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## CULTURAL VARIETY AS MUSIC BUSINESS STRATEGY: ENRICHING THE REPERTOIRE OR PANDERING FOR PROFIT?

As communications, free trade, and digital distribution networks shrink the world and allow music with the highest commercial value to dominate, it is logical to assume that so-called “cultural diversity” is threatened.<sup>1</sup> However, the potential to unite the goal of discovering new repertoire and the goal of making a profit, will allow the music business to continue to assert its creative autonomy<sup>2</sup>, and music to retain its power as the most personal of the arts.

The commodification of music – that is, the treatment of music as a product – is not necessarily a bad thing. Similarly, strategic business planning for music as a product that crosses borders is not inevitably the enemy of natural cultural evolution.

### DEFINITIONS OF CULTURAL VARIETY

I start with four definitions of cultural variety. First, cultural variety means establishing a unique identity within what cultural anthropologists identify as “cultural universals”. Examples are music, courtship, language, ethics, family feasting, food taboos, property rights, and trade.<sup>3</sup> (A longer list is on the handout.) All around the world, separated societies have different – but recognizably similar – practices for these “universals”.

In a second definition, cultural variety means that trade (the last item on the “cultural universals” list) has connected societies. Today, bi-lateral

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<sup>1</sup> This is the unrevised text of the conference paper. The only addition is the footnotes. Please refer to the handout that accompanied the paper.

<sup>2</sup> See Catherine Moore, “A Picture Is Worth 1000 CDs: Can the Music Industry Survive as a Stand-alone Business?”, *American Music*, 22:1 (2004), 176-186.

<sup>3</sup> George P. Murdoch, “The Common Denominator of Culture” in *The Sciences of Man in the World Crisis*, ed. Ralph Linton (New York: Columbia University Press, 1945), p. 145, cited in Warren J. Keegan *Global Marketing Management*, 7<sup>th</sup> ed. (Upper Saddle River, NJ: Pearson Education, 2002), p. 70.

and multi-lateral trade agreements aim to bring the world closer together and stimulate economic growth. Sometimes cultural goods and services are protected in these agreements, sometimes not. Sometimes, to quote Sheila Copps, Canada's former Heritage Minister, "Trade policy has hijacked cultural policy." She added, "Culture is not a sub-set of trade."<sup>4</sup>

AS A SIDE NOTE: Australia and the United States have just negotiated a bi-lateral Free Trade Agreement (signed on May 18, 2004 and currently under review for ratification). Many terms related to electronic commerce are defined in the Agreement, the first between the USA and a developed country since the 1988 FTA with Canada. I encourage you to look at how terms such as "electronic commerce", "digital products" (now a hybrid product-service), "customs duties" (on digital products), and "online consumer protection" are formally defined. The Australian government website address is on the handout.

In a third definition, cultural variety means individual choice for both artistic producers and consumers. Such choice is aesthetic and commercial. Aesthetic choice is apparent when an instrument from Bali is used in Brooklyn or a language sounds like English, but isn't intelligible to English speakers.<sup>5</sup> Commercial choice means being able to shop for (and buy) a very wide range of goods and services.

My fourth definition of cultural variety is cultural originality. This is different from the first definition (establishing a unique identity) because originality has the added meaning of creating something new. Cultural originality feeds the culture industries – of which music is one – with the lifeblood of new products and services that any industry needs to survive. What conditions are necessary to foster originality? Interestingly, Claude Lévi-Strauss's answer – in 1978 -- cautions against *too much* cultural exchange: he wrote, "In order for a culture to be really itself and to produce something[,] the culture and its members must be convinced of

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<sup>4</sup> Author's conference notes, New York University Conference, "Culture in a World of Trade", March 3, 2000.

<sup>5</sup> Cece Cutler, "'*Chanter en Yaourt*': Pop Music and Language Choice in France", *Global Pop, Local Language*, eds. Harris M. Berger and Michael Thomas Carroll (Jackson, MS: University Press of Mississippi, 2003), 329-348; and discussion of the "English" sound of Kriol in Australia, Mark Abley *Spoken Here: Travels Among Threatened Languages* (Boston: Houghton Mifflin, 2003), especially p. 33.

their originality ... It is only under conditions of under-communication that it can produce anything.”<sup>6</sup> In our incessantly over-communicative 21<sup>st</sup> Century, these words pre-figure a dearth of originality.

## OBJECTIVES OF CULTURAL VARIETY AS A SOCIAL STRATEGY

By any of these four definitions it is commonly asserted in developed countries that cultural variety is good: it has an intrinsic value. For our purposes today, however, looking at abstract value is not enough because we need to examine the relationship between cultural variety, strategy, and the inherent objectives of a strategy.

As a social strategy, cultural variety on a global scale is either the greatest wealth of humankind or the biggest obstacle to universal harmony and prosperity. It is the former because it celebrates rich differences and preserves history. It is the latter because cultural variety’s differences limit communication. As a social strategy, cultural variety on the global scale preserves boundaries. Its objective is to maintain differences.

By contrast, cultural variety on the local scale is an open social strategy that allows – nay, encourages – the import and export of new ideas. In Utopia, this is easy – just open the doors and windows and airports, and let everyone come and go carrying their luggage of language and music and dancing and religion and politics and prejudice and fear and hatred. Ah, it’s not Utopia after all. As in free trade agreements, free and open societies need some controls.

Every one of us lives in a locality. As Mark Abley writes in *Spoken Here* (his book about endangered languages), “No one has yet figured out how to be a citizen of the world and only the world.”<sup>7</sup> Because cultural variety presents us with difference, people feel both threatened and exhilarated. Learning a new language opens the mind (or distorts the message). Hearing a new type of singing attunes the ear (or drives us to

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<sup>6</sup> Quoted in Abley, *Spoken Here*, p. 275; Lévi-Strauss, “‘Primitive’ Thinking and the ‘Civilized’ Mind” in *Myth and Meaning* (Toronto: University of Toronto Press, 1978); Abley does not give the page reference.

<sup>7</sup> Abley, p. 270.

distraction). The objective of cultural variety, as a social strategy on the individual scale, is to teach.

## OBJECTIVES OF CULTURAL VARIETY AS A MUSIC BUSINESS STRATEGY

As a *business* strategy, the objective of cultural variety is to generate curiosity and spur commerce. Cultural variety opens new markets, sells more things. Companies can also benefit from what Gary Hamel and C.K. Prahalad (authors of the influential book *Competing for the Future*) call “genetic variety”<sup>8</sup> inside a company. Firms and industries that increase their genetic variety will succeed in capturing the future because they will have a variety of viewpoints to draw on as they face increasingly unanticipated change and non-traditional competition.

In business, variety of ideas may appeal (for the reasons Hamel and Prahalad espouse), but an unvaried formula that guarantees earnings is hard to resist. The five major record companies who collectively sell over 80% of the world’s music want formulas that lead to the high-volume hits they need to stay in business.

Record companies need a few big volume hits if the objective is chart position (measured in unit sales). However, if the objective is revenue, then sales can be across many, many recordings, with aggregate volume measuring success. It would not matter whether the recordings are old, new, classical, funk, bebop, “chicha” or “Bailanta”<sup>9</sup>.

Another business objective is innovation. But something that is too original – that is, untested in the market or just plain strange – often will not be attractive to a company. Embracing originality requires risk-taking, something about which firms (and industries) have different levels of tolerance. Another business objective is to offer customers choice.

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<sup>8</sup> Gary Hamel and C.K. Prahalad, *Competing for the Future*, (Cambridge, MA: Harvard Business School Press, 1996) pp. 56-60.

<sup>9</sup> “Chicha” is a Peruvian fusion genre from the early 1980s that combines Andean and tropical music and emerged years later in Argentina as the commercially booming “Bailanta”.

## MUSIC AS TRADE COMMODITY

As I said earlier, the commodification of music is not necessarily a bad thing. It is easy to cast business as the enemy of music, but business has aided the creation and spread of music for centuries. Today, the industry expansion vehicle of big multi-national hits is being eroded by consumer resistance to high CD prices, the availability of music (song by song) on the Internet, legally or illegally, and the ease of copying on a CD-burner<sup>10</sup>. Furthermore, supporting music that does not trade easily around the world appears to be in conflict with the merger expansion strategy of the multi-national record labels. Some mergers were disallowed by international regulators, although the Sony-BMG merger (which will create the world's largest record company) has just (in June 2004) been cleared by the EU.<sup>11</sup>

Notwithstanding the apparent global marginalization of "music that does not trade easily around the world", in many countries local repertoire is strong – worldwide growth of local repertoire rose from 58% of total sales in 1991 to 68% in 2000. But if local music is strong, then where is the incentive to cross borders? Cultural variety strategy isn't necessary if local music is what people want. However, if local markets cannot generate enough unit sales, major music companies will reduce their support for local artists. In mid-June 2004 "BMG [owned by the German company Bertelsmann] said [...] that it would not renew recording contracts for up to 60 percent of its German artists because their CD's had failed to sell more than 25,000 copies".<sup>12</sup>

## IS THE EMERGING MASS-CUSTOMIZATION STRATEGY LOCAL OR GLOBAL?

I now turn to the question: Is the emerging mass-customization strategy local or global? (And refer you to the short glossary on the handout.) The smallest unit of local perspective is the individual, and the emerging mass-

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<sup>10</sup> Although within the past month -- June 26, 2004 -- the number one album on the Billboard chart, Velvet Revolver's *Contraband*, RCA \$18.98 has copy-protection; first time a copy-protected CD has topped the US charts.

<sup>11</sup> Emmanuel Legrand, "IFPI: Sony-BMG Would Be No. 1", *Billboard*, June 26, 2004, 5; 91.

<sup>12</sup> Nicola Clark, "European Labels Hope Piracy Succumbs to Digital Services", *New York Times*, June 21, 2004, C9.

customization strategy is fundamentally a local strategy. Large companies are good at serving mass markets. But large companies are now learning to serve small markets (even individuals), and the music industry should seize its advantage as the conduit for the most personalized art form. It is important to understand that the record labels no longer have the monopoly as distributors of music. It is also increasingly difficult for them to turn music lovers (i.e., almost everyone) into customers (i.e., record buyers). Happily, however, as Warren J. Keegan points out, “Marketing, for the first time in history, can address the individual customer.”<sup>13</sup>

The importance of the Internet provides the business incentive for music companies to harness the wealth of the world’s music. Even when advertisers will have to pay a fee to send ads via e-mail, the costs will be manageable for companies of many sizes and for artists who choose to sell directly to their fans. Computer companies such as Apple and RealNetworks are now providing a model so that consumers can buy music via the Internet.

The powerful business infrastructure created – pre-Internet – for the multi-national mass distribution of superstar acts may well be in its last decade as the primary distributor of all types of recorded music. In its wake churns a listener expectation for music on demand and demand may prove to be the catalyst that spreads untarnished cultures widely in ways never before possible. Reached through micro-marketing, individual listeners whose local environment cannot produce the music they demand will have the means to define – and preserve – their personalized cultural variety. We tend to think of global perspectives being more complex because they are bigger. I suggest that it is the local perspective that is more complex because it is smaller and more customized.

#### PAIRS OF POLARIZING (OR COMPLEMENTARY) CONCEPTS

Global and local perspectives form one of the “pairs of polarizing (or complementary) concepts” I include in the handout to encourage non-polarized thinking. That is, thinking about how a pair might co-exist, connect, help understanding, and lead to good strategic decisions. Let’s look at the “culture industry” and “media industry” pair. If we characterize the music industry as a culture industry, the goal of repertoire enrichment

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<sup>13</sup> Keegan, *Global Marketing Management*, p. 538.

fits well with assertions of the value and benefits of cultural variety. However, if we characterize the music industry as a media industry, the objective is big hits and short-term profits. Thus, media and culture industry types seem polarizing. But they co-exist, even within large music companies that support transient opportunistic hits and enduring classics of many genres.

#### MUSIC COMPANIES AS BOTH “CURATORS AND PARTY PROMOTERS”

Another pair of “polarizing (or complementary) concepts” brings together an odd couple: the party promoter and the curator. I got this idea from a *New York Times* review of Barcelona’s Sónar music festival, which “has become one of the world’s best [...] by seizing on [the] convergence of art-world pretension and dance-floor pragmatism. The organizers are at once curators and party promoters.”<sup>14</sup> This is a very apt characterization of the music industry.

In its 100+ years, the record industry has built a rich catalog. What preserves (is the “curator” of) Britney Spears also preserves Australian indigenous music, dance music from Peru, Beethoven, and all other varieties of music. The curator no longer handles only physical goods: the Internet unexpectedly offers the music curator a permanence never before possible, in the form of vast “digital jukeboxes” of music on demand. The central strategy of the music industry is to enrich the repertoire. However, one central characteristic of the computer industry – which controls the music industry in the digital environment – is planned obsolescence. The strategy of planned obsolescence is completely antithetical to the central nature of the music industry.

Notwithstanding the success of the music industry as a curator, the “party-promoter” face of the music industry is also essential, and that’s why the music industry cannot survive without the youth market. I believe that Tyler Cowen’s observation (in *Creative Destruction*, his book about globalization) that “Teenagers are not cultural omnivores [because] [t]hey go to see the same movie many times in a row or listen to the

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<sup>14</sup> Kelefa Sanneh, “Techno Beat (And Bjork) At Barcelona Dance Party” *New York Times*, 16 June 2003, E1; E7.

same album repeatedly”<sup>15</sup> is already out of date with regard to music, even though the book came out just two years ago.

Certainly college students (or people 17 or 18+ who live in a modern urban environment) *are* omnivorous, and Cowen’s assessment of teenagers predates iPod and the new “playlistism” phenomenon. Teenagers are “judged, defined and assessed [by their peers] by the type of music that is in their playlists.”<sup>16</sup> Cultural variety feeds the omnivore. The young music consumer is more complex than the industry had hoped. The sheer number of songs in a playlist is now one of the “cultural products that command the attention of peers”<sup>17</sup> But do not forget that these are not songs at all any more; they are a playlist instead, a monolith of aggregated digital information.

#### HOW CAN MUSIC PROFIT FROM THE INTERNET?

I now address the central question: How can music profit from the Internet? The Internet appears to beckon with unlimited possibility. But unlimited possibility is *no* possibility. Music companies should acknowledge the consequences of dependence on the Internet in order to make the strategic decisions that will allow the record industry to survive. This industry sees its survival in terms of the profit it makes. But profit is never enough because it only raises expectations for the following fiscal year. There must be another objective, and if that other objective is enriching the repertoire, the music industry can use the Internet to assure its survival.

We are looking at a future in which each individual consumer is primed to want to expand their “personal repertoire”. However, one consequence of dependence on the Internet is an increasing dependence on software, often in the form of “intelligent agents”, to know the customer. The industry’s increased need to communicate with single consumers will expose musical illiteracy because intelligent agents that keep track of

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<sup>15</sup> Tyler Cowen, *Creative Destruction: How Globalization is Changing the World’s Cultures*, Princeton: Princeton University Press, 2002, p. 117.

<sup>16</sup> Scott E. Cunningham, *The Demise of the Album as a Creative Art Form in Popular Music*, unpublished M.A. colloquy, New York University, 2004, p. 30.

<sup>17</sup> Cowen, p. 117.

purchased streams and downloads cannot *develop* a consumer's tastes; they can only respond to what the consumer already knows about.

Musical illiteracy narrows choice. But cultural variety widens choice, and is the means to enrich the repertoire. The music industry must find a way to widen choice, develop consumer tastes, and thus expand the entire music industry. The industry cannot be dependent, anymore, on technology for new business: it must render the Internet invisible in the eyes of the consumer by putting music in the foreground.

Another consequence of dependence on the Internet is that the planned obsolescence that drives the computer industry will create a very large problem for record companies if it burdens consumers with upgrade purchases. We do not yet know whether downloaded music will easily transfer to future generations of computers, MP3 players, mobile phones and other playback devices. Obsolescence will not be as much of a problem if consumers choose the "cable TV" or music streaming model because those infrastructure upgrades are not directly paid for by consumers. However, if costs to upgrade the communal "digital jukebox" are very high, monthly rates will rise to an unacceptable level and usage will drop. Again, once the music industry renders the Internet invisible, it will be able to take back control from the computer companies.

Consumers determine whether any industry survives or disappears: the music industry faces a situation in which its rich past now endangers its future. It can be argued that there is sufficient recorded music to satisfy all consumers. Nothing new need ever be recorded. The music industry has never practiced planned obsolescence, except in its playback media. Because it did not plan the Internet, it is facing something it *did not create* as a carrier of music. Implementing the four definitions of cultural variety I opened with today -- equating cultural variety with innovation, originality and choice -- is the way the music industry can take back control of its business.

Thank you.