
The Impact of Global Technology on Music Industry: The End of Copyright Regime

Putri Hergianasari,¹ Atyanta Nika Rumaksari²

Universitas Kristen Satya Wacana, Salatiga

(e-mail: ¹hergianasari.putri@staff.uksw.edu; atyanta.rumaksari@staff.uksw.edu)

Abstract

On a global scale, the music industry is currently experiencing declining growth after a significant decline in profits. This phenomenon is common in the era of digital transformation. Based on the EU report (European Commission, 2017) that global technology is changing rapidly. This reflects the desire of humans to do more by finding opportunities to meet their needs. The internet is the starting point for why the global world is changing so fast. One example is the global economic sector. By using the internet, people can search for all digital entertainment content easily without filtering it out. Sharing files on the internet has a negative impact on the music industry's sales the old way. They demand the termination of sharing music through the internet such as Youtube. This paper analyzes the advantages and disadvantages of company-based file-sharing businesses in Indonesia. How the government takes advantage of this business and how the Indonesian music industry overcomes the effects of globalization.

Dalam skala global, industri musik saat ini mengalami pertumbuhan yang menurun setelah terjadi penurunan laba yang signifikan. Fenomena ini umum terjadi di era transformasi digital. Berdasarkan laporan Uni Eropa (Komisi Eropa, 2017) bahwa teknologi global berubah dengan cepat. Ini mencerminkan keinginan manusia untuk melakukan lebih banyak dengan mencari peluang untuk memenuhi kebutuhan mereka. Internet adalah titik awal mengapa dunia global berubah sangat cepat. Salah satu contohnya adalah sektor ekonomi global. Dengan menggunakan internet, orang dapat mencari semua konten hiburan digital dengan mudah tanpa memfilternya. Berbagi file di internet membawa dampak negatif pada penjualan industri musik cara lama. Mereka menuntut adanya penghentian berbagi musik melalui internet seperti Youtube. Makalah ini menganalisis kelebihan dan kekurangan dari bisnis berbagi file berbasis perusahaan di Indonesia. Bagaimana pemerintah mengambil keuntungan dalam bisnis ini dan bagaimana industri musik Indonesia mengatasi efek globalisasi.

Keywords: digital creative economy; business mode; global technology

Introduction

The growing of economic integration as consequence of globalization becoming a hot topic that triggers debate around the world due to it is not yet accepted by some nations since there are countries that experience more negative impact than the positive ones.

There are different views of globalization, Liberalism theory argues that globalization leads to modernization and the fulfillment of human desires for economic welfare and political liberty. Furthermore, advanced technology, legal and institutional arrangement can be an enabler to the establishment of the world-scale market. The liberal theory explains that human being demands goods and services that satisfy their needs.

Political realism views that economic globalization is a consequence of the domination of rich and powerful countries over other countries to maintain its power and domination. This also can be seen as the contest of high country's foreign affair political strategy towards maintaining the political policy so that the integrity and sovereignty of the state is maintained.

Along with this, Marxism focuses on the relationship between socialism and globalization. For Marxism globalization concerns with the stable of production rate, social exploitation through unjust distribution, and social emancipation through the transcendence of capitalism. It also based on the global drive beyond the spatial barrier to conquer the whole global market. Accordingly, globalization happened because of trans-world connectivity

that enhances opportunity and profit-making and surplus accumulation. Marxism tries to anticipate the impact of globalization that should not harm the social life. This is because globalization can lead to a global military campaign that creates military competition between superpower countries. This activity only makes the higher threat and could lead to political tensions between countries.

Globalization is inevitable due to the advancement of technology that has constructed the mentality of people with social world and having the common sense of particular symbol and images interpretation of basic needs. Similar to this concept, constructivism theory concentrates on the ways of social actors construct the new world both within their minds and intersubjective communication. Conversation and other symbolic information exchange are keys for constructing the globalization concept and ideas. With the help of postmodernism thinking, globalization can be shaped well by the help of knowledge. This knowledge shapes hierarchies of power in the countries. Therefore, in postmodernism point of view, all aspect should be based on logic foundation. This condition will lead to cultural imperialism subordinating all other epistemologies. David Held and his colleagues give the view of transformationalism in the middle of the ground of hyperglobalist and skeptical view. They argue that current globalization trends are shaping interconnectedness (Held et al. 2003) This is can be seen as the transformation of spatial organization of social relations that expressed in transcontinental networks, interaction activities and power.

In previous thoughts, there are views of certain factors that really develop certain forces that contribute to the growth of globalization such as technology, institutional building infrastructures, national interest and inter-state competition, capital accumulation, and class struggles, identities and knowledge construction, rationalism, masculinity and subordination of women and cultural imperialism. Accordingly, capitalism tries to invade the market, because the local market cannot absorb the product meanwhile higher operating system is required in addition to enlarging niche market in other countries. In the growth of contemporary globalization, economic is the main reason, because all the theory of needs is linked together in order to meet their needs for a decent life.

With the growth of the internet (ICT), the barrier of communication for generating demand within an intercontinental country could be achieved really easy, therefore the border between countries will be decreased (Ceglowski 1998).

Figure 1, states the concept of economic globalization in the activity between supply and demand. The aim of economic globalization is to increase global inter-linkage of market goods, service, and financing. Factors that contribute to achieving that aim are liberalization between the host country, deregulation that can reduce the risk and barrier to entry, privatization of company which it leads to the self-managed company, declining transportation cost which can be used as the activity that improves efficiency. All

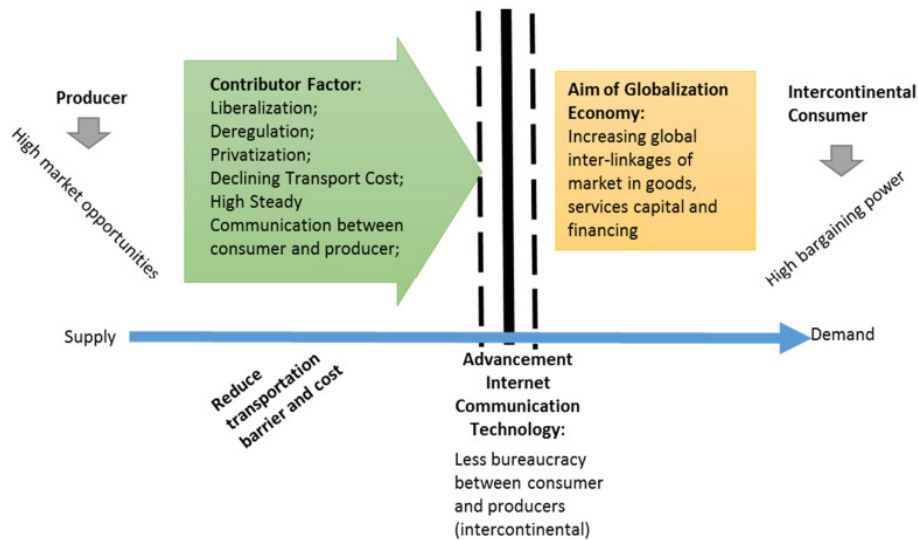


Figure 1.
Concept of Economic Globalization in Supply-demand Activity

those things are made in the foundation of advancement of Internet Communication Technology support (ICT), that will make less bureaucracy between consumer and producers. Figure 1 also illustrates the mapping of the global economic phenomenon that inevitably exists in this world.

Based on constructivism theory that that advancement of technology based on communication or sharing knowledge in the form of data sharing between two or many parties which consistent interest into something related subject, has grown rapidly today. One of them is the emerging of Youtube. Because of this platform, digital content business has changed into more open and modest. As a result, the profit of production houses in physical copies are decreasing. Transaction of data against the law is called digital-shadow-activities. According to Gaspareniene et al. (2016) violation of a regulatory norm using digital-ICT medium is to be called a digital shadow economy. One of them is piracy of copyrighted physical-digital-content CD, DVD, etc. The term of piracy means illegal online activities, such as digital service and trade of products. From it also described the distinctive feature of digital shadow economy which is promptness transaction using the e-space full duplex communication actively and the absence of physical contact between one with another player. The main channel of this digital shadow economy is e-shops with electronic tender or settlement, poker/casino-like-site, e-games, social network, settlement using bitcoins, and other cryptocurrencies, and

advertisement portals. Based on the finding from Gaspareniene et al. (2016) we knew that customers basically have a clear motive that they view it as follows. Consumers are encouraged to get the product by lower price and unfavorable economic opportunities, absence of the desired product in the domestic market, and time cost saving.

Youtube is the most controversy company of this decade because there are numerous labels complain that Youtube is should be deal. The labels are complaining that the deal between label and Youtube and audio services such as Spotify and Deezer pay much higher than Youtube did. They pay \$18 per user annually compare \$1 per user annually, according to IFPI global trade body (Gapper 2016). Besides, Youtube was accused of conducting piracy digital content filtering. Somehow, it is hard to manage where content is legal and not legal. Since it has the sharing platform, the user doesn't need a certificate validation for its digital content. Removing Youtube and similar platform entirely from the harbor will be a problem because the demand of this system comes from consumers, and this is already shaped as the culture for this digital civilization.

The Growing of ICT in Indonesia: File Sharing Technology

January 26th, 2016 MNC corporation launch local file-sharing video called Metube.id. This site contains numerous MNC program contents by collaborating with local TV stations under auspices of MNC group. There was

interesting happened, right before Metube.id was launch, MNC-play-Media, one of subsidiary company of MNC group blocked Netflix platform, a video sharing platform which focuses on movie database. The existence of Metube.id creates competition with video.com, another local video-content-sharing created by PT Kreasi Media Karya. These two big Indonesian companies create another niche market in the video-sharing business. However, Youtube and Netflix are already existed and accepted by consumers with high acceptance level and they already set up a higher barrier to entry. Local video sharing companies collaborate with local TV stations to share local content. With this strategy, they set up different market focusing on people who are seeking up-to-date information within local TV stations and government programs.

Music Industry in Indonesia

Recording music industry in Indonesia is difficult to analyze because there are so many layers on the product delivering a process which cannot be easily tracked. The business model is the same. With the competitive edge of an emerging new production house, it will create severe competition. In the previous

decade where the power of the internet is less influential, they get higher profit in the physical contents such as CD, cassette, laser disk, etc. Nowadays, where the physical is replaced by digital content that freely downloaded and streamed by smart-gadget, profit of physical content is decreasing.

The music industry needs to innovate its business model. This research is analyzing the advantage and disadvantage of file sharing based company in the music industry sectors.

This research uses qualitative and descriptive methodology with emphasis on the trend of digital content video sharing phenomenon of the music industry. Figure 2 below will show the method. This research aims at creating a prediction based on the advantage and disadvantage analysis from the implication of changing business model as an impact of globalization.

Our research focuses on emerging of digital sharing content like Youtube, Netflix, Metube.id, Vidio.com, etc. Our object analysis is the music industry behavior based on globalization implication. We have two distinct consequences, which are an advantage and disadvantage of the phenomenon. The advan-

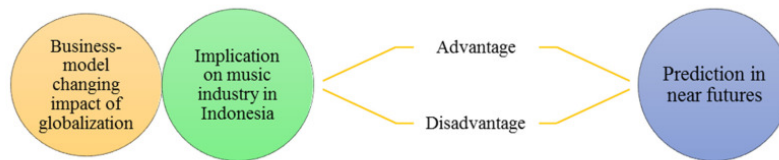


Figure 2.
Proposed Method

tage is telling us about how condition or circumstances puts one favorable or superior position of production house (music company). While, disadvantage is about the reciprocal condition or circumstances that put an inferior position of the company.

The Business Model Changing Impact from Globalization

The business model is the set of assumption in the performance of the organization's activities. Each of the department will share value as the result of intra-transaction within the organization itself (Grasl 2008). The business model also used to identify the characteristics of the company in order to transform raw material into a value-added product to consumers. The business model uses object-oriented foundation to create the system. It analyzes structural and behavior aspects and system dynamic of the value creation. In this research, we focus on how globalization affects the business model. The business model is crafted based upon the company's core business strategy. This core concept is implied within vision and mission. Based on (Noren 2013) there are several components that used to analyze the digital business model.

Figure 3 shows about three categories such as company organization which has two components, first are company boundaries of processing business, as the barrier to entry the market etc. Second is wealth potential within the company organizational structures. Profit analysis is having two components there are

revenue stream and cost structures. These two components are determined by the portion of profit towards the revenue. With minimizing cost structure and optimizing revenue stream will deliver maximum profit. The third category is the linkage of competencies, asset, and process which are managed by the company organization, the link will become a source of action in order to generate the revenue. Globalization can affect the change of these component characteristics. Whenever the component varies from the current business model the revenue stream will be lack, and company or industry need to change the model to fit the environment. It is called as resolution or rapid adaptation toward the business environment.

Implication on Music Industry in Indonesia

Disruption of the music business by internet has changed the industry business model content but unfortunately, it drops significantly. In the previous era, companies dealt with piracy in physical content, however, these activities still can be managed in some ways. But this time, by using the internet all people can enjoy the content, with only using mobile gadget freely and easily. In this component, we will analyze how far the decline of the music industry in term of sales, and what is the causal relation behind this fall.

Prediction in the near Futures

Based on the framework created by Lo et al. (2016), a prediction is created by using measurement of *I-score*, where it first creates the

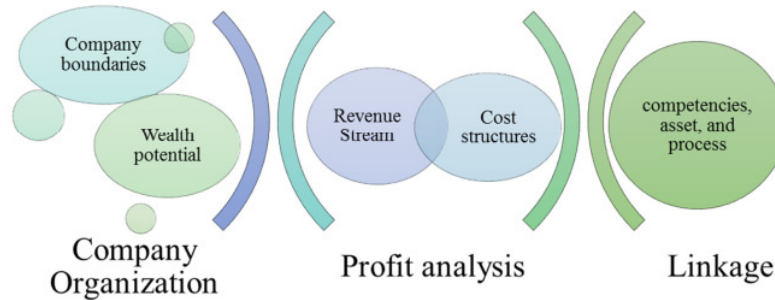


Figure 3.
Components for Analyzing the Business Model

predictive variable (with high prediction). From the finding, the score of the predictive variable has a statistical significance criterion. Because of this finding we pick several criterion based on expert judgment that influence of the future predictions. The changing itself based on the global technology of digital data sharing which is already enough in shaping the business model. The findings that are emphasized by several researchers (IFPI: Recording Music Industry Worldwide 2017) already told us that the music industry market is shaped globally following digital technology platform. This can be stated that the industry growth is driven by investment and innovation based on the changing digital environment.

Global Music Industry

Based on the record (IFPI: Recording Music Industry Worldwide 2017) in 2016 global industry of music record grew 5.9%, that is the fastest rate of growth since 1997. The majority of the market will experience a profit higher than the others. This growth should be viewed as a context that revenue is loosing about 40%

in the preceding 15 years. Today, all the global market already focus on changing business model from physical content to streaming content, with use internet technology as their backbone. Most of the revenue is coming from the streaming (about 60.4%) with more than 100 million users subscribe to the channels. However, the paid-subscriber is still lower than free-subscriber.

The record label is now experiencing digital evolution. Even though they were experiencing the decline, they still nurture and promote artists like before. There is no much change in term of artist nurturing process. Nowadays becoming an artist is easy than before, because Youtube and social media platform meet them very easy to produce a recording with the same standard quality as a professional artist. Along with this content, all recording companies binding up together to create digital licensing music in order to secure the product from piracy and for generating a subscriber revenue stream with more than 50% portion of whole revenue.

Indonesian Music Industry

As previous research, the landscape of the Indonesian music industry has changed dramatically over the years. The music industry is now more competitive. They force talents to pursue quality in order to survive. With the growing number of talents, label companies and music programs, such as Indonesian Idol, The Voice Indonesia, Dahsyat and Inbox, to provide platforms for artists to show and promote their music. Social networks like Youtube, Facebook and Twitter also help promote Indonesian music not only domestically but also internationally. In addition, many festivals are held to promote wider Indonesian music, such as the Java SoulNation Festival and the Java Jazz Festival.

The unfavorable condition is experienced by Lokananta, the largest Indonesian and long-standing music recording with the international standard equipment. This is now considered as the local heritage that needs support. Since it is a local heritage, the government should take a part to preserve this company, seeking a solution to the problem.

Moreover, the world-culture is forcing Indonesian artist to compete, even though they are not prepared to it. This phenomenon, let's say K-pop influence. This is evidence causing the market demand of K-pop is rising in Indonesia, therefore, local artist experience the loss. Using this issue, we can know that increasing market sharing 15% global music industry, is because of this booster.

Based on research by Adityawarman (Putra and Hudrasyah 2012) Indonesian has a lifestyle that more cope into the digital contents by

choosing music product based on the album/songs that they desire. It is resulted in 56% respondent choose based on title preferences. About 52% respondents get the music downloaded from the internet freely, 46.2% get the music from the colleagues, and the rest is from the music store in term of the physical copy. And for the rest that buying physical copy, 82.1% is the fan of the artist. 35.8% from it said that the quality of the physical copy is higher than digital content, 33.7% said that the packaging is interesting, and the rest 13.7% is from recommendation. Live performance is the main reason respondent buying physical content of the new artist (74.8%). Another complementary artist product such as review of the artist is generated 52.7% respondent preference.

Future Prediction

Based on the global environment and its cause we can predict using Lo et al. (2016) framework as follows. Future is already here, when the digital-internet platform is replacing physical platform, therefore, in term of profit analysis, streaming based content with free license will take over the world of music industry. It means the production house need to be prepared and ready to evolve when an encounter with this environment. This analysis is matching with organizational linkage, with more take a note for IT division that acts as an enabler for the products. Government participation must exist to prepare the infrastructure by first, providing clear policies for business activities to take place, while waiting for other physical infrastructure to be available. Figure 4 shows us the relationship diagram from the predicted future business model.

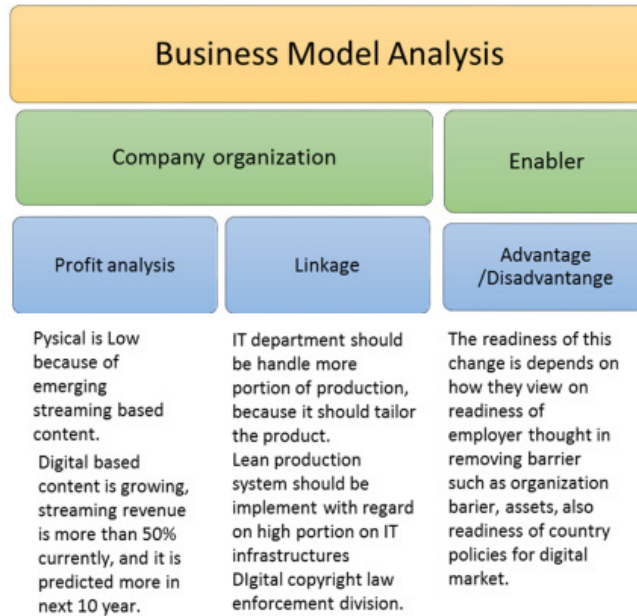


Figure 4.
Business Model Analysis

Conclusion

The Indonesian music industry is facing the effect of globalization in term of technology which changes the music industry's business model. The old business model which focus on physical content should change into digital based content.

Based on the research findings we conclude that the globalization is inevitable, therefore government policy needs to be shaped accordingly in order to make the Indonesian music industry prepared in facing the phenomenon. Therefore, digital content signature should be applied and managed by label company and government.[]

Reference

- Ceglowski, J. 1998. "Has Globalization Created a Borderless World?" *Business Review - Federal Reserve Bank of Philadelphia* (March-April 1998):17-27.
- Gapper, J. 2016. *Financial Times*. Retrieved November 13, 2017 (<https://www.ft.com/content/e874d328-1c43-11e6-a7bc-ee846770ec15>).
- Gaspareniene, L., R. Remeikiene, R. Genevicius, and A. Skuka. 2016. "Critical Attitude Towards the Theory of Digital Shadow Economy: Literature Review and New Foundation." *Terra Economicus* 14(4): 156-172. Retrieved (http://ecsocman.hse.ru/data/2017/01/10/1251072357/Terra_14.4-12.pdf).

- Grasl, O. 2008. "Business Model Analysis: A Multi-Method Approach." Pp. 1–31 in *Conference of System Dynamic Society*. Athens, Greece: System Dynamic Society.
- Held, D., A. McGrew, D. Goldblatt, and J. Perraton. 2003. *Global Transformations Reader: An Introduction to the Globalization Debate*. Malden, MA: Blackwell Publishing Inc.
- IFPI: Recording Music Industry Worldwide. 2017. *Global Music Report 2017*.
- Lo, A., H. Chernoff, T. Zheng, and L. Sha-Wha. 2016. *Making Good Prediction: A Theoretical Framework*. Taiwan: Department of Statistics, Columbia University.
- Noren, E. 2013. "Business Model Analysis." *Digital Business Model*. Retrieved (<http://www.digitalbusinessmodelguru.com/2013/03/how-to-analyze-business-model.html>).
- Putra, Adityawarman Dwi and Herry Hudrasyah. 2012. "An Audience Research in Music Industry: Characteristics of the Fans of Ballum." *Journal of Business Management* 1(2):73–78.