CHAPTER I

INTRODUCTION

1.1 Background

Recently, Supply Chain Management (SCM) is an important issue that very popular to be discussed among the developed industries. A supply chain is the set of entities that are involved in the design of new products and services, procuring raw materials, transforming them into semi-finished and finished products, and delivering them to the end customers. Supply chain management is efficient management of the end-to-end process starting from the design of the product or service to the time when it has been sold, consumed, and finally disposed of by the consumer (Lu and Swaminathan, 2015). According to Olson (2012), the most important supply chain processes include product development, procurement, manufacturing, physical distribution, customer relationship management and performance measurement.

Nowadays, SCM has to deal with increased customer demands and global competition at the same time. The evolution of Information Technology practices and techniques is a factor that enabled the integration of supply chains into value systems (Marinagi et al., 2014). For the technological Supply Chain Management, it is also known as Digital Supply Chain (SC). Piera et al. (2014) define Digital SC as the series of processes involving a company and its main partners, managed in an integrated manner with the potential of new technological solutions that allow the planning of processes and objectives and the sharing of information relevant for the entire chain.

In these e-commerce models of Digital SC, the physical product is unchanged but the manufacturer ships it directly to the consumer. In the music industry, the power

once held by the record labels is undergoing a profound shift due to advances in the technology needed to produce and distribute experience goods. Digital experience goods and recorded music in particular may be distributed through one of several channels (Jeong et al., 2012).

The last decades have been seen as a rapid increase in the market share and variety of virtual products. This increase is largely a result of the proliferation of digital platforms for content consumption, as well as the development of the internet as a direct channel for delivering goods and transferring payments (Waelbroeck, 2013). Advances in the Internet and file compression technologies have transformed the way digital products such as movies and music are created and distributed. In the music industry, online distribution channels have proliferated in recent years. The products from music industry can be transmitted via the Internet in the digitized form so that consumers can conveniently choose to download a single song, an entire album, or a customized bundle from websites (Jeong et al., 2012).

According to data from IFPI in 2016, which was published in Global Music Report 2016, Global music revenue increases by 3.2%, with digital product sales overtake physical product sales with 45% of global revenues. Global digital revenues also increase by 10.2%. Streaming revenues increase by 45.2% and now account for 43% of digital sales and global physical product revenue decreased by 4.5%. In Figure 1.1, from 2005 to 2015, the revenue of physical products is decreasing, from US$17.9 B in 2005 and decreased into US$5.8B in 2015. While on the contrary, the revenue of digital products is increasing, from US$1.1B in 2005 to US$6.7B in 2015. In Figure 1.2, in 2015, the revenue of digital products is 45% of the whole music revenue, overcoming the revenue of physical products which has 39%. The other segment of revenue is from performance right by 14% and Synchronization Licensing by 2%.

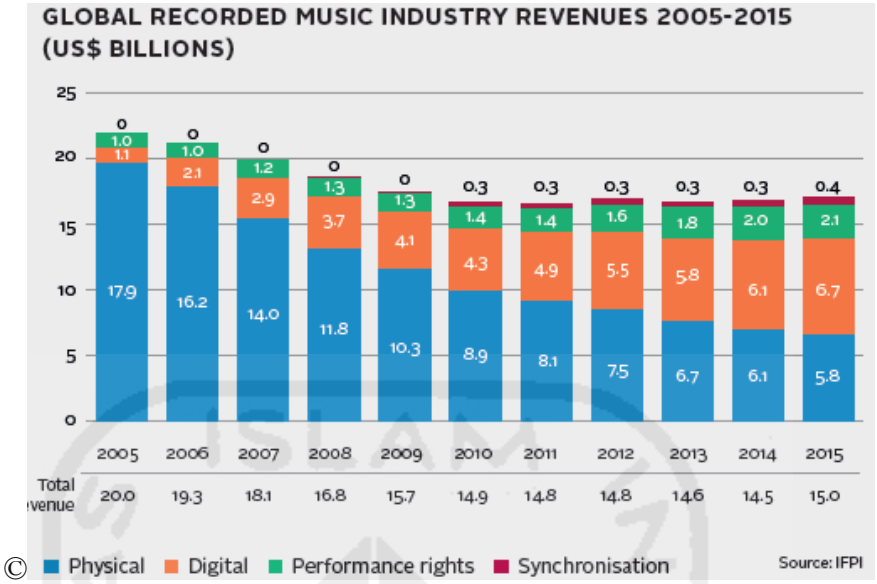


Figure 1.1 Global Recorded Music Industry Revenues in Recent 10 Years from IFPI (International Federation of the Phonographic Industry)

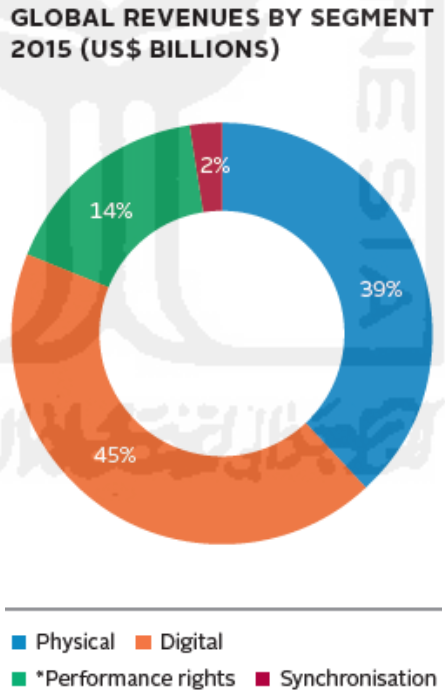


Figure 1.2 Global Revenues by Segment 2015 from IFPI (International Federation of the Phonographic Industry)

From the data on RIAA in 2016 by Joshua P. Friedlander, shown in Figure 1.3, which featured on the research from Hampton-Sosa (2017), the total revenue of digital products (digital download and streaming) is about 68.3%, overcoming the revenue of physical products with 28.8% of total music revenue.

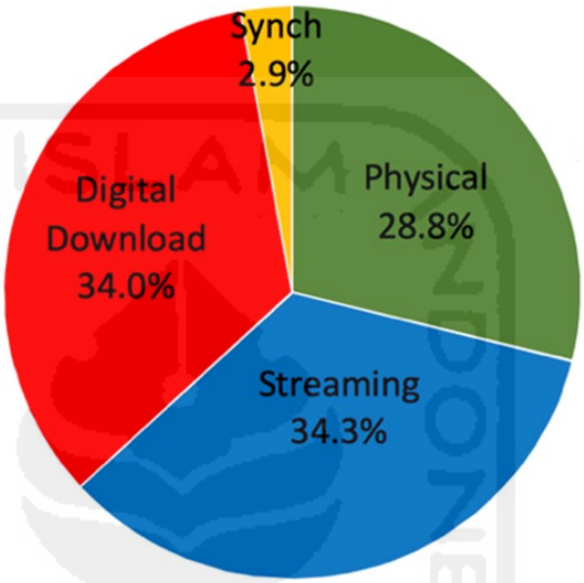


Figure 1.3 US Revenue 2015 from RIAA (Recording Industry Association of America)

In Indonesia, according to Utami and Lantu (2014), music has contributed as one of seven largest contributors to national GDP, alongside with fashion, crafts, advertising, mass media, architecture, and publishing. Indonesia as one of developing country is also selling physical music products. Notes from ASIRI (*Asosiasi Industri Rekaman Indonesia*/Recording Industry Association of Indonesia) in 2008 record label only sold 10 million albums, 2007 was 19.4 million and 2006 of 23.7 million, while in 2009-2010 approaching 15 percent decline. There are now only 15 major record labels, the 240 labels listed on the ASIRI. However, the interesting thing is the sales of digital music products have begun to increase instead of physical music products (Dellyana and Simatupang, 2014). Based on the research from Kusumawati et al. (2014), the customers in Indonesia are likely to have more intention to purchase digital music product.

Globally, the digital SC is become important for music industry. Hence, digital music in Indonesia is still developing. Some of participants in music industry in Indonesia is still adapting in digital products. However, the performances of digital SC in music industry in Indonesia have not been measured. There is needed performances measurement for the problem. For the performance measurement there will be using Supply Chain Operational Reference (SCOR) and Balanced Scorecard (BSC).

SCOR is used for measure the performance in whole chain, covering all participants in the chain. While BSC is used for measure the performance in one participant only in chains, which is record label. In conventional SC, record label can be equal as manufacturer, because of the role for manufacturing products of songs from artist as producer and then pass it to digital music retailer as retailer.

The advantages from BSC is providing wide range of metrics, flexible adaptation of metrics, a successful model creates the basis, standardization along supply chain, management strengthened through better control, and procedure for the generation of metrics Those advantages is expected to cover the disadvantages from SCOR, which is: high abstraction, not all processes are included, overall performance measurement still difficult, individual measures after the third hierarchy level, no flexibility when changing measures, high workload to apply the model to practice, constant actualization of the model provides uncertainty.

BSC have flexibility of metrics when changing measures, the more applicable model, including all process, using wide range of metrics, and easier performance measurement comparing to the SCOR model because there are standardization in the supply chain. BSC also used to complete the performance measurement in SCOR. In SCOR, the main focus is in Internal Business Process Perspective. While in BSC, it is also covering Financial Perspective, Customer Perspective, and Learning and Growth Perspective.

1.2 Problem Formulation

To develop the understanding of the distribution of purchase of recording/music industry, this research will measure the performance of SCM in recording industry by observing the possible chains in the music industry and comparing between chains from literature and from the case study. According to the purpose, the research questions are as mentioned below:

1. How is the performance of digital SC in recording industry?
2. What indicators that used for performance measurement in the digital SC in recording industry?

1.3 Research Objectives

Based on problem formulation, this research is created to fulfill several objectives as mentioned below:

1. To understand the performance of digital SC in recording industry.
2. To identify the performance indicators and to measure the performance of digital SC.

1.4 Problem Limitation

Problem limitation is to make a border in the research in order to keep the research inside the scope. There are some limitations as follows:

1. The research is conducted in Indonesia independent music recording industries.
2. The data are gathered in variance sequence of times.
3. The research is only measured on the product of digital song.
4. The research focus is on Record Label. Thus, activities for other chains are identified based on those relationships to Record Label.

1.5 Research Benefit

Through this research, it is expected that some knowledge would be:

1. To understand the attributes and parameters for generating the performance measurement of DSCM by using SCOR 11.0 in the correlation of chains of distributions in case of recording industry.
2. To acquire the final performance measurement in the correlation of chains of distributions in case of recording industry.

1.6 Writing Systematics

The writing of this research is arranged as below:

CHAPTER I INTRODUCTION

This chapter explains about the background of the research, problem formulation, research objectives, problem limitation, and benefit from the research.

CHAPTER II LITERATURE REVIEW

This chapter explains about the literature studies. Literature review is contains inductive and deductive study.

CHAPTER III RESEARCH METHODOLOGY

This chapter explains the methodology that will be used in the study. It consist the focus of research and object, conceptual model that will become the basic of the research, methods that will be used for research that will be explained in research flow, and tools that will be implemented to conduct this research.

CHAPTER IV DATA COLLECTING AND PROCESSING

This chapter describes the step in collecting data and data processing in the research.

CHAPTER V ANALYSIS

This chapter discusses about the results of data processing and the analysis.

CHAPTER VI CONCLUSION AND RECOMMENDATION

The final section describes the overall conclusions from the results of study and the suggestion for the future research.

REFERENCES

APPENDICES