



# Will Power

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## RECORD COMPANIES ELIMINATED BY CREATIVE DESTRUCTION

Before my daughters headed off to summer sleep away camp for the month of July, they asked me to go onto iTunes to download some of their favorite music. For those of you who aren't into the music scene, iTunes is an online music store created by the Apple Computer company run by Steve Jobs. You can establish an account with a credit card – listen to clips of music, and download that music right into your iPod for 99¢ per song.

The ability to pick and choose the songs that you want to purchase, and download them instantly into your music collection, represents a significant change to the recording industry's business model. When I was a kid you had to go to the record store and buy an entire album. Recording companies made a killing from the sale of albums that people were forced to buy even if they liked just one or two of the songs from a particular album.

The record companies would sign recording artists, writers and musicians to exclusive contracts – so that they owned the entire production and distribution chain from the creation to ultimate sale of the music.

So along comes Steve Jobs and iTunes turning the music industry on its head. Artists can put their music directly onto iTunes without having to go through the normal distribution channels. Consumers can pick and choose the music they want to pay for, and aren't forced to purchase bundled packages of goods.

The elimination of the “middle man” is happening in more industries than music. Consumers can purchase clothing and shoes direct from manufacturers. You can trade your own stocks online, order wild Coho salmon direct from Alaska shipped by next day FedEx, and purchase any book published or self published on amazon.com. The destruction of old industries that are replaced by newer models is known as “creative destruction”.

The “creative destruction” of all sorts of industries is accelerating at a rapid pace. Distributors – otherwise known as “middle men” are being forced out of the market unless they can add some value to the consumer. An automobile dealership is a prime example of a middle man that can add value by its service department. You wouldn't want to buy a car without having it fixed when trouble arises. This is why the high-end manufacturers are so concerned about your “service experience” as it is a driving force for profits and also retains the important local dealer in their networks.

Keep an eye on industries that are vulnerable to “creative destruction” and watch for those that are the likely replacements. If you can spot these trends before most, you are likely to become a savvy investor who reaps high portfolio returns.

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