

# An information shock is needed to make firms understand that music is changing

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The music industry, in little more than 20 years, has gone through two technological shocks linked to digitization: first the advent of downloads, which have replaced physical supports, then that of streaming, with the

passage from the possession of a content to the right of access to a catalog. Paola Cillo and Gianmario Verona (Department of Management and Technology), in a study with Paola Zanella (CUNEF University), document that, in the case of streaming, it took an information shock (the inclusion of streaming in Billboard's "The Hot 100" ranking) for the industry to react to the ongoing change, by modifying its strategies.

Billboard is the reference point of the American [music industry](#) (its market information regime). When, on March 24, 2012, the magazine decided to include streaming in its rankings, the authors explain in their article published in the *Strategic Management Journal*, consumption habits had been changing for at least a couple of years, without, however, labels showing changes in their competitive behavior.

"We begin to observe significant changes in strategy only six months after Billboard changed," Professor Cillo says. "It was the information shock that gave companies a more accurate representation of new consumer behavior and triggered their reaction."

The study looks at the behavior of both consumers and [music labels](#) from 48 weeks before the new chart was introduced to 48 weeks after.

By eliminating the costs associated with owning content, streaming allows consumers to take more risks, listening to newer, more niche music than they could have afforded by paying for it (hence the "Whatever You Want, Whatever You Like," borrowed from Status Quo in the paper's title). The inclusion of streaming on the Billboard charts has, therefore, given the industry awareness of an emerging demand for novelty and genre variety.

The response of music labels depended crucially on the breadth of prior experience, i.e., the number of music genres already manned. "Labels with a wider experience were able to respond to the new demand by

further extending their presence in different niches (across-niche proliferation)," Prof. Cillo explains, "while the others were forced either to accentuate the novelty of their productions, if within the niches already manned (portfolio novelty), or to increase their production, but still in the same niches (within-niche proliferation)."

As it turns out, the labels with the broadest experience are the ones that have performed best in the aftermath of the information shock, extending their presence further. The novelty-based strategy yielded intermediate results, while proliferation within already manned niches bombed. "We estimate that a music label's performance differential, before and after information shock, ranged from -23% to +81.8% of revenue, depending on the breadth of its experience and average monthly position in the charts," Prof. Cillo says further.

"Our results can provide important indications not only to the music industry but in general to sectors such as cinema and TV, where changes related to digitization have had an impact on objective rankings, and also to sectors affected by more discretionary and increasingly widespread rankings such as, for example, academia, hospitality, gourmet cuisine, or markets influenced by managerial hot topics, such as [corporate social responsibility](#) or corporate reputation," Professor Verona concludes.

**More information:** Paola Zanella et al, Whatever you want, whatever you like: How incumbents respond to changes in market information regimes, *Strategic Management Journal* (2021). [DOI: 10.1002/smj.3372](https://doi.org/10.1002/smj.3372)

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