THE MUSIC INDUSTRY IN THE SOCIAL NETWORKING ERA

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Abstract

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Music has long been a pillar of profit in the entertainment industry, and an indispensable part in many people's daily lives around the world. The emergence of digital music and Internet file sharing, spawned by rapid advancement in information and communication technologies (ICT), has had a huge impact on the industry. Music sales in the U.S., the largest national market in the world, were cut in half over the past decade. After a quick look back at the pre-digital music market, this thesis provides an overview of the music industry in the digital era. The thesis continues with an exploration of three motivating questions that look at social networking sites as a possible major outlet and platform for musical artists and labels. A case study of a new social networking music service is presented and, in conclusion, thoughts on a general strategy for the digital music industry are presented.

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Introduction

Music has long been a pillar of profit in the entertainment industry and has become an indispensable part in many people's daily lives around the world. However at the turn of the new millennium, the emergence of digital music and Internet file sharing has had a huge impact on the industry, even in the world's largest market: after US music sales had reached a peak of $14.6 billion in 1999, they plummeted to a mere $6.3 billion in 2009 (Goldman, 2010). This sharp decline in music sales has resulted in many studies that examine the relationship between artists' and users' online activities, ICT advancement and music sales. While it is argued by some that the Internet and digital format have resulted in this drastic decline in sales, the increasing importance of the Internet has drawn the attention of more and more industry players.

In a study conducted by Chen and Chellappa (2008), data on Myspace users' sampling behavior as well as radio and video plays were collected to examine the effects on sales of songs and albums. The authors randomly selected 43 artists who released their albums as early as June 2007, combined Myspace data such as page views, song plays and number of fans with weekly radio and video plays to determine the relationship between these elements and song and album sales. The findings, ruling out the possibility of "unobserved song-specific, time-varying heterogeneity" that might cause potential bias, revealed that users online activities on social networking sites have a significant effect on music sales.

Another research led by Chen, De and Hu (2009) employed a panel vector autoregression (PVAR) model, which is used to provide statistical representations and model relationships between variables. They used data collected from artists' promotional activities on Myspace to

examine the effects of artists' online marketing behaviors on album sales, including friend updates, bulletins, and number of connected friends. Their findings suggest that friend updates (Steams) are more effective in promoting sales than bulletin updates, and the number of friends positively affects the sales.

The aforementioned two studies examined data collected from a single website, Myspace, which is an entertainment-oriented social networking site and focuses mainly on music. Hence the findings cannot be easily generalized to assess the effects of online activities on music sales. Consequently, other social media platforms, such as music blogs, were also studied to examine their influence on consumers' purchase decisions. Dewan and Ramaprasad (2007) focused on the word-of-mouth impact of blogs and Long Tail effects to "examine the inter-relationship between music blogs, consumer music sampling behavior, and album sales". The authors found out that while positively affecting most artists, music blogs had a greater influence on the sales of indie musicians than on mainstream artists.

Dewan and Ramaprasad (2009) conducted another study using Granger Causality methodology, a means to examine the causal relationships between variables, and two-stage least squares analysis. They found a significant positive relationship between blog buzz and album sales with a stronger effect for independent artists. Unlike for mainstream artists who have already established an influential presence among fans, music bloggers help indie artists more by giving them exposure and the opportunities to be discovered by more music fans in the niche market.

To examine the relationship on diverse platforms, Dhar and Chang (2008) explored multiple

online sources such as blog posts, consumer and mainstream media reviews, and social networking sites. They discovered that these sources for user-generated content could be used to predict album sales since there was a positive relationship between the two. Prior studies focused on the relationships between online reviews and ratings and books sales and movie revenues (Dellarocas, Awad, & Zhang, 2004; Duan, Gu, & Whinston, 2005; Chevalier & Mayzlin, 2006). However, few of these studies were conducted from a music industry perspective. In their study, Dhar and Chang proposed two hypotheses: 1) "high buzz" ("good buzz") created around albums by blog posts could lead to potential album sales increase; 2) the number of connections ("friends") on social networking sites such as Myspace, is an indicator of bands' popularity. The authors found that consumer reviews and blogs are more effective in predicting album sales than critics' reviews.

With social networking sites such as Facebook, Twitter, and YouTube growing at an unprecedented rate, both artists and labels have started to take advantage of the online connectivity as an effective promotion and marketing platform. This thesis first takes a quick look back at the pre-digital music market and provides an overview of the current music industry in the digital era, with a particular emphasis on promotion and marketing. To examine the role of social networking sites as a major future outlet and platform for music distribution, promotion and marketing, three motivating questions are posed: 1) How does the Internet affect the music business? 2) How are people's online activities related to music sales? 3) Can social networking sites be leveraged to the advantage of music business? A case study of a new social music service is presented, followed by thoughts on a brand building strategy for artists. Main findings are

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summarized in the concluding section

The music market in the pre-digital age

  The reproduction of sound can be traced back to 1877 when Thomas Edison invented the phonograph to record human voices singing for the first time. Since then, the music industry witnessed the invention of the coin-operated jukebox, the emergence of jazz music, and in the 1920s, the rapidly growing popularity of radio. The music market was greatly impacted by two major events in history: the Great Depression, during which record sales collapsed from $75 million in 1929 to merely $5 million in 1933, and World War II with the subsequent musicians' union strike, which hindered the recovery of record sales (Vogel, 2004). The post-war era saw the battle between different speeds of records that left consumers hesitating over the choice of formats and eventually contributed to a 25% drop in record sales. However, by the 1950s, record sales exceeded $500 million for the first time. It was not until the 1990s with the replacement of tape cassettes by compact discs (CD) that the industry started to surge its historical peak in commercial sales. Introduced in 1982, CDs offered a much larger capacity in digital data storage and higher fidelity in sound playback, and quickly dominated the industry in the 1990s (Vogel, 2004; Dominick, 2003). By 1999, music sales in the U.S. alone had reached an all-time-high record of $14.6 billion (RIAA, 2008). At the turn of the new millennium, the music industry ushered in a brand new digital era and has been undergoing a thorough reshuffle since.

A review of the digital music industry

The fast advancement of technology introduced digital music to the world, which quickly gained wide popularity because of its convenience, portability, low costs of distribution and mass-production, bringing a dramatic change to the industry. On the one hand, the overall music sales have been cut in half since the industry's peak in 1999 due to the massive decline in CD sales (Goldman, 2010). The plight of CDs has even led to some major record labels' decision to stop producing CDs by the end of 2012, according to an online music magazine Side-Line (Thibodeau, 2011). On the other hand, digital music sales have seen a steep rise in 2008, increasing 27% from the previous year (Sisario, 2009), accounting for 40% of all music purchases (Martens, 2010). Meanwhile, the paid music download industry has been taken into account for Billboard Charts as a market feedback since 2005, an acknowledgement of the importance of digital music in the industry. The emergence of digital music has greatly changed the structure of the traditional music industry.

	2008	2009	2010	2011	2012	2013	2014
Digital	$1,699	$1,867	$2,187	$2,484	$2,784	$3,097	$3,402
Physical	$5,540	$4,432	$3,656	$3,108	$2,673	$2,325	$2,046
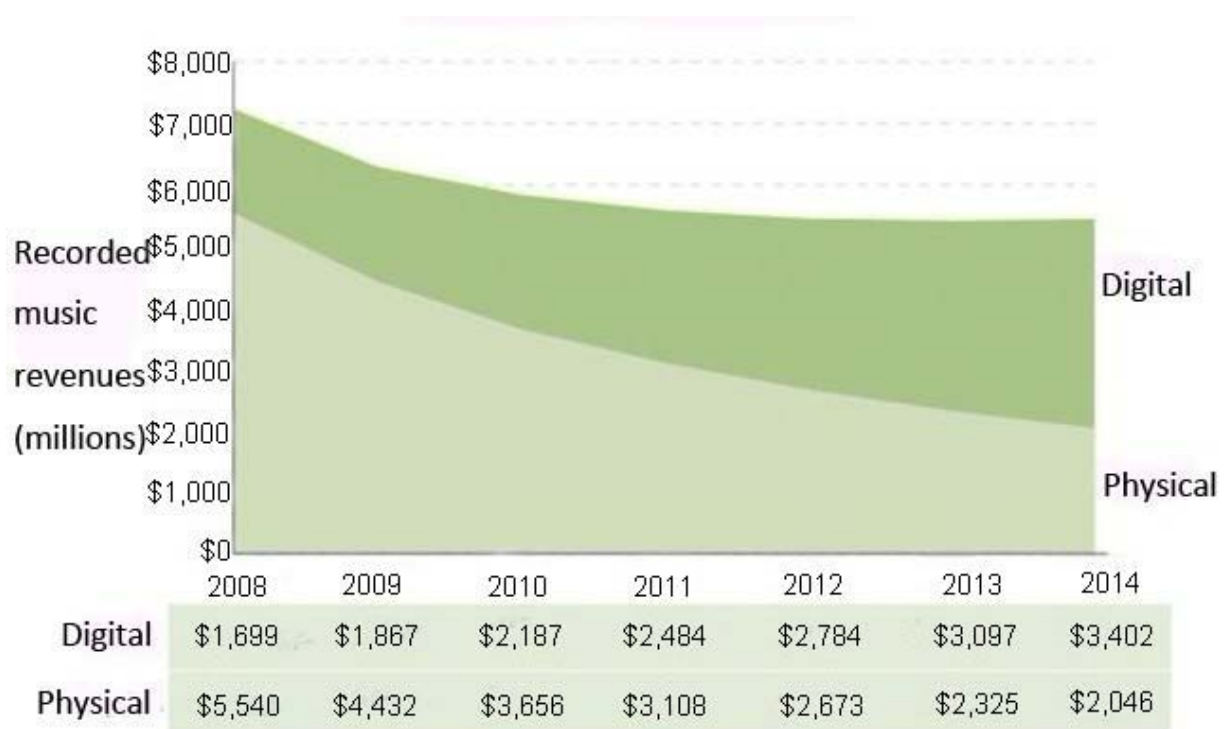
Figure 1: Digital music sales are expected to surpass CD sales in 2012. (For interpretation to the references to color in this and all other figures, the reader is referred to the electronic version of this thesis)

—Forrester Research, Inc. (Echlin, 2011)

iTunes Music Store

On April 28, 2003, Apple opened the iTunes Music Store with over 200,000 items (Apple Press Info, 2003). By December 2004, iTunes had sold over 200 million songs (Gordon, 2005), and with iPods continuing growth in popularity, the iTunes Store had sold over 6 billion songs by January, 2009, accounting for 70% of global online music sales (Macdailynews, 2009; Edible Apple, 2009). On February 24, 2010, the iTunes Store passed the 10-billion-downloads milestone (Paczkowski, 2010). According to the a report by NPD Group, iTunes Store accounts for a quarter of all music sold in the US (Cheng, 2009), which made it the number one music vendor

in the United States and the most successful digital music service in the country.
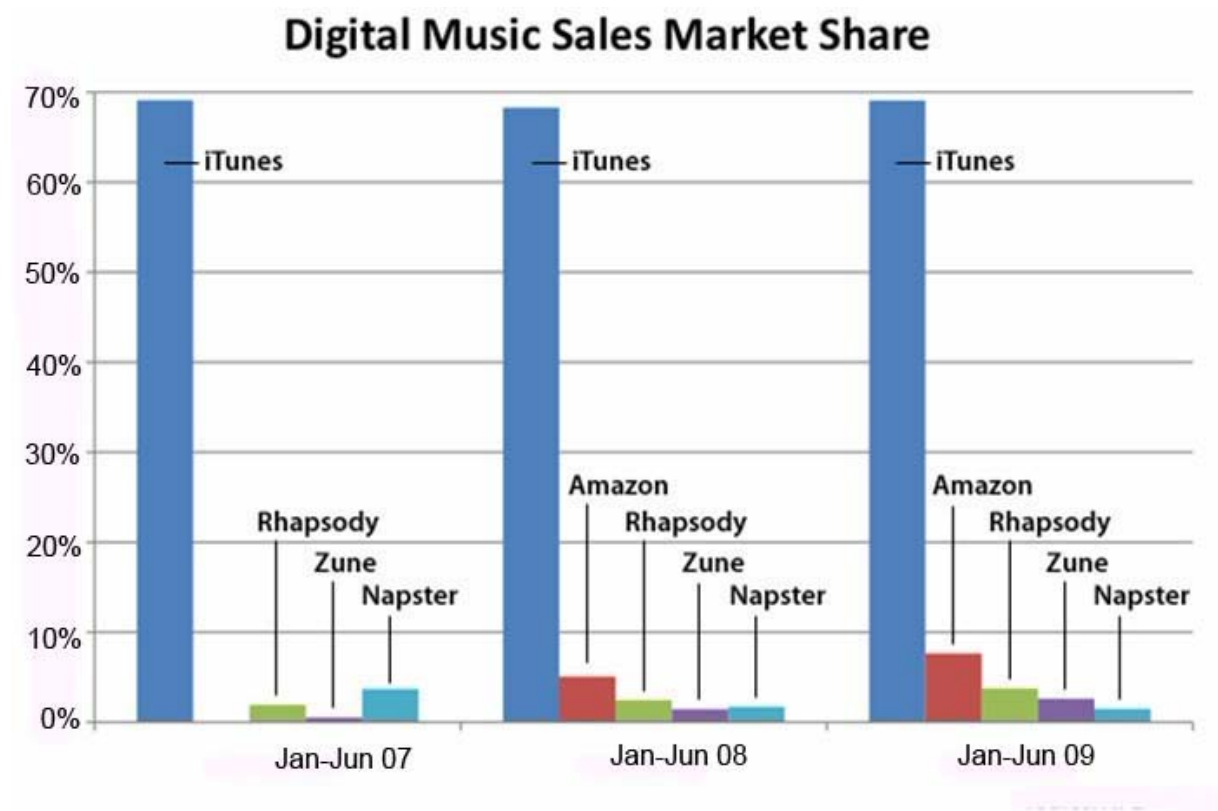
Figure 2: iTunes Store accounts for 70% of global digital music sales as of in 2009.

—NPD Group (Edible Apple, 2009)

Initially, Apple's iTunes Store charged consumers $0.99 per song. April, 2009, the store

adopted a price diversification strategy of $0.69 per song for old tracks, $0.99 per song for

regular tracks, and $1.29 per song for popular tracks. On one hand, the variable pricing is a

compromise of negotiation of DRM-free music between Apple and record labels. When the

record labels argued that the $0.99 price per song was much too low and it should vary by

"popularity of individual artist", Apple was trying to make them take digital music seriously by

removing DRM (Digital Rights Management). With the low prices of tracks, Apple used the

iTunes Store, which can only be accessed through Apple's iTunes, a free downloadable software

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on Apple's Website, as a tool to market the iPod, and then "further use the iPod to market the iMac and the iBook" (Rosso, 2004). Although iPod unit sales have passed 200 million by January 2009 (Vertygo Team, 2009), the existence of DRM, required by the record labels for the content of control, had long prevented the further prevalence of iTunes by locking the music downloaded from iTunes Store to a particular computer. In January 2009, the iTunes Store removed DRM from 80% of its tracks, and then expanded to 100% in April, meanwhile improving the bit rate of the music files from 192 kbps to 256 kbps. Consumers can upgrade their previously purchased music to the new DRM-free iTunes Plus AAC format with an extra $0.30 per song. On the other hand, the variable pricing is a means by the record labels to influence consumers' "perception of value" (Cassidy, 2009). The companies can promote whomever they want by pricing them at $1.29, creating a perception in consumers' minds that the artist is currently popular and the song is of high quality and value.

Online Music Streaming

The fast development of broadband Internet has given birth to online music streaming (Webcasting) and contributes to an increasing number of music streaming service providers. Music streaming allows people connected to the Internet to listen to music without having to own the file source, and it is much cheaper than buying a piece of music, even free of charge.

Among the music streaming services, Internet radio attracted a considerable number of listeners in recent years. Internet radio provides audio streaming continuously that cannot be replayed. According to Bridge Ratings, the number of Internet radio listeners reached 75 million

in 2007, and it is expected to reach a 200 million high in 2020 (Figure 3). In 2009, the daily use of terrestrial radio stations has dropped by 9%, while Internet radio saw a 5% increase from 2007.

Internet Radio Growth Projections
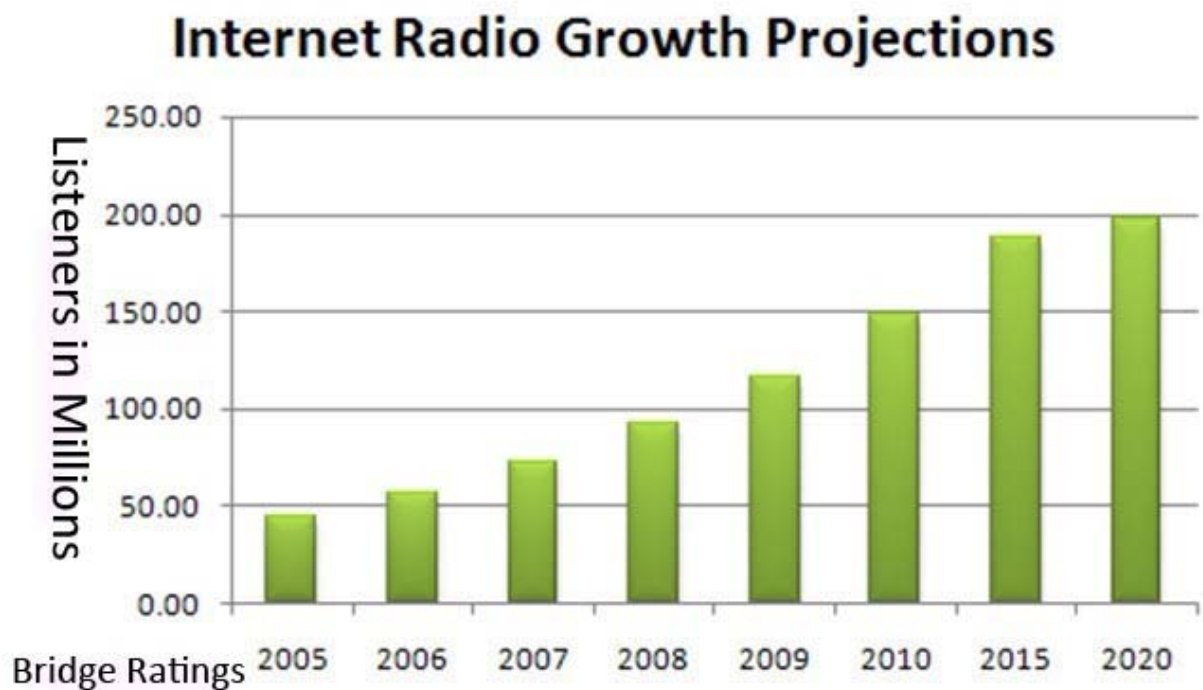
Figure 3: Internet Radio Growth Projections.

——Bridge Ratings, 2009

Live Performances

For most of the artists, concert revenues are much higher than album sales revenues, due to low sales as well as low royalty rates left for musicians by record companies. A new artist or group will receive a royalty rate of about 9 to 12 percent of the retail price of a CD, an average of $1.26 to $1.68 per CD (most CDs on shelf cost about $13.99). A more established performer can

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have a higher royalty rate of 15%, even 20% or more (Dominick, 2003). Record labels have no

claims over concert revenues which accrue entirely to the musicians. According to Pollstar

magazine, despite declining record sales, concert tours from January to June grossed $1.05

billion in North America in 2008, the same as the midyear gross in 2007. In the *Los Angeles*

Times' Ultimate Top 10 in 2008, a survey that measures the sales of concert tickets, album sales

and downloads in the US, concert revenues were much higher than album sales for most of the

top acts (Table 1).

Table 1: Ultimate Top 10, 2008 (in millions)

Artist / Band	Total Revenues	Concerts	Album Sales	Digital Sales
Madonna	$120.1	$105.3	$14.8	
Céline Dion	$106.8	$94	$11.4	$1.3
Kenny Chesney	$95.7	$72.2	$20.8	$2.7
Eagles	$90.7	$73.4	$15.6	$1.7
AC/DC	$82	$37.5	$44.5	
Coldplay	$81.6	$40.8	$35	$5.8
Bon Jovi	$81.4	$70.4	$8.6	$2.4
Bruce Springsteen	$79	$69.3	$7.9	$1.8
Jonas Brothers	$77.9	$41.5	$30.4	$6
Rascal Flatts	$77.1	$55.8	$18.2	$3.1

——Source: Los Angeles Times (January 14 2009)

As live concerts prove to be a more profitable means to increase revenues, artists try to find

ways to sell the tickets and concerts to a wide range of audience. One outlet for this expansion is

the Internet. Online tickets can save considerable costs of ticket distribution in physical retail

stores across the nation and around the world. To reach a larger audience, artists are also

beginning to broadcast concerts online. On October 10, 2009, Mariah Carey launched the first

ever Mobile & Digital concert in history, which was taken from the previous two concerts at

Palms Resort in Las Vegas on September 11 & 12 that same year. The online concert was

available to Internet and mobile carriers in North America, South America, and Europe. By

purchasing the e-tickets, people can stream the concert online as well as download video clips

("Mariah Carey", 2009). Although the concert was a month later than the live performance, it

offered fans around the world the opportunity to watch the concert which is not available on

content providers such as YouTube.

The Mobile & Digital concert suggests a direction for the future of live performance

delivery: Live Online. When the technology has already allowed the streaming of free live

performances online in support of promotion, it is possible for artists and platform companies to

disseminate music performances live. The new approach can bolster the sales of concerts

enormously in places not reached by live tours when tickets are sold out, opening a larger niche

audience market for the musicians, who may improve their negotiating position to seek higher

license fee they can extract from the television services or platform companies who wish to air

the concert (Gordon, 2005).

Social Networking Sites and the Music Industry

Network Effects in the Digital Music Market

According to Metcalfe's law, the value of a network increases exponentially with the number

of users (nodes). That is, "as the number of people connected to the network increases, the

impetus for others to establish connections to the network also increase" (Krasilovsky et al., 2007). Online streaming services are leveraging the advantage of the Internet to increase their network effects. Users of the Last.fm community not only can add friends, join various groups, write up music journals, and tag music, but can also create their own playlists, share them with friends, and see other users' charts for discovery of new music. One special feature of Last.fm is the Audioscrobbler, which "scrobbles" the songs either from Internet radio stations or from users' computers or other music devices. The information is then transmitted to the Last.fm database and displayed on the users' profiles for others to share. This allows music fans opportunities to contribute to the diversity of music genres, artists and bands on the site, so that the more users and friends, the broader the choices of music. With over 21 million monthly active users on the site (Kiss, 2008), one can be exposed to a variety of music tastes. In the meantime, artists also benefit from the technique by dispersing their music to a larger audience.

Broadband Development and Social Networking Sites

   With the increasing speed of Internet connections and the higher penetration rate of broadband subscribers, it is necessary to expand the promotion onto the Internet so as to reach the largest possible audience. By the first quarter of 2011, the number of broadband subscribers in the US has reached over 88 million, the most broadband subscribers in the world (Web Site Optimization, 2011). The connections are fast enough for downloading and streaming huge files. In the meantime, social networking sites have been sweeping across the globe in an unprecedented rate. Facebook, currently the biggest social networking site in the world, has more

than 800 million active users (facebook.com), while Myspace hosts over 110 million users with 660,000 bands and artists uploading music to the site (Isilon, 2009). As of January 2010, Twitter has generated 1.2 billion tweets in a month (Wee, 2010). Connected artists' daily activities, latest pictures, live mini shows, even full album streaming are updated everyday on such sites. There are also many social networking sites dedicated solely to music and talent discovery, such as Last.fm, iLike, MOG, Spotify, etc. These websites are used by fans to discover and explore, and by artists and labels to market and promote new materials. The circumstances have forced the record labels and artists to make full use of the network for their promotions and marketing.

Social Networking for promotions

In the information age where everything goes digital, music companies and artists are beginning to pour their contents online for free to attract as many people as possible to increase their network effects. They understand the mechanism of it and try every means to accumulate a large fanbase for new and non-mainstream artists by realizing the importance of positive feedback, which plays a dynamic role in the network economy (Shapiro & Varian, 1999). Industry players, from unknown artists to hit singers, are beginning to provide full-length streaming of the albums and live performances for free on websites like Myspace and YouTube to produce buzz for their latest projects. Their efforts toward creating diverse online content encourage their followers to interact and engage, which helps increasing their visibility and reputation. Social networking sites have already become an indispensable tool for music promotions.

Motivating Questions

Since the beginning of the 21st century, the music business has seen a sharp decline in sales around the globe, including the largest music market, the US, whose sales have been cut in half in the past decade. While it is widely believed that the advances in the Internet and the emergence of digital music formats are the top causes for the huge decrease in physical music sales, more and more artists and labels are starting to embrace the new technology and utilize the platform to introduce their products to a larger audience that could not be covered in the traditional ways. This section will analyze the impacts the Internet has on music sales, and explore the possibilities for labels and artists to market their music in a digital environment, especially through social networking sites which are getting more and more prevalent and important in brand marketing and promoting.

MQ1: How did the emergence of the Internet affect music sales?

The rapid decrease in music sales following the emergence of the digital music has led many to believe that this new format is the major cause for the fall of industry. Among all the negative factors, online file-sharing and the unbundling of music are two most controversial reasons.

File-sharing and Napster

Online piracy especially file-sharing technology has always been a disputable cause for the downhill slide in music sales, and it has been blamed by many industry organizations, such as Recording Industry Association of America (RIAA), for years. There are also many studies that

confirmed the view that illegal music downloads are responsible for sales decreases. In their

research, Peitz and Waelbroeck concluded that 20% of the loss in global music sales could be

attributed to illegal music downloading (2004). A similar study by Zentner also suggested that

file-sharing might have compromised the potential music sales by 30% (2003). In Blackburn's

paper, the new technology was found to have a negative impact on well-known artists who

dominated the market while lesser-known artists enjoyed a spreading of their works to larger

masses (2004). In their 2005 study, Oberholzer-Gee and Strumpf found no significant causal

relationship between file-sharing and record sales, indicating that there were other factors

affecting the business other than illegal downloading (2005). However, the authors adjusted their

view in a 2010 study, acknowledging that file-sharing does affect music sales negatively, but also

indicating that the technology did "not discourage authors and publishers" (Oberholzer-Gee and

Strumpf , 2010). Up until now, file-sharing is still a controversial reason believed to have caused

the decline of music sales.

As the first file-sharing service emphasizing online sharing of audio files, Napster was

founded in 1999 for the purpose of distributing music in the form of MP3 for free. The

mechanism of the service had triggered different reactions among critics and musicians. While

attacked by some artists like Peter Gabriel, Eminem, and Sheryl Crow, it was publicly supported

by other artists and bands such as Courtney Love, Dave Matthews, Limp Bizkit, etc. Its

exclusivity on a music and user-friendly interface had gained wide popularity with 25 million

users and 80 million songs at its peak (McCartney, 2011). This Napster craze had caused

overload over the Internet, especially on campuses where college students were the most active

participants of the service. It was reported that Napster had taken up 40% to 61% of the entire network with students constantly sharing music files (Fusco, 2000). Ever since its inception, Napster had been faced with the risk of copyright infringement, and was the defendant in various lawsuits, most notably by Dr. Dre and Metallica, who demanded their music be removed from the service. Despite some studies that concluded that no significant evidence that associated file-sharing with the decrease in music sales (Hong, 2004), Napster was frequently blamed by RIAA for causing the continuous loss in the music industry. RIAA, along with several recording companies, filed a series of claims against the service and forced its shutdown in 2001. Following the success of Napster, many other companies were founded on the basis of peer-to-peer (P2P) sharing services, such as Kazaa, but most failed to last long enough before being turned to a paid subscription services. Currently BitTorrent is the most popular and recognized P2P protocol on the Internet, accounting for 15% of overall P2P traffic (Hamilton, 2009).

Although being criticized as a main cause for the music business losses in early 2000s, and ceasing to operate two years after its launch, Napster had proven itself as more than just a music files sharing and distribution platform. A case in point is the Internet campaign for Radiohead's breakthrough album Kid A, when there was neither a video nor a hit single available to promote the concept album in the US back then. Despite the lack of promotion in the country, the Internet exposure via Napster, one of the services that the label tried to keep off of, had created buzz revolving the album among the fans and helped it reach No. 1 on Albums Chart upon its release. Amazon alone reported 10,000-unit pre-orders before the release date, a feat beyond the original

expectations by their label Capitol (Evangelista, 2000). While Napster was not the only reason for this achievement, it demonstrated the online marketing power of file-sharing services among fans and media. As Peitz and Waelbroeck pointed out, since most people downloaded music as a sample to help make purchase decisions, file-sharing might have a positive effect on music sales in the long term, especially among college students and teenagers as they became financially fit (Peitz & Waelbroeck, 2006).

Unbundling the Package

Another cause for the decline in music sales is the unbundling of albums enabled by their digital format. In other words, people now have the option to download any number of favorable singles from an album online instead of having to purchase the entire record like they did in the past.

The unbundling of content has been taking place in every aspect of the media world over the previous years – print, radio, and television. Music unbundling began with the onset of the iTunes Store, the first online music retailer ever to allow consumers to purchase individual songs separately without having to obtain an entire album. Since its launch in 2003, its $0.99 per song policy has been wreaking havoc in the music industry, deeply impacting the sales of digital albums which already cost much less than CDs. In his blog about the unbundling of media, David Pakman (2011) attributes the decline in music sales to digital unbundling instead of online piracy, arguing that consumers are only purchasing 10% of what they used to, a ratio of average number of potential singles (1-2) to that of overall songs (12-15) in an album. The disruptive

effects of iTunes and unbundling on the industry is reflected in the latest study by Harvard

Business School's Anita Elberse who, after studying the music sales of over 200 artists,

discovered a negative relationship between the number of people consuming digital music and

album sales (2010). In Elberse's study over the course of more than two years using Nielsen

SoundScan and NPD Group data, a concentration measure was used to test the relationship

between digital song and album sales. She found that "every 1% increase in the music

downloading rate leads to a decrease of approximately 6% in album sales", and that fewer digital

song downloads could result in comparatively higher sales of albums, further revealing that

album sales are higher when song sales distribution are less concentrated. Thus, while most

labels and artists are starting to catch up with this new distribution model, few artists are still

defying the unbundling of their music online, including British progressive rock band Pink Floyd

and American country singer Garth Brooks, two of the best selling acts in Nielsen SoundScan

history.

Although evidenced by most cases that digital song and album sales do negatively affect

each other, there are some exceptions where single and album sales seem to be mutually

beneficial. Released on February 22, 2011, British singer *Adele*'s sophomore album *21* has sold

352,000 copies in its first week with digital format accounting for 62% of the sales. Ever since

its US debut, the album stayed in the top-3 on the Billboard Top 200 Albums Chart for most of

its entire run of 34 weeks (The Power of Digital Sales, 2011). The market even witnessed a rise

in CD sales by 10% in the week of August 16, 2011, six months after it release (Friedman, 2011).

In the meantime, two of her singles, "Rolling in the Deep" and "Someone Like You" are also

both performing steadily on chart positions as well as in sales. Examples like this indicate that when marketed properly, labels and artists can benefits from both digital albums and songs.

The Internet started to manifest its influence on the music industry by the end of the last century by providing a more open environment for music distribution. Digital music has been gaining popularity since and continues to grow. Despite the drastic decrease in CD sales over the years, digital music sales are rapidly catching up in market shares, and, according to the 2011 midyear report by Nielsen, have helped increase overall music sales for the first time in six years (Figure 4). The gradual shift in people's listening habits from owning CDs to online streaming and downloading, as well as the change in purchasing habits from albums to single tracks, are transferring the music industry, and starting to exhibit their positive effects on the music business. However, there are still some issues arising from the Internet that might seem to be compromising the music business at the moment. Besides sales-decreasing effects of online piracy and digital unbundling, RIAA reported that illegal downloading has resulted in a reduced number of musicians (Friedlander & Lamy, 2010). Although the data was based on the number of people employed as "musical groups and artists", and did not represent all the people who are currently making music, it might indicate a negative effect of the Internet on music production.

Figure 4: US music sale increases for the first time in six years in 2011.

—Nielsen Company, 2011

MQ2: How do people's online activities relate to music sales?

The Long Tail Phenomenon

In the digital entertainment era, online distribution and retail offers people access to almost

everything. As described by Bockstedt, Kauffman & Riggins, the digital music market is

characterized by a new virtual value chain, where "Companies that create value with digital

assets may be able to reharvest them in an infinite number of transactions" (2005). Without the expense of extra physical room for additional products, companies can afford to provide people with non-mainstream products that were impossible to offer in the past. Since the costs for these extra demands are vastly reduced due to the "infinite" online space, the revenues from these products are much larger than the costs. On the Long Tail, people are able to find everything (Anderson, 2006), and the digital music business can best represent the phenomenon.

According to Anderson, there are three forces driving the growth of Long Tail. The first force is "democratizing the tools of production", which enables any works, including music, of anyone to be published to the world. Consequently the available content on the web is greatly increased. Since there is no physical medium for the content, nor is there any need for product packaging, the cost of digital distribution is much lower than producing a CD or vinyl. With infinite storage room online, record companies and artists can put all the songs on virtual shelves and wait for people to discover their value. The iTunes Store, the world's number one music store, claims to own over 11 million songs (Apple). Internet radio like Last.fm allows users to stream any song from the Big Four labels and thousands of indie labels, and its mission is "to have every track available" (Stiksel, 2008). Both of these services include almost all the songs on market. The second force is "democratizing the tools of distribution", which implies a low price of the products. Most of the songs on iTunes range from $0.99 to $1.29, a very affordable price for anyone who is interested in purchasing a song. There are also more and more music streaming services like Spotify, MOG, Rdio, that provide free unlimited streaming with advertisements, which allows the users to be exposed to as many titles as they want. The third

force is "connecting supply and demand", the function to help consumers find more products.

One of the most important contributions of Long Tail theory is to help artists find niche markets, putting the artists at the "tail" of the Long Tail to the front of listeners. A music recommendation system is used based on consumers' tastes and preferences to help discover lesser known artists and songs. For instance, Apple integrated into their free software an application called "Genius" which collects data from the consumers' iTunes libraries and submits it to the iTunes Store, which then recommends the music in store based on what the consumers listen to. By this means, iTunes can use this feature to expand the range of a consumer's tastes and maximize the possibilities of attracting more attention to non-mainstream music. Similarly, Pandora's Music Genome Project and Last.fm's "Audioscrobbler" recommendation systems are also helpful ways of finding the songs suitable for users by digging deep into the various music genres. Some people interact with their friends and artists directly on Facebook, Twitter, YouTube to discover new music.
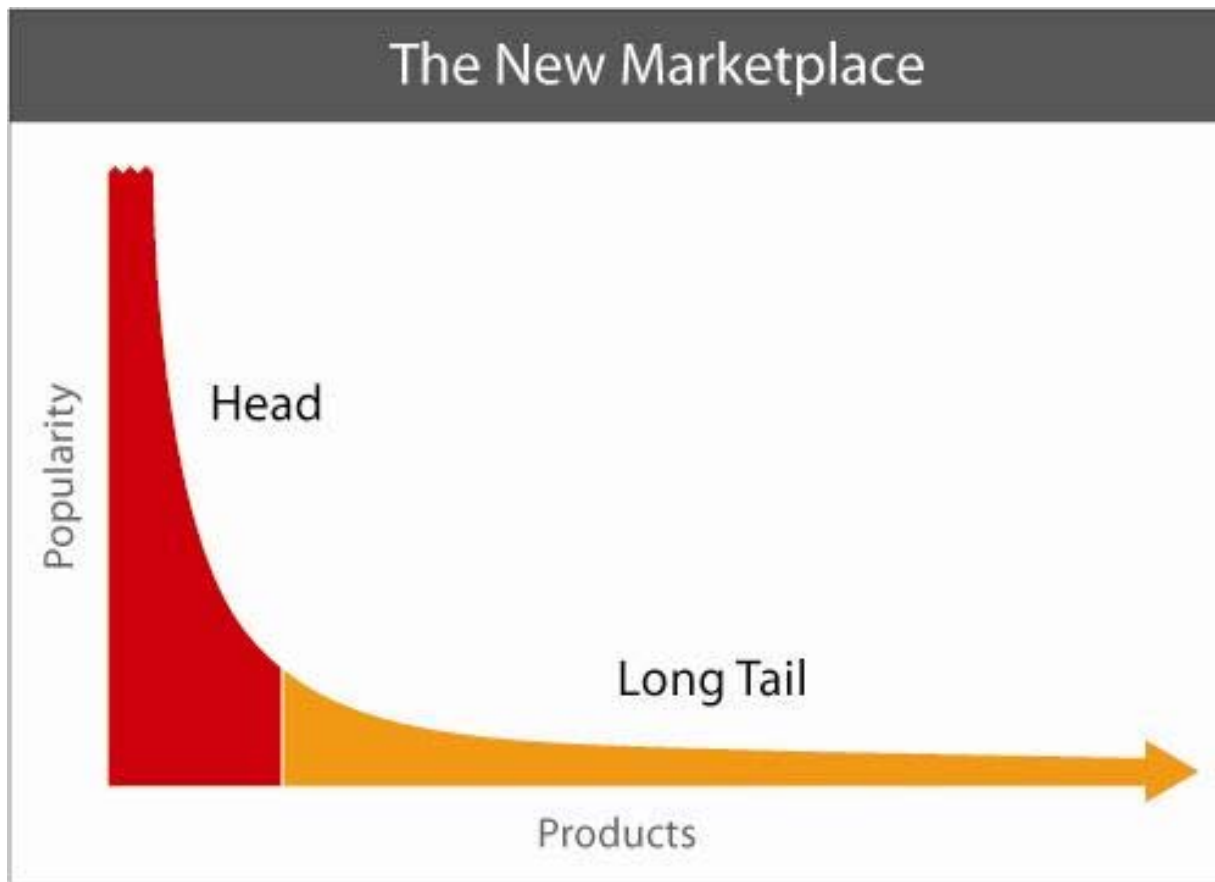
Figure 5: Long Tail

——Longtail.com, 2011

Recommendation System & Online Reviews

A recommendation system is a piece of software "that give you advice about what you might enjoy listening to or watching or reading next, based on what you just listened to or watched or read" (Grossman, 2010). This technique is used to help users discover products they like that are usually more obscure, thus effectively reducing the search cost for them as well as giving a rise in sales for businesses. As the world's largest online retailer, Amazon integrates two types of recommendation systems into their website experience, including its music store. On its

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homepage, the system makes recommendations based on users' browsing and purchase histories, picking out the top-n products that are the nearest to the users' taste. The other recommendation algorithm Amazon uses is collaborative filtering which makes predictions of a user's preferences based on the data collected of other similar users. It usually appears on a product page in the form of "Customers who bought this item also bought". However, collaborative filtering is negatively affected by a small number of consumers and items available (Sarwar, et al, 2000). The online radio service Pandora incorporates a unique recommendation algorithm called Music Genome Project that encodes every song with around 400 "genes", among which each gene corresponds to a characteristic of the song so that when a user is prompted to create their own playlist ("Station") upon logging in, whether by song title, artist name or genre, the system would be able to better understand the listener's preference and generate a selection of songs of the most relevance. Since the songs are played in random order from its collection of 800,000 tracks (Pandora, 2011), it helps enable both the listeners to discover those artists in the "tail" of Long Tail curve and unknown artists to reach a niche market.

While the results from a recommendation system are more of a prediction of users' preferences produced by computer, online reviews, blogs and content sharing are some ways in which people engage to talk about, recommend and make new discoveries with their peers. There is a lot of prior research that showed people's inclination towards online reviews and peer recommendations (Smith, Menon, & Siyakumar, 2005; Liu, Y. 2006; Chiou & Cheng, 2003; Bagozzi & Dholakia, 2002; Eliashberg & Shugan, 1997). While social networking sites can strengthen the weak ties in interpersonal relationships (Donath, J., & Boyd, D., 2004; Ellison,

Steinfield, & Lampe, 2007), friends and peers' opinions and recommendations on these platforms can greatly affect an individual's attitude towards a product. In the wake of this, many artists leverage the characteristics of social networking sites and encourage their fans to share their contents and announcements with their friends. Claude VonStroke, a house and techno house DJ, posts his performance dates on his two Facebook fan sites, where his fans will repost and upload photos to help promote the next show (Long, 2009). All these are supported voluntarily by his loyal fans. Music blogs, on the other hand, are an effective medium to gain influential presence, and music bloggers are the opinion leaders in the industry that can create buzz around the music and change people's attitudes, further increasing album sales as a result. Thus a lot of artists would submit their music to those influential bloggers for reviews in hopes of getting positive exposure. She & Him is an indie duo consisting of actress Zooey Deschanel and musician Matt Ward. Their debut album Volume One, which was released in 2008, was a critically acclaimed project and has made the lists of Top Albums of the Year in both online and offline media. It was even named Album of the Year by the hugely influential music magazine Paste Magazine (Jackson, 2008). Not only did it outsell the debut of Arcade Fire (Ryzik, 2008), the positive reviews in the blogosphere have also helped their second album *Volume Two* successfully make it into the Top 10 on Billboard Albums Chart. While the quality of the records is in itself an essential part, online appraisals played an important role in the success of the duo's two albums.

While the Internet provides a universe of content containing virtually everything, people are faced with an abundance of choices in the process of decision making. Recommendation systems can greatly lower the search cost by helping people find the suitable products. Online reviews by

critics and users are another means for people looking for new products to differentiate one

product from the others and make their decisions. In the music scene, fans' inclination to favor

views of peers has resulted in artists' and labels' investment in social networking sites and music

blogs, where positive peer reviews can have a critical influence on people's purchasing decision

and thus help the growth of sales.

MQ3: Can social networking sites be leveraged to market and promote music?

Diffusion of Innovations & Social Networking Sites

The theory of diffusion of innovations was popularized by Everett Rogers in his 1962 book

Diffusion of Innovations, which defined diffusion as "the process by which an *innovation* is

communicated through certain *channels* over *time* among the members of a *social system*"

(Rogers, 2003). The definition is comprised of four elements that influence the spreading of a

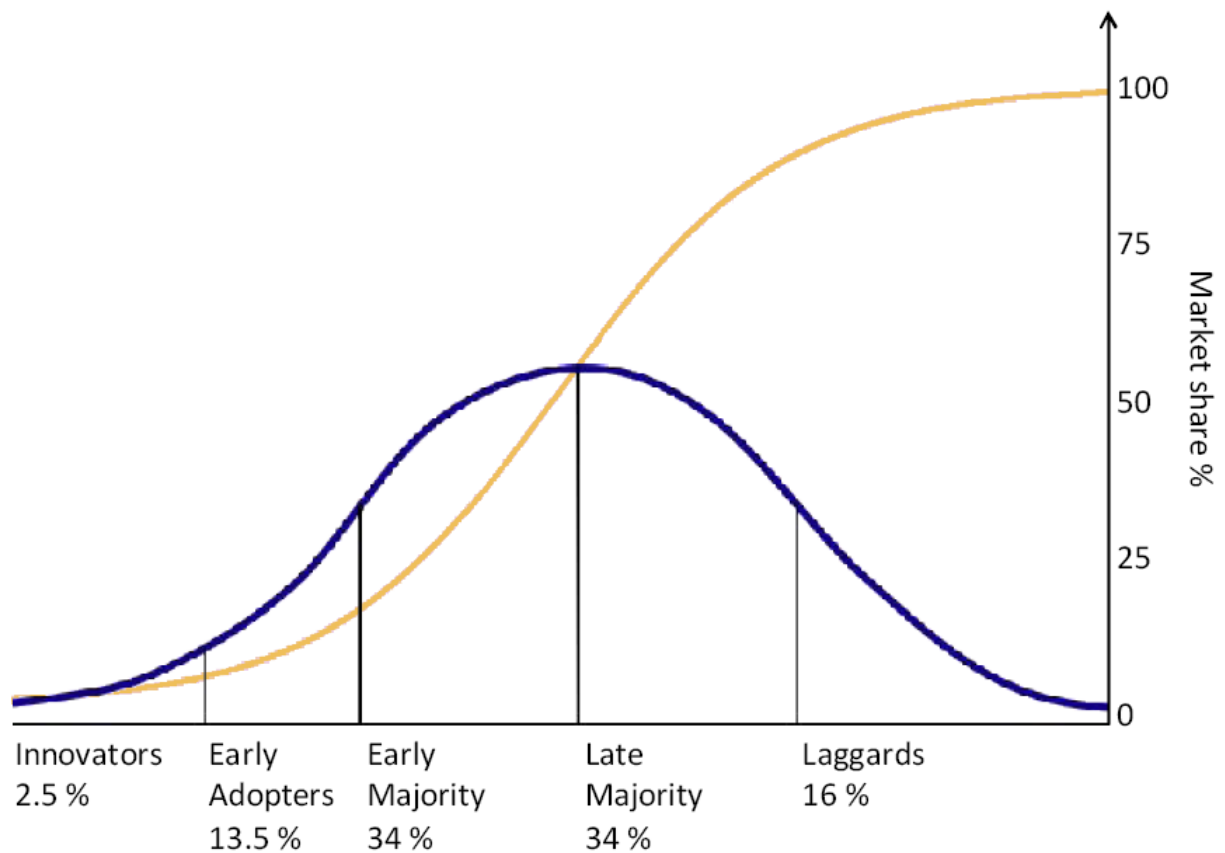new idea – innovation, communication channels, time and social system.

Figure 6: Diffusion of Innovations

——Wikipedia, 2009

The mechanism of diffusion includes five stages in the process of decision making:

Knowledge, persuasion, decision, implementation, and confirmation. "Knowledge" is the stage

of information acquisition, where an individual is introduced to an innovation of which they have

no information and thus no interest in. In this stage, mass communications function as the major

channels to inform people of the knowledge of and disseminate messages about the innovation,

raising awareness of its novelty. During the second stage "Persuasion", an individual is familiar

with the new concept/product, and starts to form an attitude toward the innovation. In this stage,

interpersonal communication is playing a critical role in affecting an individual's point of view, since most people tend to prefer peer recommendations (Peer) as well as high credibility peers (opinion leaders). When an individual acquires enough knowledge on an innovation and forms a positive attitude towards it, they begin to weigh in pros and cons, actively seeking for information that might lead to their "decision" on whether to adopt or reject the innovation. The following stage "implementation" is where the innovation is used by the individual in various conditions to different degrees to determine its usefulness. In the last stage of the diffusion process, "confirmation", the individual evaluates their decision of the innovation adoption, where positive confirmation may lead to further use and information searching of the innovation.

For labels and artists, the omni-connected environment of digital media can be used as an ideal platform to encourage the diffusion of innovation and spread their projects to a massive audience. Prior to the release of an album, labels and artists start promoting the album to all kinds of mass communication channels such as magazines, television, newspaper and pushing singles to the radio stations. This is where mass communication takes the stage to distribute the information on the upcoming release like the name of the artist, album name, release date, etc., and raise awareness among fans. However, labels and artists have started to give more attention to the new media – social networking sites in particular, and leverage them to connect with their fans. According to an Arbitron report, more than half of Americans have an account on at least one social networking site, and one in four users follow companies' or brands' profiles (The Infinite Dial, 2011). With their huge number of users, social networking sites such as Facebook, Twitter, Myspace, etc. can be utilized to disseminate information to the largest audience possible.

Following the release of the album, labels and artists put more efforts into promotion trying to persuade people to purchase their works. Since the persuasion process attaches importance to interpersonal communication, labels and artists can take advantage of the fact that people are more inclined to being persuaded by their peers, and make full use of the asset that is their "Followers (or Fans)" to let them spread the word to persuade their friends/followers and further friends/followers of their friends/followers. These people are innovators and early adopters in the process of diffusion, who have very close contacts to the sources and are highly active in information seeking and willing to take the risk of embracing the uncertainty. In the music scene, they are usually comprised of diehard fans of artists or a certain genre who most likely appear to be the opinion leaders and can influence to other people's decisions.

Getting people to like your music is one thing, but having them decide to pay for the album is another and not an easy task. According to Rogers, an innovation has five attributes that can impact an individual's decision of adoption, which also applies to the musical works of artists. 1) Relative advantage: By adopting the innovation, an individual gains advantage compared to the older models. In case of musicians, this refers to how the album sounds compared to their own previous albums or their peers' works. For fans the possession of a new album may represent an advantage to others who do not have the album. 2) Compatibility: How the innovation is related and used in an individual's life. The genre, lyrics, themes, voice of an artist, and even the stories behind the music can all become a determinant factor leading to an individual's adoption decision. 3) Complexity: The difficulty of using the innovation. The less complex the innovation, the more widely it will be used. This translates to the reduction of friction in the process of

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accessing to music. Artists, labels and retailers can make this process easier by improving and expanding their distribution channels. For example, if someone lives in an area where physical copies are hard to get or unavailable, they could always get CDs from online retailers such as Amazon and Wal-Mart, as well as on the musician's official website where the purchase process is made simple, fast and secure. Digital formats are also be available to purchase directly from musician's website and digital retailers such as iTunes Store. 4) Trialability: It is important for the potential consumers to try out the innovation to see the necessity of the product. Thus apart from airplays and TV performances through traditional media, it is necessary for labels and artists to offer online streaming and free sampling of the music on such social networking and video sites as Myspace, Facebook and YouTube, giving the potential consumers a taste of the works to help them with the decision on future investment. 5) Observability: The level of visibility of an innovation. The more visible it is, the more likely it will drive communication among the members of the social system and produce more feedback. Due to the rapid spread of new information and communications technology, the new music economy is "characterized by high connectivity and little control" (Wikstrom, 2009) where the promotion of music highly depends on people's recommendations throughout the entire Internet. By stimulating word of mouth among fans and getting more people informed, labels and artists could enormously increase the visibility of the album, which can result in better sales.

For people who have been converted from "intrigued" to consumers, they would listen to the album repeatedly, whether in entirety or just certain songs depending on the mood they are in. Since music is more of an experience than a product, it can easily arouse empathy in the listeners,

and likely lead to their searching for more information on the album and artist and possibly the artist's past works.

Finally when a consumer confirms their adoption decision, it is very possible that they would be converted to fans. These consumers would actively discuss the music and artists with their peers and help with the promotion of the album on social networking sites and blogosphere. Consequently it would further increase the visibility of the album, and influence other people's decision of adoption. As time passes by, the adoption curve reaches critical mass, a point where the number of music consumers is sufficient for the adoption to become self-sustaining, where it would continue to grow by itself (Henrich, 2001).

The interaction and engagement between artists and fans as well as between fans themselves enabled by social media have prompted a lot of social music websites in recent years. There are online streaming services such as Pandora, Grooveshark, Last.fm, music subscription services such as MOG and Rdio, and social networking sites like Myspace which are dedicated to connecting music fans and artists. The world's largest social networking site Facebook has also rolled out its music feature in September, 2011 (Siegler, 2011) which enables its users to share and listen to music with their friends. It is a partnership with various music services, among which the most intriguing one is Spotify, a Sweden-based music subscription service that launched in the US on July 14 of the same year. (Spotify, 2011). Due to the important role that music is playing in people's daily lives, Internet giant Google is also on its way to release its music download service Google Music Beta that it plans to integrate into its own social networking site Google Plus (Wasserman, 2011).

A Case Study of Turntable.fm

Among all kinds of old and new social music services, Turntable.fm has become the most buzzed-about phenomenon in the industry. The website, whose presentation takes the form of cartoons, allows everyone to join or create a room on their own and act as one of the five DJs with a laptop who take turns to play music related to the theme of the room, with the DJ playing being highlighted by a spotlight. By acting as DJs, people an accumulate DJ points given by Fans and trade them for bigger and more conspicuous avatars. People in the room as Fans, whose avatars are facing the DJs so that only their backs can be seen, get to rate the music by using the meter at the bottom of the room and have real-time conversations with DJs as in a chat room. There are links to every song played or being played for Fans to look for more information on other sites or purchase the song from iTunes Store and Amazon MP3 Store.

Turntable.fm hugely brags about one of its most prominent features, the ability for users to interact with their friends. In order to use the service, people have to connect to their Facebook account. Once logged in, the website would put the rooms with Facebook friends in to the top of the list of countless rooms created by its users. People can join rooms by music genres and engage with other Fans and DJs, discover and rate music, or become a DJ themselves. This is an ideal place for them since Turntable.fm exaggerates the "fun" element in music and encourages people to share their music taste with friends and other users. The environment is creates a live online club experience, where the process of collecting DJ points is also likened to that of collecting badges on Foursquare or awards in any Zynga games. As Glenn Peoples pointed out, the online music streaming service is "more than passive listening, incorporating a mix of social

networking, gaming and online chatting that's perfectly suited for music discovery" (Peoples, 2011). According to the article, the music start-up has attracted over 371,000 monthly users in July 2011, only two months after its launch.

Due to the multiple interactive features and characteristics of Turntable.fm, the service can cater to music marketers', especially indie artists' needs, to gather as many fans as possible and reach out to a new niche market. Since Turntable.fm is closely associated with Facebook, before hosting the room, artists can start sending out invitation to their followers on Facebook and Twitter, as well as the information of the event including time and room name. Followers can then act as the broadcasters, spreading the word out and extending the invitations to their friends and followers. When holding the event, artists should fully leverage the "chat room" function to interact with their audience. Because the artists and fans are in the same room and online at the same time, they can talk to fans without lag, which is most common in the interaction on other social networking sites. By having the real-time conversations, artists can know their fans' reactions and respond to them in the first place. "We were able to have a steady dialogue with our fans without having to set up an elaborate Q&A format…Hopefully it made our fans feel cool they could interact with us so easily", said Andy Hull, the front man of Manchester Orchestra in an interview with Mashable after holding a party on Turntable.fm for four hours (Ehrlich, 2011). Fans are more stimulated when they feel they are able to connect with artists in real time. In regards to the interaction with fans, the Mashable article also suggested that artists play other songs they like to create a more cheerful atmosphere in the room.

Another advantage of having the chat-room like dialogues is that artists can listen to what

fans have to say about the music played and get a general idea of how the market would react to it. Guster, a pop band active in the industry for nearly 20 years, have decided on Turntable.fm as the platform to debut their new material (Guster to debut…, 2011). When explaining why they chose to debut their first self-release work in 14 years on the service, lead singer Ryan Miller said "mostly because it feels organic". By holding a listening party for brand new material, the band make the fans feel special and privileged to be the first to hear the songs and can see their reactions. Because people are easily affected by their peer's opinions, it is also very important for the artists to maintain a positive environment within the room. Other than playing cuts from upcoming projects, artists can put to the test their material in the work, and let the fans decide whether the song is suitable to make into the next album. The way in which fans are able to engage in the "making" and "decision" process could enormously increase their activeness as well as the conversion rate.

Turntable.fm in the meantime can be used as a place for discovering new artists. Talent agents and labels do not have to search across the country for talents by visiting every bar and pub and asking people about the popular local bands and musicians. With the service, all they have to do is look at the popularity of the artists on Turntable.fm, and contact the artists directly through the service. They can also recruit talents by creating exclusive rooms to let people take the stage and play their works.

The huge potential of Turntable.fm in the music industry has attracted investment from big names in the industry such as Lady Gaga and Kanye West, who contributed to the $7.5 million financing round in late July, 2011 (Shontell, 2011). Although the New York-based start-up has

stirred up some dispute about its legality, it configures itself as "non-interactive" webcast service which does not require a license from labels under Digital Millennium Copyright Act (DMCA) (Kafka, 2011). By its definition, a user of a non-interactive webcast service, such as Pandora and Turntable.fm, cannot play music on-demand and cannot know the name of the next song. However, the company is seeking to expand internationally and is in talks with major labels over license agreements (Levy, et al., 2011). The premise of possible legal agreements with record companies can be an advantage for the social music service against its competitors.

For more and more labels and artists, social networking sites have brought a broader range of connection, interaction and engagement with fans, who in the meantime appreciate the ability to come close to the artists online. Without geographical and time barriers, it is easier and faster to reach a larger audience, build trust between artists and fans, and establish loyalty, which would eventually lead to the increase of sales of music.

Outlook – A Brand Building Strategy for Artists

With digital platforms becoming more and more accepted by a wider population, artists and labels are starting to put emphasis on the new technology to attract a larger fanbase. Based on the research and findings, this section proposes a brand building strategy for both mainstream and indie artists to better leverage social networking sites to establish their online presence, and make a commercial transfer.

Generate Attention

In a digital world where online activities have taken up a considerable part of people's daily, an artist, especially an unknown indie musician, has to have their names established among audiences out on the Internet and be in the center of their attention.

The first step in the decision making process, according to the theory of Diffusion of Innovations, is to disseminate information about the new products using mass communications channels. In this sense, social media platforms such as Facebook, Twitter, YouTube and Myspace, as well as social music networking sites like iLike, Last.fm and Spotify, can be used to reach a large audience to initiate and develop a fanbase. Recommendation systems in those social music sites can help fans find and share their favorite artists and bands. By leveraging websites like these, artists can readily spread their messages to a maximum audience and increase online presence through activities like status updates, free music and video streaming. Social media campaigns with rewards can be created to attract more fans to engage with the artists. The greatest thing about social media for those artists is that communication is multi-directional and messages can go viral: Not only is interaction with fans made easy through these platforms, but most importantly artists can create buzz among fans, that said if the music appeals to someone, it is very likely that they will tell friends about it, and their friends will tell more friends to appreciate and connect with the artist.

Another channel for artist's promotion is mobile platforms. Just like iPads and smartphones, mobile devices are appealing to people's attention with their portability, connectivity, and ease of use. Location-based services such as Foursquare and all kinds of mobile apps are gaining

unprecedented popularity around the world. According to a mobile data traffic survey by Cisco, mobile traffic worldwide has almost tripled in 2010 at 260 percent (Smith, 2011). It is crucial for artists to follow the latest technological advancement and make full advantage of it. Frequent updates via mobile apps and location-based services can help artists interact with their fans anytime and anywhere, sharing news on latest events and tours, and getting feedback from followers in an instant without geographical obstacles. These activities help disseminate artists' messages to a best extent and gain opportunities to appeal to a great number of people.

Provide Content

While indie artists build up their online presence and start to obtain people's attention by engaging in social media, they have to provide content inviting enough to maintain and expand that attention. However interactive an artist is with their fans, what they provide with them is the core of their interests, and it is very important for them to offer their latest works online to share with fans. Twitter and Myspace can be used to update free sampling, and sometimes even free streaming of an entire album; self recorded live performances and promotion videos can be uploaded onto YouTube; many of the social music networking sites such as iLike, Last.fm, etc. are exclusive and equally important. Besides providing access to finished works, artists should look for other approaches to engage their fans online, such as including them into their recording process, giving enough incentives and exclusive contents to stimulate fans' interests. YouTube has in September 2011 launched a new music store, The Merch Store that allows artists to sell "digital downloads, concert tickets, branded merchandise and more" (Indvik, 2011). The

partnership between the online video giant and Topspin, Songkick, Amazon and iTunes has

provided a broader platform for artists to expand their brands and make more besides recorded

music.

In addition, artists can post something else other than music that may intrigue their fans.

Once fans transfer from mere followers to loyal advocates, they start to also care about the

artists' thoughts and lives. In this case, artists should establish their online presence in the

blogosphere, writing blogs about personal feelings, emotions and thoughts, sharing with fans and

arousing empathy among them. According to Dewan and Ramprasad, this online buzz building

approach is more effective for indie musicians in the long run. In their 2009 study, they found

that although the relationship between blog buzz and music sales is almost equal for both major

labels and indie musicians as of recently released music, it is significantly positive only for indie

musicians when it comes to music not recently released (2009).

Commercial Transfer

Although many artists would post their music for people to stream online for free to attract

attention, the purpose is to garner positive online reputation. The ultimate goal is to eventually

commercialize their works by selling either recording music or tickets to concert tours. At this

point, the artists would look for appropriate media to distribute music. As is pointed out by

Anderson, one of the driving forces of the Long Tail is the power of digital media, enabling

anyone to publish anything online. There are many websites such as CDBaby and Tunecore

which provide channels to submit music onto iTunes Store and other digital stores for fans to

purchase. Websites such as Songkick are places where people can track their favorite artists'

touring information around the area and purchase tickets online. All other online presences –

Facebook, Twitter, YouTube, Myspace, etc.- can contain a link redirecting fans to the artists'

official website that acts as an aggregator of the artists' detailed information, official

announcements and online store. Fans can then buy music, purchase tickets to the tours and get

other customized products.

In the process of commercialization, fans' loyalty proves to be a critical factor. Through

constant interaction with artists, some followers would start to develop loyalty to the artist and

can act as advocates. This is where they will broadcast their favorite artists' every announcement,

recommend their music to other people, and help promote tours in local places. These online

supporters have better chances in persuading their connections and helping transfer them to

actual consumers.

Crowd sourced funding is another way of utilizing fans loyalty to help commercialize.

Kickstarter is such a website on which the artists or event organizers set a "pledged goal" for

their projects and call for people's action to back up the projects, such as album release, tours, art

exhibitions, etc. A standout example in music is the touring project by singer-songwriter Amanda

Palmer and her husband, renowned writer Neil Gaiman. Their West Coast tour raised over

$65,000 in less than 48 hours after its launch on Kickstarter, way over their pledged goal of

$20,000 with 24 days to go (Olmstead, 2011). Another website that leverages the power of

crowd-sourcing is PledgeMusic (PladgeMusic, 2011), which allows artists to create customized

content of their own and integrate database from Facebook, Twitter, Myspace and other social

networking sites to engage with fans for pledges.

Some Examples of Social Networking Sites Marketing for Artists

With the fast development of new technology, there are more diverse ways for both indie and mainstream artists to interact with fans and promote their music.

Twitter, the 140-word micro blog platform, is playing a more and more important role in artists' promotion. A good example can be found in Polly Scattergood, a British singer who, while recording her second album, posted raw music samples on Twitter to include her fans into the entire process (Cosco, 2011). By inviting fans to engage in the whole recording sessions, artists not only stay in contact with their followers even when there is no tangible materials to promote and market, but also get to increase the number of fans by providing a different experience for them. Another example is Amanda Palmer, who optimally utilized Twitter to sell T-shirts and initiate an online auction and donation gig, which earned her over $19,000 in a month (Amanda Palmer). Without significant financial support from record labels, indie musicians have started to figure out creative ways to expand their own brands.

Not only are indie musicians looking to find new ways of selling products, mainstream artists and major labels are also exploring online resources to expand their fanbase. In concert with the promotion of her new album *Talk That Talk*, Rihanna has launched a new Groupon-like application called UNLOCKED on her Facebook fan page (Sniderman, 2011). There are thirteen missions consisting the R logo, with each mission getting unlocked one by one when the number of fans liking the page reaches a "tipping point". Since the launch of the project, Rihanna has

gained 1 million new Twitter followers and over 700,000 fans on Facebook. Snoop Dogg, the

hip-hop mogul who has 2.4 million followers on Twitter, engages his followers on the site by

consistently posting his own trends, and rewarding his followers by re-tweeting their tweets. As

Danny Dee Aguayo of Topspin Media said," participation is marketing" (Dahud, 2011). When

immersing themselves in the interaction with their audience, an artist gets to establish a stable

online presence and expand their influence.

Digital vs. Physical Formats

In 1984, the introduction of CDs spurred the growth of the music industry with $4 billion of

sales according to RIAA. The popularity of CDs was a successful transition in the music

business, having proved that people are willing pay for improved sound quality. But the

emergence of digital music, especially the prevalence of digital downloads, has greatly impeded

the sales of CDs due to its physical limitation such as the inconvenience to carry and physical

distribution requirement. Although CD still accounts for the bigger part of album sales, they have

been losing dominance gradually. In the midyear of 2009, the CD share of total album sales has

slipped to 77% from 94% three years ago (Sisario 2, 2009).

For record labels on the issue of digital downloads and CD sales, what embarrasses them

most is when they succeed in promoting a particular single so as to get a push for an album, the

high downloads of the single can impede the sales of the album—since consumers can purchase

a single song, they would not bother to buy an entire album (unbundling effect). The best

example can be found in Fergie's The Dutchess album, which generated five 2Xmulti-platinum

singles (1 platinum means 1 million copies sold) but sold only 4 million in itself (RIAA). As heavy as promotions are, the companies could not predict whether the single would prevail, or how popular the single could be that it may influence the sales of albums.

The new media technology has been a disruptive competitor for traditional music business by "widening or eliminating the gateways that industry once exclusively, and profitably, maintained" (Burkart & McCourt, 2006). The music industry no longer focuses only on generating dollars from CD sales, a stable and well-understood business model in the early days(Krasilovsky et al., 2007). It is looking for ways to sell music by adding extra content to CDs (e.g., mini magazines, enhanced CDs), creating pop stars through talent shows (e.g. American Idol), attracting an older audience who is less tech-savvy than younger consumers and tend to purchase physical CDs (e.g., Barbra Streisand, Susan Boyle). Record companies are beginning to promote online through various social networking sites, content providers such as YouTube, and even starting up their own online content distributor (e.g. Vevo). Traditional retailers also seek solutions online. The new communications technology is forcing players to create a new approach to make money.

Conclusions

Despite the fact that music sales have dropped in half in ten years, digital music sales are climbing at an increasing rate. According to The Nielsen Company, US overall music sales have seen their first increase in six years, a 7.2% increase after three quarters in 2011, thanks to the consistent growth of digital downloads (Christman, 2011). It is also predicted that in 2012, digital albums sales would surpass that of CDs, and bring the total sales to $5.5 billion by 2014 (Melanson, 2011). With social networking sites growing at an unprecedented speed, the music industry is starting to leverage their advantages to help recover the vitality of the market.

By reviewing and researching some of the recent studies, this thesis explores the positive relationship between artists' and fans' online activities and music sales. The thesis also expounds on three motivating questions. In the first motivating question, the impact of Internet on music sales has been analyzed, and two of the most criticized reasons file-sharing and unbundling are investigated. Many studies examining the effects of file-sharing have found a negative relationship between the use of the technology and music sales. Product unbundling also has a negative effect on music sales by splitting sales from albums. However, the uptake of digital music legal downloading has exhibited a positive potential for the industry. People's online activities are then analyzed in the second motivating question. Since the Internet has provided a near limitless space for music distribution and storage, people are faced with infinite choices and begin to discover new music using all kinds of social music services. In the meantime, online chatters such as peer reviews, content sharing, and music blogs have significant effects on music sales. In the third motivating question, Diffusion of Innovations is analyzed, followed by a case

study of Turntable.fm that suggests that music labels and artists can utilize its characteristics to help distribution and marketing. A brand building strategy for artists is presented at the end of the thesis, giving advice and examples on online marketing.

This thesis propounds that music sales are positively affected by people's use of online services such as social networking sites, music blogs, and music streaming, etc., while, at the same time, it offers some recommendations for artists and labels in regards to the marketing and promoting in the digitally connected time. However, negative effects of the Internet are also manifest on the current music business, believed to cause the reduction of both sales and number of musicians. Future research should focus more on both positive and negative effects, and make further suggestion for artists and labels on online marketing and promoting through these platforms.

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