

**World Music Industry Based on PETSEL Analysis; the Case of Hi-Fi**<sup>1</sup>Samad Ranjbar Ardakani, <sup>1</sup>Mostafa Ranjbar Ardakani, <sup>2</sup>Sasan Ghermezi, <sup>1</sup>Behzad Safaee<sup>1</sup>Noorabad Mamasani Branch, Islamic Azad University, Noorabad Mamasani, Fars, Iran<sup>2</sup>Department of Management, Payame Noor University, PO BOX 19395-3697, Tehran, IRAN[Applyforisi@gmail.com](mailto:Applyforisi@gmail.com)

**Abstract:** Music is the important art of human being; it has the power to change our mindset, to affect every aspect of our lives and our culture. Yet music is also a large global business towards our economy. One of business segment of music is the Hi-Fi sector, Hi-Fi system included music player, amplifiers and speaker. Nowadays, accordingly to enhancing computer technology, Hi-Fi is more and more getting into cyber field such as computer installation Hi-Fi systems, digital music players etc. Hi-Fi sector experienced ups and downs from 1970s to nowadays. By PETSEL analysis, it is an external analysis tool for analysis of macro-environment. PESTEL is stand for Political factor(s), Economic factor(s), Social factor(s), Technological factor(s), Environmental factor(s) and Legal factor(s). This article discusses on the main aspects of Hi-Fi industry based on PETSEL analysis.

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**Introduction:**

**For PESTEL analysis,** political factor(s) are about tax policy, employment laws, environmental regulations, trade restrictions and tariffs, political stability. Government can create trade barrier by legislation. These refer to government policy such as the degree of intervention in the economy. What goods and services does a government want to provide? To what extent does it believe in subsidising firms? What are its priorities in terms of business support? Political decisions can impact on many vital areas for business such as the education of the workforce, the health of the nation and the quality of the infrastructure of the economy. As per political factor(s), it seems no direct political factor(s) are contributed to Hi-Fi industry; the significant of this factor seems not obvious.

**For Economic factor(s)** are included interest rates, taxation changes, economic growth, inflation and exchange rates. As you will see throughout the "Foundations of Economics" book economic change can have a major impact on a firm's behaviour. For example: Higher interest rates may deter investment because it costs more to borrow. A strong currency may make exporting more difficult because it may raise the price in terms of foreign currency. Inflation may provoke higher wage demands from employees and raise costs. Higher national income growth may boost demand for a firm's products. The market of Hi-Fi is broad and growing, as the figure 154,004 in 2003 but in 2008, it is increasing to be 165164. According to the increasing sales of Apple Ipod in 2001, there is also increasing the demand of Hi-Fi system which is outfitted to Apple Ipod. So the company should aware

the macroeconomic situation to try to try to broader market size as traditional Hi-Fi sector is niche market.

**For Social factor(s)** are changes in social trends/culture can impact on the demand for a firm's products and the availability and willingness of individuals to work. In the UK, for example, the population has been ageing. This has increased the costs for firms who are committed to pension payments for their employees because their staff are living longer. As there is a trend that customer more prefer downsizing and multifunctional hi-fi systems, although this affect high-end sector in Hi-Fi industry; increase the market size of middle class hi-fi system, so company will try to lower the production cost and put further afford into the middle class market and will lower the barrier of entry.

**For Technological factor(s)** are new technologies create new products and new processes. Portable MP3 players, computer hi-fi systems are all new markets created by technological advances. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organisations providing the products. As computer technology is enhancing, there occur computer-based installations of hi-fi system which lead the hi-fi industry into computer industry and to enlarge the Hi-Fi market such as Apple Ipod, this Apple new technology to store many music into a small portable device with the speaker, so that consumers can listen music everywhere, this is different from traditional hi-fi system that is better sound meant bigger and better speakers. Also the upgraded digital music format enhance the quality of music which netualize the traditional argument of

compression of music caused damage quality of music. So company will research & develop other new product, that means they may gradually exit the core business and step into the other brand new market.

**For environmental factors** are included the weather and climate change. Changes in temperature can impact on many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries such as the travel and transportation industries (for example, more taxes being placed on air travel and the success of hybrid cars) and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities. This factors seems not obviously affect the Hi-Fi industry so it regarded as less significant among other factors.

**For Legal factor(s)** are related to the legal environment in which firms operate. In recent years in the UK there have been many significant legal changes that have affected firms' behavior. The introduction of age discrimination and disability discrimination legislation, an increase in the minimum wage and greater requirements for firms to recycle are examples of relatively recent laws that affect an organisation's actions. Legal changes can affect a firm's costs (e.g. if new systems and procedures have to be developed) and demand (e.g. if the law affects the likelihood of customers buying the good or using the service). Different categories of law include consumer laws; these are designed to protect customers against unfair practices such as misleading descriptions of the product. Competition laws; these are aimed at protecting small firms against bullying by larger firms and ensuring customers are not exploited by firms with monopoly power. Employment laws; these cover areas such as redundancy, dismissal, working hours and minimum wages. They aim to protect employees against the abuse of power by managers. Health and safety legislation; these laws are aimed at ensuring the workplace is as safe as is reasonably practical. They cover issues such as training, reporting accidents and the appropriate provision of safety equipment. Legal factors in Hi-Fi industry is major on intellectual rights that the issue of private music recording will be increasing which contributed by enhance computer recording technology may affect the sale of music player so as to affect the Hi-Fi industry By Porter's 5 force analysis: Potential Entry, Buyer's power, Supplier Power, Threat of Substitutes and Competitive Rivalry.

**Potential Entry** – It is about threats of new

entrants into an industry depends largely on barriers to entry. Porter identifies six major barriers to entry: Economies of scale, or decline in unit costs of the product, which force the entrant to enter on a large scale and risk a strong reaction from firms already in the industry, or accepting a disadvantage of costs if entering on a small scale. Product differentiation, or brand identification and customer loyalty. Capital requirements for entry; the investment of large capital, after all, presents a significant risk. Switching costs, or the cost the buyer has to absorb to switch from one supplier to another. Access to distribution channels. New entrants have to establish their distribution in a market with established distribution channels to secure a space for their product. Cost disadvantages independent of scale, whereby established companies already have product technology, access to raw materials, favorable sites, advantages in the form of government subsidies, and experience. New entrants can also expect a barrier in the form of government policy through federal and state regulations and licensing. New firms can expect retaliation from existing companies and also face changing barriers related to technology, strategic planning within the industry, and manpower and expertise problems. The entry deterring price or the existence of a prevailing price structure presents an additional challenge to a firm entering an established industry. Potential entrants force is moderate in Hi-Fi industry as Audio and video products is a saturated market by Apple, and the barriers for high brands are higher because of a need of notoriety, links with good suppliers, patents, a large investment in R&D/advertising. As factories have low capital requirements they are susceptible to new entrants especially if Apple decides to produce specialist system. As the traditional entry level is \$1513 and \$3026 which is regarded high capital requirement but once the digital music is arising, the entry level of Hi Fi industry is lower that broad competitors into HiFi sector

**For Buyer's power**, it is usually referred to bargaining power of buyers. The buyer's power is significant in that buyers can force prices down, demand higher quality products or services, and, in essence, play competitors against one another, all resulting in potential loss of industry profits. Buyers exercise more power when they are large-volume buyers, the product is a significant aspect of the buyer's costs or purchases, the products are standard within an industry, there are few changing or switching costs, the buyers earn low profits, potential for backward integration of the buyer group exists, the product is not essential to the buyer's product, and the buyer has full disclosure about supply, demand, prices, and costs. The bargaining position of buyers' changes with time and a company's (and industry's)

competitive strategy. The buyer's power in Hi-Fi industry is low as specialists sell high quality products at high prices but as an example, Apple Ipod outsells its rivals despite higher purchase price.

**For supplier power**, it is referred to bargaining power of suppliers. Suppliers have a great deal of influence over an industry as they affect price increases and product quality. A supplier group exerts even more power over an industry if it is dominated by a few companies, there are no substitute products, the industry is not an important consumer for the suppliers, their product is essential to the industry, the supplier different costs, and forward integration potential of the supplier group exists. Labor supply can also influence the position of the suppliers. These factors are generally out of the control of the industry or company but strategy can alter the power of suppliers. The force of supplier power in Hi-Fi industry is high as a low number of suppliers, a strong brand, and differentiated products increase the switching cost and the bargaining power of suppliers. Most of traditional Hi-Fi supplier is only focusing on supplying hardware component for Hi-Fi system, they do not have a dominant position to the Hi-Fi market.

**For Threat of Substitutes**, substitute products are the natural result of industry competition, but they place a limit on profitability within the industry. A substitute product involves the search for a product that can do the same function as the product the industry already produces. Porter uses the example of security brokers, who increasingly face substitutes in the form of real estate, money-market funds, and insurance. Substitute products take on added importance as their availability increases. For the force of threat of substitutes in Hi-Fi industry, it low as there is a lot of substitutes but it doesn't deal with the same quality of product, such as products from Apple, Sony, Phillips; the MP3 market: Docking stations as Bose (able to turn portable products into the basis for a home hi-fi system) and online retailing of music (Apple with iTunes). This will affect company strategy to be more focus on low price strategy as the substitutes exist, so company may avoid competence of substitutes by enter other Hi-Fi market segment.

**For Competitive rivalry**, rivalries naturally develop between companies competing in the same market. Competitors use means such as advertising, introducing new products, more attractive customer service and warranties, and price competition to enhance their standing and market share in a specific industry. To Porter, the intensity of this rivalry is the result of factors like equally balanced companies, slow growth within an industry, high fixed costs, lack of product differentiation, overcapacity and price-cutting, diverse competitors, high-stakes investment, and the

high risk of industry exit. There are also market entry barriers. For the force of competitive rivalry in Hi-Fi industry, it is high 3 competitors for the same niche called audiophiles are Meridian, Linn and Naim. They are very similar in terms of structure, missions, capital (£10 to £35m of turnover) and they use a strategy of differentiation (high quality product). They are (under consideration) small compared competitors of the market for audio and video products as Apple. Competitive rivalry lead the company to think other possibilities to survive in this Hi-Fi industry, they will start to revolute from traditional Hi-Fi business norm, AVI as an example for this.

Porter's SWOT Analysis could also suitable for environmental analysis, there are 2 factor(s) are focused on external factor(s): Opportunity and Threats can contribute to environmental analysis.

**By Porter's SWOT analysis.** Opportunity - CD sales and older technologies (people stopped buying CD player since 2006) are declining but Ipod and MP3 are increasing. It's a market hit by fashion trends. Affordable technology is in demand. People focus more on quantity and fashion than quality. Online music sales increase. Innovation of digital (Mp3, Mp4) vs. CD's. Illegal downloading of music and Intellectual property rights-patents generate opportunities for this market.

By Porter's SWOT Analysis. Threats - threats of hi-fi sector distribution channel are now more controlled by music service providers which means supplier need to be more collaborated to music service providers and the market share is controlled by them. And also the worry of high end hi-fi systems, consumer think the end Hi-fi systems may not be appreciation in value, they rather to buy cheaper hi-fi system, that means Hi-Fi manufacturer have to think about the low cost strategy or turning to adopt cost leadership to maintain market share

## Discussion and Conclusions

In a nutshell, despite of traditional Hi-Fi industry is declining, according to enhance computer technology and rising of portable music player, the environment of Hi Fi industry is optimistic. The main reason of decline in traditional Hi Fi is mainly that consumer want to change, the fashionable trend is that more mobility of music but traditional bigger size Hi Fi system cannot fulfill this requirement, also the new technology of music player appeared (the effort of Apple) cause a tremendous trend among Hi Fi even music industry. The environment of Hi Fi industry is changing unceasingly, only evolution and revolution can survive as the fittest (example of a HiFi firm in UK – AVI), they revolute the Hifi business model by Collaboration with Apple and also turn into other competitive segment by low cost strategy, that means

abandoned the luxury expensive market (this is so called high-end market). They also actively carry partnership to achieve global scale thru Chinese manufacture. We can say Hi-Fi industry is great potential market with accompanying to computer and digital mobility technology.

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