unified front. Despite this there is still a rift even in this case. Traditionally, the main communication takes place at two workshops. One in May, the other in October once release schedules are finalised. At this point attempts will be made to select key albums for the period. This is not always possible. In 1996 Helmut Lotti Goes Classical was released by BMG Belgium. The album was considered unsuitable for the South African market, and BMG sold the rights to Transistor records, a small independent company distributed by Tusk Records prior to its merger with Gallo, for a fee of R25 000. The album sold 150 000 copies in a four month period. In the same year, BMG deleted a single from Los Del Rio called "The Macarena". Following huge demand from dealers, the single was re-instated and went

on to record sales of 120 000 copies, which was until the death of Princess Diana, a SA record.

It is common practice for marketing departments to buy TV or Radio advertising space and then forget to inform sales. There is always a rush on demand after a TV ad campaign, and invariably the album will go out of stock, as sales departments are oblivious to potential demand. Conversely, by not giving accurate feedback of dealer demand, sales departments are often guilty of not supplying marketing with information crucial for determining stock levels. Due to a two-week delay on production due to CD plants being unable to cope with volumes, if this information is not forthcoming, it can result in massive backlogs in production.



Source – RISA Statistical Document March 2002

Currently EMI and Gallo control the bulk of the Industry. This is due to the strength of their distributed products predominantly in the Black Market. Significant changes have taken place in the past 5 years. In 1997, Gallo had a 30% share, Universal a 22% share, Sony a 19% share, EMI a

21% share and BMG a 7% share. Independents accounted for just 1%. In the past 5 years BMG and the independents have made huge strides in capturing market share. What have they done right and what have particularly Sony and Universal done wrong?

3.2 Sony, Universal and BMG, a Comparison

Sony Music re-entered the SA market in 1995. Sony, and in particular Elektra Music and Columbia Music, both owned labels have had a history of strong releases coupled with a very strong back catalogue. Artists like Mariah Carey, Michael Jackson, Michael Bolton and Celine Dion have seen Sony have a string of top sellers. Celine Dion's album, "Falling in to you" still remains the top selling International album of all time in South Africa, with sales of 658 000 copies (13 times platinum). In 1997, Sony was riding the crest of a wave. Even their local division had performed well with the new upsurge in Kwaito music (M'Du, Brothers of Peace and others). In 1998 things started to go wrong, with several top artists releasing poorly performing albums, notably Michael Jackson's "Blood on the Dancefloor". In Christmas 2000, all of their major acts failed to record significant albums and they were forced to rely on catalogue product. Michael Bolton, Sade, Ricky Martin, Will Smith and Celine Dion failed to capture the public's imagination.

Compounding this problem was a scandal involving non-payment of royalties, which affected Sony, Gallo and EMI. For many years it had been standard practice to offer discounts in the form of free stock. The accounting practice that was used was to write this stock off and not put it through the royalty book. This meant that cost to company was the cost of manufacturing alone, whereas it should have been manufacture plus royalty. Sony had done away with matrix or line discount completely and

was paying in free stock only. EMI and Gallo were able to show that they had paid royalties on free stock. Sony was found to be in breach of contract and forced to back pay royalties for a seven-year period. This figure was never disclosed, but reports from within the industry showed that a figure of 130 000 copies of Celine Dion's "Falling into you" album alone had been discounted (Hill 2002). Royalty costs are typically between R14 and R22 per album. Sony was forced to recoup their losses by cutting discounts, cutting ad spend and cutting artist development costs, while at the same time having a distinct lack of product to work with. This has seen Sony's market share drop by 8%.

Universal Music has been an example of how not to proceed with a marketing strategy. In 1998, Universal was the heir apparent to the SA Music business. Formally Polygram Records, the result of an acquisition of Polygram, MCA/Geffen (previously distributed by BMG), and Universal Film Studios by Seagram's of Canada gave rise to the third largest Entertainment Company in the world. Universal South Africa had a vast local and international catalogue, including artists like Boyz II Men, Shania Twain, Bryan Adams, Sting and Pavarotti. The MCA/Geffen deal had brought artists like Bryan McKnight, Heavy D, Nirvana, The Eagles and Guns 'n Roses, boasting the finest Rock and R&B catalogues in the industry.

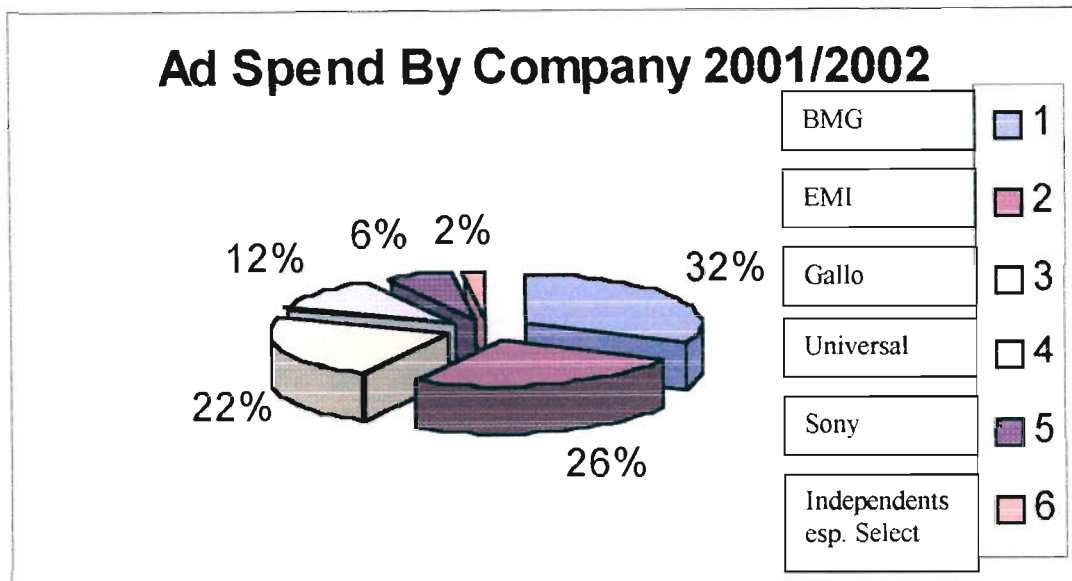
During its distribution by BMG, MCA/Geffen had been aggressively promoted as the "new pop music", under Universal, the approach of "wait for demand to happen" was implemented. There was no active promotion of cutting edge rock acts, nor breaking R&B artists. The belief was that the company should spend money once the artist had proved itself, preferring to spend money on a sure thing, rather than create a demand. BMG had always followed a process whereby label managers were held

accountable for artists within their portfolio. Managers therefore had to occasionally take a chance on products that seemed unknown but had potential.

A classic example was the 1997 album “Aquarium” by the band Aqua. This album was truly awful, and was little more than bubble-gum pop music. One track, “Barbie Girl” had the potential to be popular with the younger early/pre-teen market. BMG ran TV adverts, secured promotions on K-TV and actively promoted the album to Radio. Initially it was refused airplay by 5FM and East Coast Radio among others, but BMG persevered. Eventually the album sold in excess of 100 000 copies (double platinum). Universal had a similar situation the following year during the change over from BMG to Universal. Emilia, a 16-year-old from Norway had a massive hit with “Big Big Girl”. BMG had the single prior to the change and managed 40 000 copies. Universal had the album and chose not to release it on Local release, preferring to keep imported products only for the first month to test the market. By the time that the album was released, demand was fading. After an initial press of 5 000 copies, Universal managed sales of only 1 300 copies. There was no advertising or promotion behind the album.

Universal tends to err on the side of caution. TV advertised products that have been promoted by Universal include the “Now” series, Bryan Adams, Shania Twain and other established artists.

The figure following shows the relative ad spends by company. Significantly the companies with the lowest spend are the worst performing in terms of market share, while the company with the largest ad spend is showing the best growth in the industry.



BMG's success has been the surprise of everyone, not least the author who left the company at the end of 1998 believing that it lacked the product to enable it to move from the bottom rung. BMG have always been the most aggressive marketers of their product. They have followed a belief that product won't just sell itself. There needs to be a sustained demand created by promotion, playlist and perseverance, the three "P's" of BMG if you will. In 1995 BMG acquired the rights to Aerosmith from the defunct RPM Record Company. The album "Get a Grip" had managed only 7000 copies in 9 months of release. By getting airplay of the songs and videos, by advertising the product on radio, matched to the demographics of the album (in this case 5FM), BMG were able to obtain a Gold Disc (28 000 copies). Dave Thompson, Marketing Director stated in 1996, that "Today's R&B is tomorrow's Pop Music". In 1997, TLC went platinum, followed by Soul 4 Real, Gladys Knight, Patti Labelle, Monica, R Kelly, Aaliyah and many other R&B albums, creating the explosion of R&B that typify the current batch of Top Selling albums in

South Africa. In 1998 prior to the Universal acquisition of MCA/Geffen BMG had a 70% share of the R&B market in South Africa.

Despite losing 40% of their catalogue, BMG continued to grow. This was due in no small measure to the power of acquisition. As part of the Bertelsmann group of companies, BMG has access to the most cash-flush entertainment company in the world. Clive Davis, MD of Arista records was given a blank cheque to acquire artists on behalf of BMG (Arista is a label of BMG). Carlos Santana's "Supernatural" which claimed 8 Grammy awards was the first signing, followed by Luther Vandross, Barry White, Michael Franks, Boyz II Men, Rod Stewart, with many more to follow. In addition, in what seems to be a major coup for the company, signed a distribution deal firstly with Big Brother world-wide, giving BMG the rights to distribute all Big Brother related products, and more recently, with the advent of Pop Idols, to which BMG has an exclusive deal. This is different to Pop Stars (EMI have the local deal), which has no central deal, rather each territory negotiates its own deal. Germany is EMI, Australia is Warner, Britain is Universal etc.

BMG is the only company that focuses on creating a need and relevance amongst its customers. BMG was the first company to introduce the concept of "added value" releases, where an album would be packaged with a bonus CD with extra tracks and remixes. In addition, BMG took a policy decision to release CD singles with at least 4 tracks on them, whereas other companies were quite happy to release with 2 tracks.

3.3 Big Brother and Pop Idols as examples of Personal Relevance

The greatest innovation in music marketing started in South Africa in August of 2001. The reality show, Big Brother was proving to be a massive success, attracting in excess of 1 million viewers, and proving to

be the most talked about TV event in SA history. BMG had already secured the music rights to the show, and Johannesburg Rock Band, Semi-Sane was tasked with writing and performing the title track. The single, released in July, sold in excess of 25 000 copies in a three week period, making it only the third SA Rock band to record a gold album in ten years.

BMG South Africa went one better than the rest of the world with the release of “Hectic – The Big Brother Dance Album”. This release coincided with a task that was given to the housemates, where they had to get involved in a dance marathon for 8 hours. The event was broadcast to selected nite-clubs around SA and featured music from the album. The album, available 10 days before the event was then promoted and advertised mercilessly. The album was a risk; a double album at full price, retailing for R199.95 traditionally has never recorded huge sales. Elton John’s Greatest Hits package and Michael Jackson’s History were the only two double albums to record sales in excess of 50 000. “Hectic”, coined from a catch phrase by eventual winner Ferdinand Rabie as of 23rd July 2002 had sold a massive 100 523 copies, making it the most successful double album in SA History. Remarkably the album continues to sell today. In June it sold 153 copies and as of 23rd July sold 48 copies in July of 2002. Traditionally compilation albums have a shelf life of a maximum of 3 months.

What sets “Hectic” apart from other albums is that it has managed to tap into the public’s concept of personal relevance. Love it or hate it, Big Brother did touch the majority of South African’s lives in some way. It was a conversation piece, and for many, for over 100 days, a very real part of their lives. By harnessing this sentiment, BMG were able to create sales from nothing. This is relevant in terms of the effect that it had on

pirates. If, in an age where piracy is a major influence, an album like “Hectic” can break SA records, then surely the introduction of personal relevance as a marketing tool is a viable strategy. Certainly the release was pirated, but not in the kind of numbers that could have had an effect on sales. Most people probably had most of the songs already, as the album was filled with popular, well known songs. However, they chose to purchase the offering due to the mass appeal that was generated. The second season of Big Brother looks set to be even bigger. Music again plays a significant part in the show. BMG have been able to combine the popularity of Idols with Big Brother, and the new title track is performed by Idols finalists, Melanie Lowe and Ezra, under the name of “Afronaut”, which also draws on the Mark Shuttleworth space trip hype.

Pop Idols has taken this scenario one step further. Two reality shows follow a similar vein. Pop Stars was the original reality music program. The concept was simple, get a panel of four judges, call for televised auditions, get thousands of hopefuls and select one band of 5 members. The whole process was carefully staged to ensure that people tuned in weekly to follow the fortunes of the band. New Zealand started the concept in 1998, and due to the success of the project, it was extended to the rest of the world. South Africa, which started the process in July of 2002, became the 14th territory to embrace the format. There have been success stories, but to date only “Bardot” of Australia and “No Angels” of Germany have managed number one singles outside of their home countries. While viewership is high, the public has no say in the outcome, meaning that the degree of relevance is lower than with Big Brother or Idols.

Pop Idols is the perfect vehicle for launching a celebrity. Idols conducts a search for a solo pop star. The original concept is the same, invite

auditions from all over the country, have judges and hosts that get people talking and eventually reduce the pool down to a group of finalists. Where Idols have proved to be so successful is that once the final 50 contestants are chosen, the judges take a back seat and the public gets involved by voting for their favourite. Reducing the 50 to 10 by selecting the top two from 5 heats does this. This is conducted weekly. The final 10 are then put in front of a live audience, perform a track a week and at the end of the show, the public is invited to vote and the least favourite contestant is eliminated, until only one remains. That person is given an international contract by BMG and because of the huge groundswell of public support is virtually guaranteed of being a superstar.

The program was launched late in 2001 in the UK and has managed to break every British record, for sales, viewership and votes cast in a three-hour period. The final show in February of 2002 was the most watched single program in British History with an estimated viewership of 50 million in the UK alone. Voting was so fast that it crashed the switchboard. Eventually 8.7 million votes were cast in a two-hour period, a British Record. Consider this news report by James Middleton of 'The Guardian'

“Pop Idol knocks out BT's (British Telecom) network

By James Middleton [11-02-2002]

Parts of it at least, and NTL too. Parts of BT's phone network were knocked out for hours on Saturday night after a flood of calls to vote for Britain's Pop Idol overloaded the system.

Sections of both BT's and NTL's networks were jammed when almost nine million callers phoned in to vote for either Will or Gareth.

Although 28,000 phone lines were opened between 8.10 p.m. and 10.20 p.m. on Saturday night, they were unable to cope with demand. At the height of the voting, one million viewers were calling every second.

During the two hours the lines were open, 8.7 million viewers voted, making the Pop Idols final the UK's biggest ever phone poll.

But *The Sun* reported today that thousands of callers were outraged that they had been unable to connect, after frantic viewers received engaged or unobtainable tones.

BT said that it had been forced to introduce 'call gapping' to deal with the 48 million attempts to connect to the voting lines. Call gapping randomly drops some connections to the system in order to prevent overload.

But BT and NTL users reported problems on the networks hours after the voting had finished. Some mobile users even complained of problems sending text messages.

In previous episodes of the show, the maximum number of votes cast through the 28,000 phone lines was 5.8 million, a far cry from the 8.7 million who voted on Saturday

Some viewers even suggested the outcome would have been different if more capacity was available.

In case you were doing anything more exciting on Saturday night and missed the final, Will won with 4.6 million votes to Gareth's 4.1 million.” (Middleton 2002 – Wired News)

The resulting outcry over the public's inability to cast their votes meant that BMG were able to offer both Will Young and Gareth Gates a contract. In the UK, Gates has so far managed to outperform Young. Both have back to back number one hits, Gates now holds the British Record for the fastest selling single in History (2.8 million copies in a single week) and has sold in excess of 5 million singles. The remarkable fact about Idols is that unlike Popstars, it has been able to transfer very well around the world. In South Africa, Gates has sold 105 953 copies as of 23rd July, and Young has managed 109 526. The local Idols show, which concluded in SA at the beginning of July, has been no less impressive. In a country where local is not considered “lekker”, Heinz Winkler, the SA winner has managed sales of 50 453 copies in a three week period. The full album featuring all 11 of the finalists went on sales on July 11th, and in a two week period has sold 19 152 copies. At the current rate of sale, the album will go gold at the end of July 2002.

BMG's remarkable ability to provide the customer with what they want has seen the company achieve 156% of business plan for the year ending June 2002. They have exceeded financial targets by R35 million, meaning that the amount spent on marketing and promotion is equating into sales.

3.4 Summary

The example of BMG as a means to achieving growth in sales is startling in its revelations. The public is clearly tired of the age-old tactics that have been used by Record Companies to sell products that are not radically different from their predecessors. A lack of new techniques has

been a contributing factor in the sluggish performance of the industry in recent times. The entertainment and leisure industry has seen many new substitute products thrust upon the public. DVD, Cellular Phones, Gambling, the National Lottery, Electronic Games, Computers and the Internet have all drawn attention away from music as a principal form of leisure. Current marketing strategies from Major Record Companies have done little to attract the attention of the leisure-seeking public.

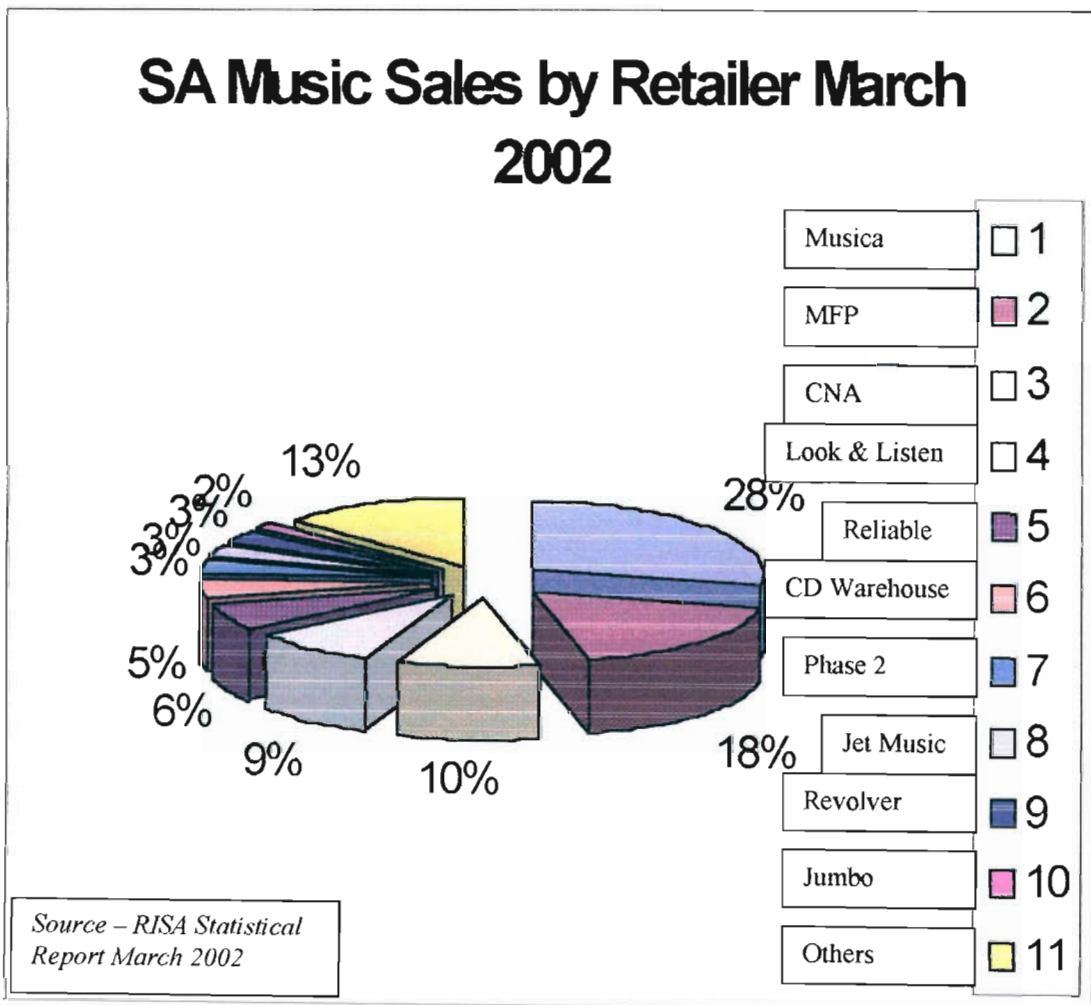
BMG has been able to rewrite the book on marketing strategy through their very successful use of personal relevance. The effects of Big Brother and Pop Idols as vehicles for marketing have been significant in that they have rekindled a passion for music amongst the public. Not only have the Pop Idols releases and The Big Brother album sold well, but also they have caused people to go into music stores that ordinarily wouldn't. These people have gone on to buy other releases and given the industry as a whole a much-needed shot in the arm.

The BMG success has largely been due to their ability to give the customer what they want, while at the same time creating that relevance through high impact use of Television as a marketing tool. The spill over that has taken place is that the public has got excited about the reality shows, have discussed them at the office, at home and on the radio. This has given rise to a huge groundswell of support for the releases. The mere fact that a previously unheard of singer, Heinz Winkler, could sell 50 000 copies of a single in the first week of release means that the demand existed before the single was even pressed. By the time that Winkler's single was in store, he was already a household name.

Chapter 4 – Differentiation and Branding Strategies

4.1 Retail in South Africa - Background

The Music Industry has successfully been able to disprove the 80/20 principle. Currently, 95% of business is conducted by just 5% of the customers (Crawford 2002). The following chart shows the strength of the top 10 retailers in South Africa in terms of their market share.



1. Musica (Includes Diskom stores racking cassettes) – 28%
2. MFP (Including, Game, Dion, Makro, Pick ‘n Pay, Shoprite, Spar) – 18%
3. CNA – 10%

-
4. Look & Listen – 9%
 5. Reliable Radio – 6%
 6. CD Warehouse (Sister Company to Musica, Owned by New Clicks) – 5%
 - 7-9 Phase 2 Music, Revolver Records, Jet Music – 3%
 10. Jumbo Cash & Carry – 2%
 11. Others – 13%

There are 84 music retailers in KZN alone, giving an idea of the gap between the top performers and the rest of the retailers. Two KZN retailers are included in the top 10, Jet Music and Revolver Records. A further 2 are included in the top 20, Rythmic Beat at 13 and Jaguar Enterprises at 18. There are only 13 retailers in KZN with whom the record companies trade, the balance are supplied exclusively by wholesalers like Reliable, Revolver and Jet. In 1994, the record companies traded with 87 retailers in KZN. The past 8 years have seen the demise of several key retailers that had a long history in the business, notably Nash Music, Ajmeri Record King, Top CD and Raj Music. Raj Music was the largest independent in South Africa in the 1970's. Jaguar Enterprises has declined from a position of 6th in 1998, with a market share of 7%.

The reason for these declines has in part been to a lack of ability on the part of retailers to adapt their business to a changing climate. Musica, following its acquisition by Clicks in 1993, embarked on an aggressive campaign of cost cutting in order to put pressure on its main rival, Top CD. This it achieved and in 1994, Top CD was bankrupt. At the same

time, due to its policy of “we will beat any price”, Game followed suit. The result was that margins that had previously been a healthy 45% were trimmed to an average 22.5%. Smaller dealers felt that in order to stay in the race, had to match the discount chains and also dropped prices across the board. The result has been widespread bankruptcy and closure of smaller stores. In no other industry would this be allowed to happen. Price is not the only governing factor in being a successful retailer. The typical scenario today is that top-selling product is so heavily discounted, that it becomes little more than a loss leader. Where a store like Game, or Clicks can afford to buy market share, secure in the knowledge that it can make margin on other lines, stand-alone music retailers cannot.

4.2 Jet Music

In 1996, Jet Music adopted a policy of ending top twenty lists. This was a remarkable step in that no other retailer would take the chance. It also abandoned categories that invariably confused its customer. The norm has always been to have Reggae, Pop, rock, dance, male vocal, female vocal etc. as separate categories. Jet introduced broad categories that removed any chance of confusion. They introduced “Budget Specials”, “Male Vocal”, “Female Vocal”, “Groups”, “Jazz”, “R&B”, “Local”, “Compilations” and “Gospel”. Unlike competitors that had 30 or 40 separate categories, Jet had 11. This made the store more customer friendly. In addition, staff was forced to attend weekly training sessions, where product training and customer service was highlighted. A dress code that prohibited offensive T-shirts and body piercings was implemented, Name badges with a smiley face on them were introduced and limiters were placed on the amplifiers to ensure that music levels were never too high. Staff was encouraged to get to know their customers by first name, and form long standing relationships with these customers.

With the demise of Nash Music, top staff from that company were offered positions, and introduced to the Jet style of business.

Jet Music started a new approach to customer service where the customer was never berated for having a poor taste in music. Jet also promised to source product that was not carried in regular stock and aggressively sought out new lines. It introduced sell-thru video at low prices to cater for black consumers that were fans of karate films. The growth in video was from a low base of 10 films a week, to 1000 a week within a nine-month period. Jet became the third largest customer for Ring Records, an independent company that specialised in budget products. The cost price of these lines was R12.50 a CD. Retail price was R25.00 giving an 87% margin. This gave Jet far higher margins to play with, and exceptional growth in turnover. Jet showed a growth of 113% from 1996 to 1997. This has continued and from an annual turnover of 5 million per year in 1996, Jet now exceeds an annual figure of R25 million in just 6 years.

The Jet success is due in the main to an ability to listen to the customer. Jet has responded to customer needs unlike any other retailer. They have not fallen into the trap of assuming that they know what is wanted. They have responded to changes in the market and were able to introduce new lines at the right time. The black market was well known to ignore CD as a format. With the changes in particularly the urban black market, many black consumers, despite not having large disposable incomes, were acquiring CD players. All mini hi-fi's that are sold today have a CD player. They usually retail for around R600. It is highly unlikely that the consumer that buys a R600 hi-fi is going to pay R130 for a CD. Introducing them to the format at R25 a CD enables them to buy old, back catalogue recordings and quickly grow their collections.

Jet Music staff were encouraged to be honest and cherry pick. This meant that customers were never forced to buy a product that the salesperson felt was inferior. The customer was therefore always offered products that would give them satisfaction. Jet also carried a policy of “no questions asked” if the product was returned in original condition if found to be unsuitable. It was found that many customers did their shopping during a lunch break, and it was often not possible to listen to the album due to time constraints.

Disc jockeys were given special prices (cost +10%), this meant that DJ's did all their shopping at Jet, and were quick to recommend the shop to any of their clients. In return, Jet asked to put up signage at any club that was subsidised by cheaper prices. Jet also did a deal with Manning Rangers Football Team, whereby they would give 5 CDs to the club for lucky ticket holders. In return, Jet secured signage at the Chatsworth Stadium and on the team bus, as well as regular announcements over the stadium PA. A monthly pamphlet was introduced that carried photographs of CD covers highlighting new products that were available. Aside from R25.00 specials, no prices were advertised. Customers were found to use these pamphlets as a checklist.

Jet gave the same discounted prices to hawkers who were selling cassettes on street corners. This was done to approved hawkers only, and any hawker caught selling pirated products was quickly turned over to the local piracy investigator.

Jet has established a reputation for being the premier black music retailer in the region. Despite this, they are not the cheapest, neither are they the most expensive. They provide a service based on the customer's needs and requirements. The service is differentiated from other black music

retailers in that the shops are well laid out with clean fixtures and fittings, clearly identifiable signage, polite and well-groomed staff that is knowledgeable about the music, and the right product at the right time. The replenishment cycle is efficient, and staff is encouraged to have sufficient stock to last three weeks in case of hold-ups in supply by the distributing record companies. Jet focus on their target market, which they understand implicitly. They have no intention of expanding to other markets, preferring to concentrate on their strengths. In 1998, they were offered a store in the Gateway Shopping Centre, which they declined, as it did not fit their profile. Instead they signed a lease on a new store in a forthcoming centre in Umlazi Township, where they have a significant customer base.

Jet Music in 1995 launched their first stand alone retail store in the Durban CBD. Due to the discounts offered to Jet Music as a wholesaler, they were able to undercut all competition by such large margins that it was no longer feasible to continue. Jet Music has now embarked on a serious expansion drive starting in 1998 when they opened two additional stores, through to today with a total of 12 stores. In addition, the centres that they have opened in have been strategically well chosen. Pinetown, Ladysmith, Newcastle, Empangeni, Bloemfontein, Pietermaritzburg to name but a few. The only competition in these areas has been from Spaza stores and small independents.

The advantage gained by Jet is such that they have been able to exploit the database of existing wholesale clients so as to ascertain the feasibility of opening in a specific area. As the wholesale business has declined, so their retail business has expanded. In addition, a strategic decision was taken in 1999 to support hawkers. The hawker had always been considered to be a villain, due to the widespread incidence of piracy. Jet

decided that by supporting these hawkers with cheaper prices, that this would discourage piracy. In some instances it has worked, but in others, in particular rural areas, it has been a dismal failure. In addition, with the low overheads of most hawkers being restricted to bus fare and precious little else, it was noticed that hawkers had begun to undercut brick and mortar stores, causing these stores to go out of business

Jet salaries are calculated on a small basic and then on a sliding scale the branch is paid incentive bonuses for achieving targets. Looking at previous year figures and building in a small growth factor sets targets. The higher over target the branch achieves, the more they earn. There are no individual targets, which forces the branch to work as a team. The first bonus is paid for achieving 70% of target, which is below the previous year's figure, making the targets achievable, thereby motivating the branch to achieve. The best performing branch is the Albert Street Branch in Durban which has averaged a growth factor of 42% per year for the past 3 years, which when measured against an industry that declines by 13.2% per year, is exceptional. Only Chatsworth has shown a decline (18%) in the past year, which is due in the main to the high levels of piracy in that township.

Jet Music has an active policy and procedures manual in place. Staff is informed of the requirements of the job from the most basic requirements (dress code, opening times) through to the most advanced parts of the job (stock ordering, stock maintenance). The marketing plan constantly evolves, and staff from the most basic, entry-level position through to the owner are invited to offer suggestions. The buyer cannot force a branch to take a particular product; rather they subscribe to a policy of ownership for the individual branches, whereby the branch manager becomes accountable for all products in the branch. Jet Music has the lowest "dead

stock” (inactive lines) levels in the industry. Product lines that haven’t sold in a month are deleted from the system, and any remaining stock is marked down and cleared.

Jet Music is a study in applying the basics and doing it well. They have active and efficient promotion that is aimed at their target market. They listen to their customers and pander to the needs of these customers. Their stores are plain but efficient. They are not sexy or glamorous. They treat the industry as a business and not as a means of entertainment.

4.3 Jet Limitations

There is an element of caution that often retards the ability of Jet Music to take advantage of initial surges in product demand. They prefer to wait for demand before listing a product. This is due to a lack of space. The average Jet store is 100 square metres as opposed to 250 square metres with Musica and 600 square metres with Look & Listen (Look & Listen Pavilion – Westville is 1100 square metres)

Jet is largely oblivious to competitor pricing strategies. They have a set margin that they want to achieve and all pricing is done in accordance with that policy. They do not subscribe to the “loss-leader” approach, which can cost sales when Game or Makro runs a special price promotion. They are largely inflexible with regards to price.

Jet are not interested what so ever in getting involved in on-line retail due to a belief that their customer base will not be computer literate for another 20 years. This could prove a major failing, especially given the fact that the Indian population group appears to be amongst the leading users of downloaded products. Pine Street; Albert Street, Chatsworth and

Pietermaritzburg have recorded significant sales of blank CDs, which indicates that their customers do have a need.

There is no customer loyalty program in place. Jet management does not feel that giving away a discount is merited, as it will interfere with margins. The only loyalty schemes are with Hawkers and with DJ's. It is recommended that an active loyalty program should be introduced as an additional offering to regular customers

Aside from the use of nametags, which are not always worn by staff, there is no clear way of differentiating staff members from customers, which can be confusing to customers. The use of a Jet Branded T-shirt is recommended to clearly identify staff.

Store layout, while practical is boring. All stores use the same design, and there is nothing that differentiates Jet from other retailers in terms of racking products. There has been an attempt to introduce block merchandising of high volume products, but this is not successfully achieved. Jet was able to introduce the "Bargain Bin" concept to great effect.

There is a perceived gap in the buying patterns from a racial perspective, very little overlap of products take place. Products that are able to cross the racial spectrum are generally more successful.

Jet does not conduct any market research; rather they rely on information from suppliers, staff and customers

Jet is in general optimistic about the future. They continue to embark on growth strategies that include new product lines, expanding their retail base by addition of new stores and are committed to continuous training of staff.

4.4 Rythmic Beat

Musica introduced the first loyalty program in SA Music in 1991. The scheme was simple, every 10 CDs that a customer bought entitled them to 10% of the value of the 10 discs back as a discount off their next purchase, basically 1 free disc for every 10 purchased. Most stores have a similar program (Look & Listen have two options, one is the same 1 in 10, the second is a buy 7 get 1 free on 1 purchase). Rythmic Beat has been able to extend this to offer the most comprehensive loyalty program in South Africa.

The first carnation of the Rythmic Beat Club offered customers the opportunity to buy membership at either gold or silver level. The price of the membership was returned in the form of free CD's to the value of the membership fee. For this fee members were entitled to a sliding scale discount depending on the number of CDs purchased in a calendar year. This varied from 5% to 20%. In addition members were given discounts at Rythmic Beat partner stores, which varied from restaurants to cinemas. Rythmic Beat had negotiated with these partner stores to gain discounts for their members in return for advertising in the monthly club newsletter. The newsletter contained details of forthcoming releases, competitions and additional benefits for members.

The first carnation of the Club was a moderate success, but it was soon discovered that members were still continuing to shop with competitors. The main competition for Rythmic Beat was Look & Listen and Musica. Both of whom had larger stores and greater ranges. At this stage, with Davenport Centre as their main branch, and two smaller satellite branches in Pinetown and Pietermaritzburg, Rythmic Beat, while successful, was unable to provide a one-stop experience for customers.

The second incarnation of the club is the one that runs today. It has proven itself to be very successful. Unlike its predecessor, there are no partner stores, but discounts on coffee and snacks are offered. The main difference is that there is a monthly membership fee of R50, which is collected by debit order from members' bank accounts. The benefits to members are that 50% of the members' purchase for the month are refunded in the form of a gift voucher the following month. These vouchers cannot be used outside of the month of issue, and do not count towards the following month's discount. This encourages active members to enter the shop at least once a month. Rythmic Beat claim a membership of more than 20 000 people. This means that the company is able to bank R1 million before the month starts. This gives them an excellent base from which to acquire stock for the following month. The pitfall is that anyone who purchases more than 5 CDs or DVD's in a month actually costs the company money, as they are giving more discount than they receive profit. However, the simple truth is that of those 20 000 members, few are going to spend that much money, and not all will make use of their membership every month. Because of the sunk costs of the membership, coupled with the opportunity costs of the discounts, Rythmic Beat members rarely shop anywhere else, despite the fact that Rythmic Beat is the most expensive store to buy music from.

In 2000 Rythmic Beat opened the Springfield Park Mega-Store. At the time this was the largest music retail store in KZN. The size of the store is



683 square metres, which was more than double the size of Look & Listen. The store typified a design concept that was unique to music retail in Southern Africa. The CD browsers stayed as the primary form of racking, but the entrance to the store is radically different. Top Twenty is still displayed prominently, but unlike the usual top twenty boards, the top twenty was block merchandised, giving 5 shelves to each release. The customer cannot avoid this display. This was also applied to other fast moving products and featured special offers. DVD was also afforded prominence. A 50-metre wall is covered in DVD in block merchandise form. According to Darryl Swanepoel of Nu-Metro, Rythmic Beat is the single largest retailer of DVD in South Africa by store.

The focal point of the store is a large circular listening station, which offers Filter Coffee, and light snacks for customers while they listen to music.



This is radically different from the usual attitude of most large stores that have a five-minute per customer policy with regards to listening stations.

The Springfield store introduced a queuing system that is similar to the format used by Woolworths. In addition, they have 8 till points, which is more than Look & Listen's Mega Store, which has 6, despite the fact that it is twice the size of Rythmic Beat. This means limited delays for customers waiting to pay. In addition, there are no lengthy delays with processing loyalty benefits, as the members' details and account are kept on computer. Look & Listen takes an average of 10 minutes to calculate loyalty benefits per customer, which can cause lengthy delays at the till.

Rythmic Beat has been able to forge an excellent relationship with East Coast Radio, who actively support Rythmic Beat in terms of advertising and promotion. The company has a high ad spend with the station, but the scope of East Coast Radio's support goes beyond the "pay-for-service" relationship. This is due to the close relationship that has been formed. Rythmic Beat offers many incentives to station staff, such as free membership and sampling of new products to the DJ's if the Record Companies have not supplied them.

In March 2002, Rythmic Beat completed a partnership arrangement with Engen Garages to supply a top ten board to each of their "Quick Shops". This has a benefit of advertising the business, while at the same time increasing sales through these numerous distribution points. In the same vein, Rythmic Beat looks set to conclude a deal with Mr Price to do a similar service. In addition, they will sponsor Mr Price's in-store satellite radio station, Red Cap Radio in terms of the Top Twenty, competitions and providing product for airplay. The fact that there are over 200 Mr Price stores will make Rythmic Beat one of the largest Independent retailers.

The company supports several small stores that do not trade with record companies, from small video shops, through to Replay, a second hand store in Windermere Centre, Durban.

Rythmic Beat staff is dressed in a uniform, which consists of a cream golf shirt with the logo on the pocket and black trousers. The style of dress makes staff members very easy to distinguish, and make it less confusing for customers. Staff is expected to be neat at all times.

The Rythmic Beat Logo is well recognised, bright and attractive. It has been well utilised in the marketing efforts. In addition, the deliberate



wrong spelling of “Rhythmic” is deliberate as this seeming mistake is identified by customers, seeing that there is a difference. This has been shown to make retention of the name by prospective customer more long lasting.

Use is made of a large electronic billboard along Umgeni Road. This is used to advertise The Rythmic Beat Club, and to advertise new releases.

There is a minor on-line facility available via a partnership with the Medscheme Club. This gives access to the top 50 (www.medschemeclub.co.za)

Sponsorships include

- Jonty Rhodes on-line newsletter
- Natal Sharks player of the year
- Medscheme Club

-
- East Coast Radio
 - Splashy Fen
 - SA Schools Longboarding
 - Mr Price Pro-Beach Volleyball
 - Ocean Africa Festival

Rythmic Beat is a success story because of its ability to pursue “in-your-face” marketing strategies. Unlike many other retailers like Musica, Makro, Game and CNA, Rythmic Beat has been able to move away from advertising product and price. Rather it has been very capable of marketing the Brand of Rythmic Beat. Customers don’t visit Rythmic Beat to buy the new release from Westlife; they visit Rythmic Beat to buy Entertainment, and to identify with so many of their important day to day activities. By aligning themselves with the top radio station, the local rugby side, sporting events and other activities, Rythmic Beat has positioned themselves to become a part of their potential and existing customers’ way of life. They have become more than just another music store. Due to the extra interests, like the listening stations, a visit to Rythmic Beat is an experience rather than a task.

Rythmic Beat is the only music retailer to have been able to create brand awareness and gain a degree of relevance in their target market’s lives. Musica had embarked on a “listen with your soul” campaign in 1998, but this has been withdrawn in favour of gimmick advertising of product, rather than advertising services or stores.

The main reason why companies have been quick to embrace product advertising is due to the substantial returns that are offered by the

recording companies. The recording companies give 50% of the cost of the advert back in free stock to the advertising company. This means that advertising costs are reduced by half. The store gets limited exposure; the recording company gets major exposure. It is a known fact that Musica campaigns have a knock on effect for other retailers. This is in part due to the lack of branding by Musica, coupled with a lack of loyalty on the part of consumers. Demand for the product is created; demand for the store is not.

4.5 Limitations of Rythmic Beat

There is no clear policy and procedure manual, and no additional training for staff after their initial induction. A program of training is advised for future staff development.

A clear marketing plan is not shared with staff, staff is notified of forthcoming promotions, but are not asked to provide feedback, or offer suggestions for future plans.

Customer orders and special requests are slow. There needs to be a streamlined policy implemented in this regard.

The Company does not have its own web site, nor does it offer any on-line purchasing. This was an original goal of the business, and has yet to come to fruition. There was a mail order facility, but this was discontinued, as it was not profitable.

They do not do any market research

They do not have much exposure to the black market, and therefore are not concerned about cultural barriers

They are concerned with suppliers, and are currently reviewing alternative means of supply, providing these suppliers can remain within the law.

The company does not have a clearly defined Mission Statement

Monthly targets are in place but incentives are offered in terms of time off. The company should consider a financial reward for good performance. Staff is currently paid a healthy basic, but have little reason to “go the extra mile”.

They do not feel that they have efficiently covered their target market and are on the look out for new opportunities

Nick Stemp is frustrated by the major recording companies as he feels that they are too focused on the large national retailers. He feels that there is insufficient support given to small independent retailers. He believes that the industry would be better served if he was free to source his own product abroad rather than be restricted in his dealings with the local companies, who he believes move too slowly in a rapidly changing market.

4.6 Summary

Jet Music and Rythmic Beat have recorded significant growth in a market that has retreated significantly over the past five years. Unlike their competitors they have not followed the typical approach of resigning themselves to defeat, but have aggressively pursued their target markets and have adopted a strategy of following their customers’ needs very closely.

Jet Music has clearly identified their market and realised that it is not a sophisticated market, and is easily confused. They have made the task of buying a CD, cassette or video far simpler. They have listened to customer wants and needs and have responded to them. They are however limited to the Southern African market and have little opportunity to expand beyond their existing market. They are also limiting future prospects with their reluctance to get involved in the on-line industry.

Rythmic Beat has the potential to become a global player. They have realised that the best way to attract customers is to make themselves a part of their target market's daily life. Rythmic Beat is an institution. This is due to their identification of important events and their ability to associate with these events. They have taken the concept of personal relevance and been able to incorporate it into a retail setting. Rythmic Beat is the only retailer in South Africa at present that actively markets the store rather than product and price.

Chapter 5 – Conclusions and Recommendations

This paper has covered two distinct areas of the Music Business, piracy and retail.

5.1 Conclusions

From an international perspective, this paper has covered the international trend that seems to be moving away from a bricks and mortar type of retail. Moe & Fader (2002) indicate that the American music consumer will obtain 28% of their music on-line by 2005. The trend in retail by major chains like Tower, Virgin and Wal-Mart is towards establishing their own on-line sites that are complementary to their existing brick and mortar stores. In South Africa, only two retailers currently have this facility and the industry as a whole is facing a very real dilemma, as unless they are able to get competitive and join the on-line industry, they will be in grave danger of missing the boat completely. Already, Amazon.com can deliver door-to-door in South Africa within 5 days. Kalahari.net takes 7 days. The Southern African market has to ensure that it can match price and offer a competitive service.

Piracy on the Internet is a real problem. The proof has been thoroughly covered in terms of the debate around Napster, combined with the futile efforts of the SDMI in combating Internet piracy. The major recording companies seem to be waking up to the fact that they cannot ever beat the Internet hacker, and that by offering a service that is affordable, money can still be made from this means of distribution. Price is an issue, but if the majors are able to offer a service that is better than those offered by Gnutella and Morpheus, they will still be able to compete. The NAP security patch seems to offer a viable alternative in terms of restricting distribution

The effects and debate around international piracy has been included as a warning to the local industry to be aware of this growing trend. Local retailers and recording companies have been complacent about the effects of the Internet due to the current low usage figures that have been noticed. Currently the Internet figures are 7% of the population. With Telkom losing its monopoly, there is a very real chance that one of the competitors will be in a position to introduce a broadband service. If this takes place, coupled with the availability of ISDN lines, download times of music and other digital products could become a fraction of the current time. Currently it takes 24 minutes to download a single track. With a broadband frequency and ISDN, this would be reduced. Download times in America for a 5-minute track is currently 90 seconds. Serious Internet piracy in South Africa is a laborious process. It can take upwards of three hours to download a whole album. With improving technologies, this will become a lot faster.

Out-dated tactics and a focus on product and price typify retail in South Africa. Jet Music and Rhythmic Beat have shown the way forward by adopting two very different approaches. Jet Music is able to fulfil customer wants and needs and adopts a tactic of allowing their strategy to evolve in response to subtle changes in the industry. By correctly identifying and understanding their target market, they have been able to grow by huge percentages. The approach is a conservative one, and it is highly unlikely that they will ever be able to expand to the size of Musica, as they are not prepared to expand their market beyond that that they truly understand and are comfortable with. The Jet example is a blueprint for the way to approach a third world market. There is no scope to take the concept beyond Southern Africa.

Rythmic Beat on the other hand is well placed to become an international force. The approach to marketing the business is very similar in many ways to the approach taken by Starbucks towards coffee. The intention is clear, foster customer loyalty, and make the company relevant to the customer. Expand beyond being just another music store and make it a destination. The success of Rythmic Beat is that it has been able to draw customers to a location that is away from substantial passing trade. The addition of innovation like the coffee shop as part of the listening station makes customers want to go to the store. Furthermore, the store is well geared towards making the customers' visit to the store a pleasant one. The use of the coffee shop, as well as a home theatre set up for previewing DVD's has meant that Rythmic Beat is able to give added service to their customers, there is a perception of added benefit. Rythmic Beat has so much exposure that it has become a part of consumers' lives. There is a definite attempt to make the shop visible and relevant.

BMG in turn has been able to harness both the Jet and Rythmic Beat approach. They have listened to customers by introducing products that are value added. The success of albums like Westlife's "Coast To Coast" that was released with a bonus CD at the same price pushed the album to achieve sales in excess of 200 000 copies. In addition, they have been able to capitalise on the success of reality TV shows that rely on public involvement. In terms of the MAO model of Consumer Motivation (Hoyer & McInnis 2001), BMG has been able to introduce personal relevance, introduce consistency in terms of their policy of added value and reduce risk on the part of the customer due to releasing quality albums.

The most important aspect to be revealed is that by creating a degree of brand identity, Rythmic Beat has been able to take on its more illustrious

competitors (Musica & Look & Listen) and win. The set-up costs from the Rythmic Beat Mega-Store were only R1 million, whereas the chrome, steel and glass Look & Listen Mega-Store at the Westville Pavilion cost R5 million. Despite the grandeur and impressive lines of the Look & Listen store, customer preference is for the Rythmic Beat Mega-Store due to its customer friendly features. Where Rythmic Beat is welcoming and comfortable, Look & Listen is intimidating. Rythmic Beat staff is well groomed, dressed accordingly and helpful; Look & Listen staff is generally untrained, unkempt and unhelpful.

5.2 Recommendations

The real challenge facing the industry will be the option of converting to a music rental system, where music may be rented for a period of time. This will allow the industry two possible forms of revenue. By renting an album, the artist and distributing company will be able to collect a fee. If the album is a popular choice, by linking to an on-line purchasing site, the option to sell the consumer the album exists, thereby increasing fee collection.

An additional option is the possibility of selecting compilation albums on-line. The customer would have a list of tracks available and then be able to select 15 tracks of their own preference from the list that can be manufactured specifically for that consumer. Charges could be apportioned by track. This would give consumers the opportunity of obtaining legal, unique albums with all their favourite tracks. Obviously this service could be charged at a premium, but consumers would be

happy to pay more for an album if they knew that they would enjoy all the tracks rather than one or two. This would give real value for money. Issues around copyright would be resolved by paying royalties by track.

There may be resistance to this by artists, but in the long run, this service could provide artists with additional revenue by securing sales that ordinarily would not have taken place. The industry currently loses \$5 billion per year to pirates. Even a partial recovery of this figure could boost the industry by a significant percentage.

BMG, Jet and Rythmic Beat have been able to show through their achieved results that despite the current slump in the industry, that a change in the way in which they do business has been able to increase their fortunes considerably. The Industry as a whole needs to move forward. Tired practices that worked twenty or thirty years ago needs to be abandoned and new and more dynamic strategies need to be tried. Most importantly, the example of Universal Music needs to be recognised as an example of how a little element of risk is a good thing. The conservative approach of Universal Records has been the principle cause for their slide in fortunes, by allowing a significant degree of stagnation to creep in.

Existing practices must change. The industry is facing ruin, and unless radical reassessment takes places, this threat will become a reality. The efforts of Rythmic Beat, Jet Music and BMG have shown that despite the threat of piracy and uncertain economic prospects, that attention to the wants and needs of customers, coupled with a practice of making the vibrant world of music and entertainment relevant to consumers once again, is the solution. To combat piracy and economic uncertainty, the consumer has to be made to desire. This can only be done by new

marketing strategies that match these consumer desires. Fundamental to this dilemma is the ability to understand, empathise with and clearly identify the target customer.

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Appendix 1 – Questionnaire

This questionnaire was used for both suppliers and retailers. Certain questions that were not applicable to each segment of the industry were removed.

The questionnaire was structured to ask leading questions and get the respondents to make comments. The conversations were recorded onto cassette and then transcribed later. The questionnaire followed the structure suggested by Philip Kotler on page 710 of Marketing Management (Kotler 2000). The respondents were generally forthcoming in their responses, with the exception of revealing profitability and actual turnover figures. Ad-spend and budgets were generally not revealed.

1. What changes in customer base have been observed, has the target market changed, what responses have your business taken?
2. What is your current pricing strategy? Are you price sensitive?
3. Are you aware of the prices of your immediate competitors?
4. Do you have, or are you considering an on-line alternative to your business?
5. Are there still cultural barriers operating between the various race groups with regards to product selection and purchasing?
6. Is there potential for growth in the market at present?
7. What factors are inhibiting potential growth in the market?
8. What factors are promoting growth in the market?

9. Who are your major competitors, and what are their strategies?
10. Do you operate within the current distribution channels or do you source your own distribution channels? Do existing suppliers serve your needs, or are you looking for new suppliers?
11. Do you have a mission statement?
12. Is your staff aware of the mission statement?
13. Do you have a long-term strategy, or do you prefer to review strategy as and when opportunities present?
14. Does your staff receive initial training?
15. Does your staff receive regular, on-going training?
16. How is staff remunerated?
17. Do you allow staff to make suggestions for new advertising strategies, is this encouraged?
18. Do you allow staff to offer criticism and is this encouraged?
19. Is there regular feedback with staff regarding forthcoming advertising or promotional campaigns?
20. Do you conduct market research? Is this done internally or do you employ outside assistance?
21. Do you operate on a monthly, quarterly or annual target; are these targets being maintained?
22. Do you make use of incentives to encourage staff?

23. Do you accept new products readily, or must they be screened before implementation?
24. Are you open to new ideas?
25. Is the business profitable, could it be improved?
26. Do any marketing activities have excessive costs? Can cost reduction steps be taken?
27. Do you have a policy/procedures manual?
28. Is the manual tested with staff?
29. Do you have a dress code, is it adhered to?
30. Do you make use of corporate identity strategies with regards to staff appearance?
31. Is your sales force the right size for your business, do you ever have a situation where customers are kept waiting?
32. Do you have a customer loyalty program in place? Describe.
33. Do you reach your target market, what could be done to extend your reach?
34. Are you satisfied with your current market position?
35. How will you improve your current market position?

Appendix 2 – Glossary of Terms

Several music industry buzzwords have been included

- Country Music – Formerly Country and Western, American Music that draws inspiration from American Cowboy history
- Downloads – The retrieval of music or related products from the Internet
- Gold and Platinum – The status afforded to products due to their sales figures. This varies from territory to territory. It is a reflection of the success of the product. In South Africa a gold album has sales of 25 000 copies, platinum is 50 000 copies. A gold single has sales of 15 000 copies, platinum is 25 000 copies. Upon reaching these milestones, the artist and Record Company are presented with a plaque reflecting the award by the governing authority. In larger territories this award is gold or platinum 12-inch disc made from the appropriate precious metal. America and Britain also make use of a silver award due to the size of their markets.
- Kwaito – South African black township music, inspired by street culture combined with American Rap Music
- Label – Record Companies refer to different divisions within the company as a label. For example, BMG as the company distributes several different labels. Each label has its own identity. Arista Records is an American based music label that specialises in Country Music and R&B, Deconstruction is a label that specialises in Dance Music and RCA is a label that specialises in Pop Music. Most labels are formerly independent companies that have been acquired by larger companies, but retain a degree of individuality

- MP3 – format that allows music to be compressed and stored on a computer hard drive
- R&B – Rhythm and Blues, a style of music that draws inspiration from American Street culture. Also includes Rap Music
- Rip – The process of pirating music from the Internet
- Top Twenty – A retailer or supplier's top twenty selling products

Appendix 3 – Limitations of this Study

There are several limitations with this dissertation

- The RISA (Recording Industry of Southern Africa) statistics that have been used are not for general distribution. The figures quoted are in percentages only, as RISA were not prepared to give exact figures. The document that has been used is distributed to retailers and therefore some of the figures for the recording companies were not available
- The figures for market share by record companies are an approximation. It was noticed during data assimilation that several inconsistencies were present. This was due to distributed record labels like CCP being included both as an independent label and as part of EMI's stable. It is therefore possible that actual market share for EMI, Sony and Gallo may vary as they have distribution deals with independent labels. BMG and Universal only deal in wholly owned product and are therefore accurate.
- Much of the information gathered during personal interviews cannot be substantiated and remains the opinion of the persons interviewed, albeit as representatives of their respective companies
- The author due to a long relationship with the industry as both retailer and supplier, has drawn on personal experiences for much of the qualitative data
- Bias – Elements of bias may be present in this dissertation due to the author's involvement in the industry.