

Welcome to IF Consulting's weekly e-mail newsletter

April 4, 2003

Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

This newsletter is also available as a PDF on our Website (<http://www.i-f.com/E-comLinks02.htm>) if you want to download a version for your hard copy file.

Can record companies face the music?

When Rolf Schmidt-Holtz took over the \$2.6-billion-a-year music division of Bertelsmann, the privately held \$17.3-billion-a-year German media conglomerate, two years ago he cut costs aggressively. He laid off about a fifth of the workforce and abandoned most of the division's once-sacrosanct Internet ventures. He has told his remaining executives to focus instead on compact discs - specifically on developing global superstars who can sell millions of CDs at a time. According to the Recording Industry Association of America U.S. CD sales are down 8.9%. Two other music industry giants EMI and Warner have launched cost-cutting drives too.

Dramatic cost-cutting however does not necessarily translate into the beleaguered record industry is coming to its senses. As online piracy continues virtually unabated, the industry's primary mode of business, selling CDs, is disappearing.

Bertelsmann has not, however, abandoned the Internet completely and has licensed its catalog to legitimate downloading sites like Pressplay and Rhapsody. But BMG Chairman Schmidt-Holtz shows little enthusiasm for the Internet ventures. He thinks BMG should be in the business of producing music, not worrying about how it is distributed.

"What we need are good songs, good records," he says. "I don't care if they are sold by bicycle, by plane, by CD, online. We'll license them to anybody. But I'm not going to run an Internet platform. I have no clue how to do that."

<http://www.fortune.com/fortune/investing/articles/0,15114,433359,00.html>

<http://www.observer.co.uk/business/story/0,6903,914949,00.html>

IF Comment

The music industry has been hit hard by the introduction of digital distribution, paving the way for a new marketing channel: the Internet. This new channel of distribution has been a major cause of music piracy. However, we believe this is not the main cause of the problems the five major players in the music industry; EMI, Universal, Sony, BMG, and Warner Music, have been facing.

The industry has not been listening to its customers. Consumers are not only looking for new talent, but also lower prices. Despite there being more popular artists today than 20 years ago (measured by the number of artist selling over 1 million copies of an album), the industry has consolidated. The Big Five record companies control 71% of the world market, which has resulted in higher prices for new records than ever before. Since the Internet provides



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consumers with lower prices, or "free" music, the threat to the industry is tremendous.

How to solve the problem the industry is facing, and avoid being taken over by Private Equity houses looking to buy "cheap" assets? Look at your marketing channels. Embrace the new digital distribution, even find other new channels and make sure you get your pricing strategy right. Look closely at the profitability of the channel partners, in this case Internet sites, your own bottom line, and the potential increase in sales due to a better pricing structure for the end customer.

Times are changing and this industry needs to take a new view to its marketing channels and pricing strategy. Companies need to keep re-developing their channel strategy continuously.

Snippets

This week in New York Dell Chief Executive Michael Dell and Oracle Chief Executive Larry Ellison announced a partnership between the two companies in a global expansion of an earlier U.S.-based deal. Part of the deal involves Dell reselling software licenses for Oracle's 9i database and application server software all over the world, for Linux.

http://www.forbes.com/technology/2003/04/02/cx_id_0402dell.html

According to a study released this week by the Customer Respect Group (CRG), a research firm that measures consumer online experience and satisfaction with corporate Web sites, airline sites serve their customers better than other types of travel sites.

<http://www.emarketer.com/news/article.php?1002151>

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IF Consulting publishes "Our View", a quarterly review of topical marketing channel issues. Samples are available on our website. To receive "Our View", please return this email with your address details.

To unsubscribe, please reply with "unsubscribe" AND a copy of the email address to be removed.

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<http://www.i-f.com>