

## Original Paper

# The Intersection of an Entrepreneurial Mindset and Hip Hop: A Case Study on BEATS by Dre

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### **Abstract**

*This case study examines how the product BEATS by Dre, entered pop culture and rose to success in the current market. Through a literature analysis and a review of the company's organizational structure, Beats Electronics is assessed due to its entrepreneurial prowess. The success of Beats by Dre addressed a critical problem in the marketplace, consequently, becoming the top premium sound model to entrepreneurs across the globe. Through the lens of Hip Hop, readers can observe the characteristics of effective entrepreneurship, which is essential for success in the business world. The result of this investigation is significant because the results can better assist scholars and practitioners in how to inject the entrepreneurial mindset in popular culture.*

### **Keywords**

*BEATS by Dre, hip hop, pop culture, apple, entrepreneurship, marketing*

## **1. Introduction**

Beats by Dre tapped into the premium sound market and demonstrated great success through the entrepreneurial feat of building a multi-billion-dollar industry in a relatively short amount of time. A partnership between legendary record producer, Jimmy Iovine and American rapper, Dr. Dre led to the foundation of Beats Electronics in 2006. What began as a solution to the problem of inadequate music listening experiences quickly expanded into what is today the uber successful company that holds most of the premium headphone market. This case study analysis will examine the critical factors that made Beats by DRE successful in order to share the results with other potential entrepreneurs in underserved communities.

With the continuing improvement of modern-day technology, the opportunities for the music industry grew rapidly. However, despite the improved music sharing and streaming platforms, the headphones and music listening devices were not improving along with their corresponding devices. Dr. Dre and James Iovine recognized this reality as an opportunity. Dr. Dre claimed that the sound quality of cheap headphones and listening devices, “destroy the feeling of what [he’s] worked on” (Mothersbaugh & Hawkins, 2013). The duo wanted to provide a way for listeners to experience the work of artists the way that they created it and the way the music was intended to be heard. After two years of development, Iovine and Dre introduced the Beats by Dre headphones which retailed from \$99-\$450 which was well above the price point for other similar devices. Iovine and Dre marketed their product

by insisting that Beats by Dre headphones could provide the desired listening experience for users since other headphones “would not be able to discern all of the sounds and nuances in a song” (Blue, V., 2016). Without even one ad, the company sold over 500 million devices and began to expand internationally (Mothersbaugh & Hawkins, 2013). Through celebrity ambassadors, Beats by Dre made their way into the heart of pop culture and became an iconic symbol of status. Beats by Dre also addressed the issue of music piracy through their launch of Beats Music streaming service which attempted to discourage the illegal downloading of music by providing additional interactive experiences with artists. In summer of 2014, Apple bought out Beats electronics for the sum of \$3 billion dollars while keeping on Dre and Iovine in an advisory position. Apple had a different approach towards marketing the headphones and claimed that “consumers don’t know what they want until someone shows it to them” (Mothersbaugh & Hawkins, 2013). Partnering with Apple has positioned both Beats and Apple for increased profitability and success.

## **2. Method**

This research case study is an analysis of the company Beats by Dre. First, there is a review of the literature where individuals have analyzed this company to identify the critical pieces of the case. Next, a thorough description of the company Beats by Dre will be provided that will delineate the organizational structure of the company as well as identify its culture and any strategies it employs. Then, an additional analysis of Beats by Dre is conducted utilizing SWOT, Porter’s Five Forces, and the Marketing Mix to achieve a deeper understanding of what the company is facing both internally and externally in their entrepreneurial venture. After an examination of these analyses a discussion surrounding the state of the company as well as recommendations for moving forward will be provided.

## **3. Review of Literature: Entrepreneurship and the Headphone Market**

Entrepreneurship is the driving force behind the success of Beats by Dre. Entrepreneurs “are people who take the risk of launching and operating their own businesses, largely in response to the profit incentive. They tend to see opportunities where others don’t” (Kelly & Williams, 2017). Dre saw an opportunity to produce stylish, quality headphones that would create a listening experience that produced the range of sounds of the musical performance as if the listener were hearing the performer live. Excellent ideas like Beats headphone can create whole new market niche, and a tidal wave of customers ready to buy into an idea, a status symbol, or a product. For entrepreneurs to succeed, they need economic freedom, freedom from excess of regulation, and freedom from too much taxation (Kelly & Williams, 2017). Dre and Iovine started Beats in America, specifically in New York City, where they strove for all the aforementioned factors for success. Entrepreneurs also must be highly creative and willing to take risks, and Dre and Iovine showed both of those traits by how they marketed Beats using celebrity product placement, and how high they priced their product.

Entrepreneurs will usually be most successful if they focus their business plan on a certain market and product (Kelly & Williams, 2017). In the case of Beats, their main product is headphones, though they also have a streaming service now. An interesting field trial was done in 2013 by Lars Nye in London, and his study was published in 2015. He investigates urban headphone listening practices, observing that many people wear headphones as they move throughout the city (Nye, 2015). Nye’s interest is more focused on what type of media people listen to on their headphones, and he found people prefer listening to musical playlists far more than podcasts or audiobooks, mostly because they have a hard time concentrating on spoken recordings while also moving through the busy streets (Nye, 2015). Nye

does not focus on Beats as a headphone option, perhaps because they were not as widespread in the UK in 2013 yet. He notes the contrast between earbuds and over-ear headphones, and emphasizes that headphones “are nothing new in media history”. Headphones were even used prior to the 1920s, often as earpieces for early telephones (Nye, 2015). What is unique about Dre and Iovine as entrepreneurs is that they saw this practical, common item as an opportunity to create a new demand and a new market. They did that by creating headphones to be stylish items that can become a status symbol, and increase sound quality and people’s listening experience.

#### **4. Review of Literature: Entrepreneurship in Underserved Communities**

Underserved communities have experienced challenges, opportunities, and successes regarding minority business ownership in the United States. In our country, we believe that is important to provide for full participation in our free enterprise system by those who are socially and economically disadvantaged, in order to improve our nation’s economy. President Nixon signed Executive Order 11625 in 1969, that prescribed arrangements for developing and coordinating a national program for minority business enterprise, which became known as the Minority Business Development Agency (MBDA) that facilitates and strengthens expansion of the minority enterprise program (Minority Business Development Agency, 2017; U.S. Department of Commerce, 2019).

When President Nixon signed Executive Order 11625, the nation’s minority population was 40 million, and it has now grown to 130 million or 39% of the population. Today, minority-owned businesses account for nearly 30 percent of America’s businesses. They employ 7.2 million Americans and generate over \$1 trillion a year in revenue. Minority owned businesses are growing and fueling America’s economy. The number of minority owned business has grown by 39%, since 2007 (Trump, 2019).

Even with significant growth in minority business ownership, access to capital remains the most important factor limiting the ability of many of the nation’s 11 million Minority- and Women-owned Business Enterprises (MWBEs) to increase in scale. In order to address this challenge, the \$1.4 million *Minority Growth Equity Fund* from the MBDA provides answers to the many challenges faced by MWBEs. Henry Childs II is the current MBDA National Director, and states, “MBDA is committed to getting more minority-owned businesses growth capital through forward thinking investments like the *Minority Growth Equity Fund* initiative” (Minority Business Development Agency, 2019, p. 1). The purpose of this grant is to increase the amount of capital available for MWBEs ready for growth. The National Association of Investment Companies (NAIC) will determine demand and current supply of capital focused on MWBEs and utilize its expertise and network to attract and invest growth capital in innovative businesses owned by women and ethnically diverse entrepreneurs. This initiative proposes to empower MWBEs in order to drive significant job and wealth creation. Furthermore, this initiative intends to make significant economic impact in historically underserved communities in the United States (Minority Business Development Agency, 2019).

As demographics continue to evolve, it is inevitable that minority groups will become the majority population in the United States. For the U.S. economy to grow and to sustain growth, we must understand MWBEs. Therefore, MBDA is expanding its engagement with statistical agencies, academic researchers, Non-governmental organizations, and other stakeholders to ensure that data continues to be pursued, sourced, and continually improved to better understand MWBEs.

## 5. Organization Background

Since the company was founded by the rapper Dr. Dre and the music industry mogul James Iovine in 2006, they had the strategy of changing the face of the premium headphones market by producing headphones with good sound and “the cool factor” (Mothersbaugh & Hawkins, 2013). They accomplished this strategy by designing sleek headphones that came in more colors than the plain black, silver, or white headphones currently on the market (Blue, V., 2017). Their stylish and unique design is one of their major selling points. It was the first time that headphones became as much a fashion accessory as a useful listening device (Blue, V., 2017).

They also had a very strategic marketing approach, which was based on celebrity use of their product. From the start, they had an advantage because Dr. Dre was already a famous rapper himself. The headphones are now just sold as “Beats”, but in earlier years they were always called “Beats by Dre”. Once they had come out with the actual headphones in 2008, they sent complementary headphones to many important celebrities in the music and sports industries, such as Lady Gaga, Michael Phelps, Justin Bieber, and LeBron James (Mothersbaugh & Hawkins, 2013). However, their marketing strategy has caused a lot of problems in the NFL. The NFL has a sponsorship agreement with Bose Corporation, who produces headphones as well, and Bose was supposed to be the “official sound of the NFL” (Naraine, Seguin, & MacIntosh, 2015). But many NFL players preferred to use Beats and were seen on TV and Instagram wearing Beats. Bose threatened a lawsuit, and the NFL had to crack down on players wearing a Beats since they were a rival company’s sound product (Naraine et al., 2015). Some players like Colin Kaepernick kept wearing Beats, but they had to cover up the Beats brand logo with a piece of tape so that they weren’t marketing the product (Naraine et al., 2015).

The company structure of Beats Electronics has changed multiple times since their founding in 2006. In 2011 HTC sold their share of 50.1 percent of Beats for 309 million. If they had held onto their ownership of the company, it could have saved them, but they sold it. After that, Beats value shot up to the point when Apple bought Beats for 3 billion in 2014 (Naraine et al., 2015). Currently Apple still owns Beats, and Dr. Dre and Iovine work for Apple in an advisory role (Mothersbaugh & Hawkins, 2013).

The company culture of Beats has always been founded on being remarkably “cool”. They have convinced people to pay hundreds of dollars for a pair of headphones, not because they cost that much to make, but because they are such a cool fashion statement and status symbol. In fact, the actual cost of the materials in the average pair of Beats headphones is only \$18 (Scheisser, 2015). Some luxury pairs have high-end leather or gold, and cost more to produce, but in general, the profit margin is huge, and it is not surprising that Dr. Dre is now a billionaire. Beats have held onto their cool factor all these years, and analysts even suggest that perhaps Beats will bring the “cool” back to Apple (Mothersbaugh & Hawkins, 2013).

## 6. Analysis and Results

Effective strategic analysis provides a clearer picture of a company by identifying key impacting factors both internal and external. When a company enters a new market, the most effective analysis that can be performed is Porter’s Five Forces. Porter (1980) identified five competitive forces that predict the profitability and sustainability of an industry and market. The five causal variables determined by Porter (1980) are that of (1) bargaining power of suppliers, (2) threat of new entrants, (3) rivalry, (4) substitutes, and (5) bargaining power of the buyers (See Table 1).

**Table 1. Porter's Five Forces Applied to Beats**

	- Moderate
Power of Suppliers	- Uncertainty in 2012 with the exit of Monster. - Increased stability through 2014 Partnership with Apple - Reputation linked to cutting edge technology
Threat of New Entrants	- Moderate-Low - Brand Loyalty - Culture Connection - High international demand-unachievable for new entrants
Power of Buyers	- Moderate but not high - Beats sells as more than just a product - Buyers can't switch without losing the "cool factor"
Substitutes	- Moderate - Lower price points seem desirable - Greater Differentiation - More specific Target markets - New features - Similar Quality
Rivalry	- High - Increased competition - Market Saturation - Sony, Bose, Skullcandy, Monster, etc. - Must increase product differentiation

To evaluate Beats by Dre's standing within the market a SWOT analysis was utilized to provide insight on the forces, both internal and external which are shaping the company (See Table 2).

**Table 2. SWOT Analysis for Beats**

<u>Strengths</u>	<u>Weaknesses</u>
- Range of Products in the audio market	- Increasing Saturation of the market
- Good quality supplies	- Price/quality ratio
- International market reach	- Not a product that is bought over and over
- Strong market position	- Limited advertising effort
- Dr. Dre brand name association	
- Style and Status	
- Mass production	
<u>Opportunities</u>	<u>Threats</u>
- Increase in an international market	- The newest trends that will inevitably replace Beats
- More product expansion	- Upcoming competition
- New partnerships in the music business	- Culture shifts
- Strategic Networking to keep up with pop culture	- Cheaper products have similar quality
- Collaborations	

A final analysis that was conducted over Beats by Dre was a Marketing Mix which identified the Product, Placement, Price, and Promotion of Beats of Dre (See Table 3).

**Table 3. Marketing Mix for Beats by Dre**

Product	Placement	Price	Promotion
- Premium Audio Quality	- Online sale	- \$99-\$499 at launch	- Low initial ad budget
- Sleek look	- In-Store sale through mainstream retail outlets	- \$199-\$699 today	- Celebrity endorsements
- Quality Design	- Professional demos	- Justified by packaging and quality materials	- Beats music Tour
- Fashion and Function	- Promotional and specific placement	- “price skimming” (setting price before emergence of competitors)	- Apple partnership increased ad production - Commercials, music videos, and artists

Beats by Dre created a product for the untapped premium sound market due to the insight and efforts of Dr. Dre and Jimmy Iovine who wanted to create a new audio experience. Their commitment to high quality materials that delivered a high-quality sound, created a foundation for a successful company. Including iconic figures in pop culture from the beginning of the process allowed the product to be developed and improved so that by the time Beats by Dre was a recognizable name, the product was elegant and refined. The endorsements of individuals who were athletes, musicians, and legends sent Beats by Dre straight into the heart of pop culture. However, other companies want in to the premium sound market and are beginning to create and market headphones to rival Beats. Something that those other companies don't have yet is the “cool factor” that Beats achieved. So, consumers are not just choosing between two pairs of headphones, they are choosing whether to join the pop culture movement. New entrants will struggle to compete with Beats by Dre because the company has already reached the international market. Brand recognition has become widespread, so much so that any new entrants into the premium sound market would get lost in the demand for Beats and all the social aspects that come along with a purchase of the product. Through their partnership with Apple, Beats by Dre increase their brand recognition tenfold and work alongside Apple to develop a more diverse product line that will continue to withstand any market forces threatening their success. Beats by Dre has set themselves apart from other competing brands including Bose, Panasonic, Sony, and Doppler because the company markets more than just a pair of headphones. Through their marketing strategy, product placement, and awareness of their environment Beats by Dre has set themselves up for future success.

## 7. Discussion/Recommendations

In light of the analyses of Beats by Dre, there are three major questions that arise: (1) Which of the marketing strategies used by Beats was the most pivotal in the product's success; (2) Which of Beats' business principles or marketing strategies could be used to find success in another future business venture; and (3) Was the actual cost of the materials used to manufacture Beats headphones only \$18? (Scheisser, 2015). Pondering these questions, would consumers still be willing to pay more than \$150 for a pair of popular culture headphones? These questions led to the development of the following recommendations for Beats by Dre in its future.

Based on the case study evaluation, the most important thing for Beats to maintain is its cool factor. They will be justified in spending whatever it takes to keep Beats in the hands of celebrities and sport stars. That product placement should guarantee that people continue to see Beats as THE coolest headphones in the world. Also, they need to keep innovating their headphone design so that their appeal as a fashion statement keeps going strong. Any company that believes they have got the perfect formula and have no need to improve their product will fall behind the times and eventually fail. Beats should also continue to provide a great streaming service and should consider keeping their subscription costs lower than other competitors, so that they have a loyal and constant customer base.

## 8. Conclusion

In a world saturated with the clutter of advertisements and competition, businesses are looking for a way to break through to the consumer. As demonstrated in the case study, Beats by Dre utilized an exceptional strategy to market their product to the world. What began as two men attempting to enhance the listening experience of consumers, evolved into an international multi-billion-dollar industry worthy of study and praise. These men knew how to sell people what they did not even know they needed causing Beats by Dre to become more than a headphone industry. Buying Beats became a symbol of status, inclusion, popularity, and pride. Future businesses should strive to imitate the modern entrepreneurial effectiveness demonstrated by Beats through their non-traditional promotional tactics. The results of this investigation are significant because it serves as an encouragement and a challenge to other businesses to stand out and pursue their entrepreneurial visions with a passion by following in the footsteps of Beats by Dre.

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