

Economics of Chart Toppers: Market Concentration and Product Variety

Joanna Syrda (University of Wisconsin-Madison, United States)

The entertainment market is unique in the nature of its products. Creative products are experience goods and there is little objective measure of quality. At the same time perceived lower quality is only an imperfect substitute for higher quality, possibly giving rise to Rosen (1981) superstars. Moreover, marginal utility of consumption increases with the ability to appreciate it and share with others resulting in a cognitive or social form of positive network externalities.

Entertainment products are essentially priced uniformly or prices vary within a narrow range, firms typically engage in a non-price competition. In this paper I create a theoretical framework to investigate how firms allocate marketing and promotion funds in two dimensions: (a) across a distribution of exogenously given artist quality, (b) over time with regards to the product release date deciding whether to implement a limited release strategy or a wide release strategy. These choices are driven by product characteristics and market structure. I show that as industry becomes more horizontally and vertically integrated optimal advertising spending becomes more skewed. Firms bet on a small group of artists and turn those choices into success by investing heavily in their development, promotion and leverage distribution power.

Theoretical implications are confirmed by empirical analysis of the US recorded music market which has undergone a significant transformation, from a highly competitive phase in the 1950s and 1960s to a highly concentrated structure at the end of the century. I use Billboard chart data and RIAA data, which to my knowledge is the best approximation of music market dynamics for the analyzed period 1959-1999. As market concentration increases a smaller number of artists make it to Top 100 and there are significant path and success differences for song released by large media group labels indicative of a changing strategy.