

Organizational Reaction to the Digital Revolution: New Product Development in the Music Industry before and after MP3 Technology

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Research Aim and Focus

New Product Development (NPD) is a management research field that has been investigated from a variety of different theoretical perspectives, ranging from organization theory (Brown & Eisenhardt, 1995), to design (Perks et al., 2005), engineering (Krishnan & Ulrich, 2001), and marketing (Hauser et al., 2006). Scholars have also analyzed NPD practices in a wide range of industries such as automotive, micro-processors, pharmaceutical, biotechnology (Crawford & Di Benedetto, 2006). Quite surprisingly, though, management research has often overlooked creative industries as a viable research context to explore NPD dynamics (Markides, 2006).

This paper aims at answering a call to focus on industries where “companies live and die on their ability to continuously bring creative new products to the market - industries such as music and book publishing, Hollywood movies, theatre plays, and art galleries“ (Markides, 2006: 24).

In the music industry, the process of new product development (NPD) involves the research, development, and launch of a new album, by either a novel or an established act. While the process comprises traditional functions involved in the NPD process, such as production and marketing, their role and interconnections have not been significantly highlighted. Since the advent of the MP3, the new technological standard for distributing new albums and songs, the NPD process has undergone a major reorganization, which recalls the “concurrent design” reorganization in the engineering literature (e.g. Ulrich & Eppinger, 2004). A newly created division, the New Media department, has been designed by record companies to adapt to the distribution of music content over digital channels (Bockstedt et al., 2006).

This paper focuses on the NPD process with a dual goal. On the one hand, the research identifies the core changes to the organizational model of new product development that have been brought about by the advent of MP3 technology. By doing so, we aim at shedding light on a granular understanding of the NPD process in industries where technology and innovation have become increasingly important. The specific focus is on the evolution of organizational relations, practices, roles, competences, and resources before and after the “digital revolution” (Bockstedt et al., 2006: 23). By focusing on the introduction of the New Media department on NPD processes, the research allows to investigate the influence of an externally-driven technology on organizational dynamics.

On the other hand, the research draws a comparison between the NPD process in the music industry and the organizational models which sustain NPD efforts in “traditional” R&D-intensive industries (e.g. pharmaceutical, chemical, automotive). The aim is to highlight if, and how, organizational practices from such different settings may mutually inform each other, in order to understand what “lessons” may be learned from both contexts.

Methodology

The research setting for this study is the music industry, which is a revelatory setting for investigating dynamics of new product development for at least three reasons. First, the industry is a hyper-competitive ‘chart business’ (Jeffcutt & Pratt, 2002), in which the achievement and sustainability of competitive advantage depends on the volume and level of product success over a typically short time span. Innovation, in the form of talent discovery and development, lies at the heart of the music industry’s value proposition (Hesmondhalgh, 2002). The continuous renewal of artists’ rosters is a strategic capability that allows companies to manage the underlying unpredictability of consumer preferences and market trends in creative industries (Caves, 2000). Second, the music industry is characterized by extremely high rates of failure of new products, as only 10-15% of new albums manage to break even (Burnett, 1999). Third, the industry has recently experienced dramatic environmental turbulence, caused by the inability to exploit an externally-originated technology, the mp3 compression format (Barfe, 2004).

As the aim of this research is to gain in-depth insights on the organizational processes underlying New Product Development, the research relies on a qualitative framework (see Huygens et al., 2001; Danneels, 2002). A set of 30 semi-structured interviews has been carried out with representatives of major and independent music labels. In order to present a rich and balanced view, informants have been selected across different departments and organizational levels. Direct observation at company meetings has also been relied upon to collect field-notes and observe real-time interactions and decisions. Finally, an investigation of internal documents (e.g. company reports, websites, etc.) and external sources (e.g. industry reports, industry publications, press, etc.) has been employed to provide a sound opportunity for method triangulation and comparison.

Preliminary Results

Preliminary evidence shows that the introduction of the New Media unit has significantly altered the network of inter-departmental relationships within record companies. Initially, the introduction occurred within a sequential approach to new product development, where departments like R&D ("A&R") and Marketing essentially transferred works-in-progress (in the form of music records) on to the New Media unit. The latter was then asked to simply redistribute such content over digital channels. Subsequently, though, the growing importance of digital revenues led record companies to adopt a concurrent approach to new product development, where the New Media unit actively interacts with other departments to jointly define artist selection and development, as well as to suggest avenues for digital business development. Despite initial resistance from incumbent organizational actors at all levels, the fundamental event of introducing a new department has been the very means of increasing cross-functional integration and, consequently, the fluidity of the NPD process (through better communication, joint decision-making, etc.). Moreover, the cross-fertilization of organizational units with novel marketing-related capabilities from the new department, like in-depth customer profiling and segmentation, has led to a significant increase in record companies' market orientation through closer contact with customers. The research presents a detailed account of the evolution of the NPD paradigm from sequential to concurrent engineering, investigating the role of a new unit in driving cross-functional integration (see Marsh & Stock, 2003; Sherman et al., 2005). Evidence from the analysis is then used to enrich the literature on NPD, by analyzing how the lessons from a creative industry may inform extant academic and practitioner literature, which is empirically grounded in "traditional" organizational settings (e.g. automotive, pharmaceutical, computers, etc.).

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