Domestic Music Repertoire and the Digitization of the International Music Industry: An Empirical Analysis, 1999 - 2012

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This paper explores factors affecting the performance of domestic music industries in an effort to understand variations in the vibrancy of domestic music production worldwide. It explores effects of media exposure and market structure on sales of domestic music using variables such as market size, cultural proximity of neighboring nations, magnitude of overall music sales, scale of domestic broadcasting, and presence of non-commercial broadcasting. It finds that media exposure is important in markets where high amounts of money are spent on recordings but not in countries with low spending, that presence of non-commercial broadcasting does not increase domestic music sales, that market size affects share of domestic music sales, and that cultural proximity affects sales of domestic music.

The major multinational firms in the music industry operate in more than 50 countries around the world and account for more than 70 per cent of worldwide recorded music sales. Although the "majors" certainly have the capability to develop and maintain world-wide music brands, domestic artists without an international following are also of considerable importance to their businesses. Domestic music repertoire account for close to 50 percent of an average country's total recorded music sales, and on a worldwide aggregated level, more than two thirds of the global recorded music sales were generated from domestic music repertoire.

Domestic music is of considerable importance to the industry, but the specific level of importance varies both in space and in time. First, the percentage of total sales constituted by domestic music ("domestic music share") varies considerably between different countries. In some countries the value is less than 10 percent while in others, it is more than 90. Second, the global sales of recorded music have plummeted across the world since 1999, but sales of international repertoire the loss in sales have been much more severe on international repertoire compared to domestic repertoire. Apparently music created by domestic artists is more resilient to digital disruption than music recorded by artists from countries far away.

The purpose of this paper is to examine this variation of domestic music sales in space and in time. The paper attempts to answer why some specific national characteristics seem to fuel the sales of domestic music and to explore why the sales of international music has declined significantly more than the sales of domestic music during the last decade.

The focus is set on macro-level drivers rather than on those drivers which affect the buying decision of individual music consumers. The nation is the unit of analysis, and hence the study does not look into the variations and dynamics within the specific countries.

Although this study focuses primarily on economic issues, it is recognized that the condition of domestic music industries has significant implications for domestic culture because music plays a significant role in conveying public hopes, aspirations, and discontent. It does so in the native tongue of the population and therefore often plays an important part in cultivating national identity.

The paper suggests four hypotheses, two related to the influence of media exposure on music sales (Promotion of domestic music through domestic media; presence of non-commercial media) and two related to market structure (The influences of market size and cultural proximity to other nations). These hypotheses are tested using the methods and data explained below.

In order to test the hypotheses, a set of variables has been defined and data has been collected from various sources. The study is based on data published by the

International Federation of the Phonographic Industry from 1999 to 2012. The data is provided for 28 relatively advanced national music markets around the world, gathered from industry trade organizations and relevant statistics agencies.

Most of the music business related data for these nations has been obtained from the IFPI's annual statistics reports. Additional data has been gathered from a variety of sources, for instance, population data and GDP data were gathered from CIA World Factbook, public service broadcasting presence from the World Bank, and data on importation of cultural goods from UNESCO.

The paper is able to reject the two media related hypotheses in low-spending music markets. The study further shows that broadcast media is not an important marketing tool in low-spending media markets, and that there is no link between the ratio private/non-private ownership of broadcast media and the sales of domestic music repertoire. The test of the hypotheses in the high-spending music markets does however confirm that broadcast television promotes domestic artists and stimulates domestic music sales. On the other hand, the test rejects the hypothesis that non-commercial broadcast media (public service or state-owned) promotes domestic music more than private-owned broadcast media. The findings from the test actually indicated the opposite, namely that in high-spending music markets, it is private-owned media that is the most influential promoter of domestic music.

The two hypotheses related to how market structural characteristics influence the sales of domestic music are both supported by the study. The correlation is especially high in the case of how a nation's cultural-linguistic dominance affects the sales of domestic music. This result confirms the theories on cultural discount and comparative advantage as useful tools when explaining the varying strength of national music markets. The result also shows that cultural proximity is a useful but complex construct which has very different validity in different contexts. The study primarily used a country clustering schema which has its roots in research on organizational and leadership culture. The findings from the study show that these country clusters do work well as a structure for the popular culture field in some geographies while they are totally irrelevant in others. For instance, in Nordic Europe, where the countries to a great extent share histories, stories, and languages, the flow of popular culture between the countries is merely a trickle in comparison to the surge from the two largest music markets the UK and the US.

Although the music industry is one of the most globalized of the media sectors—with highly concentrated leading firms—domestic music plays a significant role in the industry's activities. The performance of domestic music appears less affected by globalized musical artists exported by the leading firms than by other structural and cultural factors inherent in market size, history, and culture. As the music industry continues to reinvent itself it seems as domestic music will become even more important and that the music firms' capability to develop content and personalities aimed for the smaller market will be key to long-term prosperity.

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