EXECUTIVE SUMMARY

This case discusses the challenges facing the music recording industry through the eyes of two of its most influential trade associations: the RIAA and the IFPI. First, readers of the case will learn about (a) the history of the music recording industry and how new emerging and innovative technologies can impact individual organizations or entire industries and (b) the music industry value chain and its various stakeholders, for example, record labels, artists, composers, distributors, and retailers. Second, they will learn about (a) the strategic opportunities and business models being unleashed by the new emerging technologies, for example, MP3 and peer-to-peer networks and (b) the challenges facing music industry trade associations, such as the RIAA and the IFPI in protecting copyright in a digital age, reconciling conflicting goals of its members, and implementing new business models.

Keywords: copyright; DMCA; IFPI; MP3; MPAA; music industry value chain; music recording industry; Napster; online piracy; P2P; peer-to-peer; RIAA; SDMI; technological innovation life cycle

INTRODUCTION

The music recording industry is at a crossroads. Internet technologies have disturbed the traditional distribution channels. Music sales are dwindling, as consumers continue to use peer-to-peer (P2P) and MP3 technology to illegally share copyrighted music on the Internet. Some consumers think there is such thing as free shareable online music! Traditional music industry associations, such as the International Federation for Phonograph Industries (IFPI) and the Recording Industry Association of America (RIAA), have responded by tracking and taking the online piracy copyright violators to court. This includes a 12-year-old elementary school girl!

The barriers to entry into the music recording industry have been lowered, as new artists may now produce, market, and distribute their work on the Internet without the involvement of major record companies. In turn, record companies can undercut wholesalers or retailers on price by selling directly to consumers. Additionally, new competitors with new business models, such as aggregators and infomediaries, are entering the
recording industry and are jockeying for position. Potentially, we are now witnessing the demise of some parts of the music industry value chain as we know it today. The big companies in the music recording industry may have seen the red light at the end of the tunnel.

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**ORGANIZATION BACKGROUND**

Over 100 years ago on December 4, 1877, Thomas Edison invented the phonograph. He was the first person ever to record and play back his own voice. He recited *Mary Had a Little Lamb* to an astounded audience. This early invention was without controversy; some insisted it was a hoax and many people attended demonstrations to see what they could not believe was possible. A world that enjoyed only live music was soon able to buy Long Plays (LPs) and hear music in their own homes on phonographs playing vinyl records at speeds of 78, 33, and 45 rpm. In the 1980s, record stores thrived with huge sales and huge profits. In 1985, music CDs and CD players became available. By 1990, only 5 years after their introduction, record stores had fully transitioned into CD stores. Today, CD sales are in decline in favor of MP3s, a music format that allows people to download, copy, and store music on many different devices, including cell phones, cameras, and MP3 players. The music industry is struggling to change because they cannot control the copying and distribution of downloaded music. Technological discontinuities (also called disruptive technologies) have been the staple of the music recording industry since its conception. Companies that have been unable to adjust and adopt the new technologies, including Thomas Edison’s own company—Edison Diamond Discs, have most certainly fallen along the wayside.

**Technological Discontinuities and the Music Industry**

*What are Technological Discontinuities?*

Technological discontinuities are breakthrough innovations that significantly improve the technological state of the art of entire industries. Such technological discontinuities may threaten to upset the mode of doing business in the industry (Ehrenberg & Jacobsson, 1997). According to Anderson and Tushman (1990) and Utterback (1994), technological innovations tend to have a life cycle of their own.
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