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Causes and Solutions For
The Recent Decline In Recorded Music Sales

by

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INTRODUCTION

The music industry is changing dramatically and quickly. As of 2007, digital audio sales have continuously increased since their advent, while physical singles and album sales have continuously decreased from their peak in 2000. Falling CD, tape, and vinyl sales have had a major impact on music retail stores. Tower Records and Sam Goody—major chain music stores—declared bankruptcy in 2006. Meanwhile, Apple's digital store, iTunes, has become the top music retailer in 2008—recently surpassing Wal-Mart and Best Buy (http://www.cbc.ca/technology/story/2008/04/04/tech-itunes-numberone.html). Between 2003 and 2006, 2,700 record stores closed across the US. Between 2000 and 2006, more than 5,000 industry employees were laid off (Hiatt). Furthermore, it doesn't seem that the music industry has been able to offset the financial loss of a decline in physical sales with an increase in digital sales. Overall album sales, which includes 10 digital singles as equivalent to an album, has decreased from 785 million in the year 2000 to 585 in 2007—a 25% decrease.

The Recording Industry Association of America has turned a spotlight on Internet piracy—or the illegal downloading of free music over the Internet—as an explanation for the industry's downturn. Several columnists, bloggers, record executives, economists, and music critics find this explanation lacking and believe the industry's unwillingness—or inability—to adapt to a changing distribution landscape is the main source of the problem. This paper focuses on how changes in the industry are affecting three main entities and their interactions. These are labels, consumers, and artists.

I begin with a modern history of the recording industry focusing on changing technology over the past forty years and its economic impact. The immergence of CDs caused a major boom in sales throughout the 1990s, which then declined after the rise of MP3s. I investigate the extent to which music piracy has affected album sales, focusing on two competing theories: substitution vs. sampling. This is a highly contentious field of study, but a meta-analysis of current literature suggests that piracy is the cause of 0-30% of the decline in album sales (Pollock).

I move on to examine other explanations for declining album sales. First, I challenge the argument that CD sales are declining because older consumers have stopped replacing vinyl collections since the year 2000. While this explanation is frequently mentioned in the press, there is a dearth of evidence for this hypothesis. I then focus on the decreasing value of CDs caused by competing forms of media, price fixing, and Digital Rights Management restrictions. Music, however, continues to be quite popular as concert tickets and digital single sales rise to unprecedented heights.

Finally, I focus on the overarching trend in the music industry: democratization allowed by the Internet. Independent labels, artists, and consumers are increasingly dictating the direction of today's music industry. New technology is reducing the economic significance of recorded music and changing the relationship between the entities mentioned above. New effective methods of marketing and distribution are becoming available to the masses and there is a rising middle-class of musicians taking a bigger share of both concert tickets and album sales.

Labels have traditionally been brokers between creators and consumers of recorded music. Their job has conventionally focused on buying new music and distributing it to consumers. I argue that falling profits from album sales will push music companies to provide different services to artists and new products to consumers, reducing the album's importance as the unit of exchange between artists, labels and consumers. This will change the landscape of the industry, and forge a new relationship among its participants.

HISTORY 1970-2007

The music industry remained largely unchanged throughout the 1970's and 1980's with album sales hovering around 650 million. In the early 1990's, compact discs started gaining popularity and in a span of 6 years—1992 to 1998—CD shipments from the manufacturer doubled from 408 million to 847 million per year [see note below about sales figures] (Recording Industry Association of America). CDs were extremely popular because of their convenience and flexibility. Music listeners could repeat songs, shuffle, skip, etc. all with the easy touch of a button—much faster and easier than the guess and check of rewinding a cassette or the delicate finesse of moving a record player arm (Mnookin).

Album sales continued to increase throughout the 1990s until 2000. In some ways, the increase in sales from CDs popularity may have provided record companies with a false sense of confidence. It is possible that many purchases were from labels' back-catalog as consumers replaced LPs and tapes with the new convenient, and increasingly ubiquitous, CD. This effect is examined in further depth later in this paper.

At the turn of the millennium, a new form of media began to threaten the dominance of the CD. The MP3 provided similar improvements over its predecessor that the CD had compared to tapes and records only a decade before. Furthermore, while offering infinitely more convenience and flexibility, digital audio media created whole new possibilities for distribution, sharing, and acquisition.

While record company executives were slow to realize the potential in MP3s, 17-year-old Shawn Fanning was not. Napster was created in 1999 as a peer-to-peer

(P2P) music file-sharing network that turned the Internet into an almost unlimited cyber-library of free music. At it's peak, Napster had 70 million users but was only allowed to exist as a free service for less than two years before it was forced to shut down due to prosecution from many of the largest entertainment and technology companies. Napster settled to pay $26 million to various copyright owners and was eventually purchased by Roxio to be reborn as a paid subscription service in 2003 under the name Napster 2.0. Many other free peer-to-peer (P2P) networks have sprung up in Napster's wake, however, including Gnutella, Morpheus, KaZaa, Aimster, Lymewire, and more recently BitTorrent networks—a new form of P2P—like OINK, Waffles.fm, and What.cd (Gulla, 222). The Recording Industry Association of America (RIAA) has filed over 20,000 lawsuits against music fans for illegal downloading (Hiatt). I will discuss the effects and implications of file-sharing in the following section of this paper.

In the midst of the music industry's war on Napster, album sales began to decline. Album sales have decreased every year since 2000 and the decline was greatest in 2007. In 2005, overall album sales in the United States (which include 10 digital singles as the equivalent of 1 album) decreased by 4% from the previous year, in 2006 overall album sales decreased by 1.2%, and in 2007 overall album sales decreased by a dramatic 9.4%! The chart below displays yearly album sales from 1998 through 2007. The total decline from 2000 to 2007 was 200 albums representing a 25.5% decrease from the peak of 785 million albums.

A great deal has been written about the music industry's major mistakes during this transitional time-period. Suffice to say that it did not embrace the idea of a new and revolutionary technology. They fought and sued most of the forerunners in MP3 technology including online music sharing sites and MP3 technology developers. Their own attempts to integrate MP3s into their distribution models involved frustrating interoperability problems and consumer alienating restrictions. They were afraid, maybe justifiably, but they missed several chances at profitable innovation and are now playing catch-up.

This superficial history of the industry seems to imply that the industry downturn, which coincided with the advent of illegal downloading, is a direct result of illegal file-sharing. However, a more in depth examination implies that music piracy is just one—possibly irrelevant—factor in a long list of problems that the industry must face if major labels hope to reverse the industry's recent, dour trajectory.

An important note about album sales figures in the context of this paper

A frustrating aspect of researching CD sales is that there are many different methods of analysis. For instance, the RIAA reports on CDs shipped from the manufacturer—a figure that does not include digital sales and is therefore insufficient for today's market. Nielsen Soundscan, the only organization that tracks sales at retail, has an effective monopoly on the information. I contacted them and was told that I could pay a student discount rate of $250 for each year that I was interested in (I've been told by someone who works for a major label that a full year's subscription costs $500,000). Fortunately, Nielsen Soundscan's more recent figures from the years 1998 and later are available online in archived articles. The following chart presents all sales in the consistent unit of albums—taking 10 digital singles as equivalent to 1 album.

YEAR	OVERALL ALBUM SALES IN MILLIONS	% CHANGE
2007	585	-9.4%
2006	646	-1.2%
2005	654	-4.0%
2004	681	-0.9%
2003	687	-0.9%
2002	693	-9.2%
2001	763	-2.8%
2000	785	4.0%
1999	755	6.2%
1998	711	

Source: 1998-2000, http://www.medicalnewsservice.com/fullstory.cfm?fback=yes&storyID=34

2000-2001, Zahlaway

2002-2003, http://findarticles.com/p/articles/mi_m0EIN/is_2003_Dec_31/ai_111776584

2004-2005, http://www.infoplease.com/ipea/A0930141.html

2006-2007, Nielsen Soundscan

PIRACY ON THE INTERNET

Peer-to-peer (P2P) networks allow users to share music for free over the Internet. According to BigChampagne LLC, a company that tracks a variety of Internet activities, approximately one billion songs per month are shared through P2P networks (Smith). There are two primary hypotheses regarding how online music piracy affects overall music sales: sampling vs. substitution. These two competing theories have opposite conclusions. The sampling theory suggests that P2P users download songs as a non-committal means of "testing" music prior to purchase. Advocates of the sampling theory suggest that illegal downloading does not hurt music sales, but function as free marketing for musicians and might actually increase sales. The substitution theory argues the opposite—that music downloading functions as a free substitute for music purchasing and actually decreases music sales among potential consumers.

The Recording Industry Association of America (RIAA) has come down very hard on the side of substitution and continues to target college music fans with pre-litigation settlement letters in attempts to stem downloading. In a single week in 2008, the RIAA sent settlement letters to 407 students at 18 universities throughout the country (http://www.riaa.com/newsitem.php?news_year_filter=2008&resultpage=&id=36720A8F-FF55-2886-C2A2-EAB629C662BD). According to their website, the RIAA targets college students because

> "…piracy habits of college students remain especially and disproportionately problematic... According to some recent surveys, more than half of the

nation’s college students frequently download music and movies illegally from unlicensed P2P networks. That’s a statistic we just cannot ignore.” (http://www.riaa.com/faq.php).

While the RIAA seems convinced that sharing music online necessarily means a loss of money for the industry, economists are slowly lining up on opposing sides of the substitution vs. sampling argument. Stan Liebowitz is an economics professor at the University of Texas who has written extensively about copying – ranging from VCR copying in the 1980s to modern file-sharing. While Liebowitz admits that the RIAA has a tendency to manipulate figures to present "the picture they wish to portray about the conditions of the industry," his own research suggests that file-sharing is in fact primarily to blame for the loss in sales beginning in 2000 (Liebowitz, 2006). Furthermore, he argues that the brief spike in sales between 2003-2004 was a result of decreased downloading due to the first file-sharing prosecution cases.

On the other side of the fence, Felix Oberholzer-Gee of Harvard University and Koleman Strumpf of the University of Kansas have garnered a huge amount of publicity for their studies arguing that “downloads have an effect on sales which is statistically indistinguishable from zero” (Strumpf, p. 2). This study was the first study on the effect of file-sharing on music sales that has been published in a major peer-reviewed journal—*The Journal of Political Economy* (Pollock). There was a three-year lag between publication on the Internet and publication in a peer-review journal, though, so maybe other studies are on currently going through peer-review.

Their study is appealing because it directly observes file-sharing and does not rely on theory, surveys, or comparing CD purchasing patterns of people who download versus people who don't—essentially a moot point that can only show correlation and not causality. If I do not have the money to buy CDs and I download several albums, this does not suggest that I am downloading *instead* of purchasing. Oberholzer and Strumpf examine aggregate sales and downloads for a wide range of releases. They argue that illegal downloading is appealing to individuals who are time-rich but cash-poor—a likely explanation for why downloading may be so popular on college campuses. These individuals, argue Oberholzer and Strumpf, would purchase few CDs even in the absence of P2P networks (p. 7).

This finding was supported by a 2006 study based on over two thousand Canadian survey respondents. This study found no direct relationship between P2P file-sharing and CD purchases. The analysts from this study reported that it was difficult to conclude what the net effect of P2P file-sharing was on digital purchases.

Rufus Pollock published a meta-analysis of various studies published between 2000-2006. He concludes that, given the variety of data, *file-sharing is potentially responsible for 0-30% of the decline in music sales*. This means, according to Pollock's analysis of the literature, that if music sales have declined from 785 million to 585 million between 2000 to 2008, file-sharing is potentially responsible for a decline of 0-60 million albums. Additionally, several studies suggest that if file-sharing does decrease purchasing, more-popular artists are hurt more than less-popular artists.

The study of down-loading's effects on album sales is quite new and deserves much more attention. It is important to remember that not all downloads necessarily represent the loss of a sale—a frequent mistake made by the RIAA and others. Oberholzer and Strumpf's 2005 revision of their study, which maintains that file-sharing is a statistically insignificant factor in album sales, is the most sophisticated current research on the issue (Pollock).

It seems most likely that there is both substitution and sampling going on. Music consumers have more information and choice than ever before. The industry used to rely largely on radio and print to market music. They largely had control over what consumers could be exposed to and what releases were easily purchased. Now, consumers can read blogs, listen to customized Internet and digital radio, email songs to friends, download music they have read about, share music on Internet social networks, etc. I argue that these factors function to increase musical fanaticism and demand. However, a free and convenient alternative to purchasing music can be hugely tempting to consumers who can legitimately expect to fill a 160 gigabyte iPod.

Artist reactions to file-sharing are mixed. After the 2005 Supreme Court lawsuit that paved the way for recording companies to sue file-sharing companies for copyright infringement, several big name artists ranging from Jay-Z to Sherryl Crow to The Dixie Chicks hailed the court's decision as a major victory for artists. Other artists, with less expansive fan-bases, found the decision a disappointment. Jeff Tweedy, front-man for the band Wilco, believed that "Any decision that outlaws or discourages developing technology that expands Wilco's reach is shortsighted" (http://www.smh.com.au/news/ technology/mixed-reaction-from-musicians/2005/06/28/1119724613388.html).

Tim O’Reilly—president and founder of a computer book publisher —has expressed an interesting opinion about Internet book piracy that is very applicable to music: “For all of these creative artists, most laboring in obscurity, being well-enough known to be pirated would be a crowning achievement. Piracy is a kind of progressive taxation, which may shave a few percentage pointes off the sales of well-known artists (and I say ‘may’ because even that point is not proven), in exchange for massive benefits.” (Snyder, John and Ben).

It is also possible that file-sharing could positively effect other facets of the music industry. One study by Julie Morimer and Alan Sorrinsen concludes that “the patterns in the data suggest that while file-sharing may have eroded profits from CD sales, it also increased the profitability of live performances.” (Pollock). This is especially significant as most musicians today make more money from performances than they do from album sales. Moreover, labels are increasingly looking to concert revenues as a source of profits to replace album sales.

In the end, it almost doesn’t matter whether or not piracy is to blame for decreasing album sales. The RIAA is doing what it can to frighten and anger music fans. It is partially effective, but downloading is still very popular and fans are finding ways to get around being tracked. For instance, it is legal to download files from the Internet, but illegal to upload them for others to download. A file-sharer can play it safe and hope for other users to take risks and make music available—a user can “leech” as long as they don’t “broadcast”. There are apparently many people willing to take risks to maintain file-sharing communities. In 2007, when the authorities shutdown major downloading site, OINK.fm, Waffles.fm sprung up in its wake almost immediately with more new member requests than the server could handle (Fisher, http://arstechnica.com/news.ars/ post/20071105-oinks-new-piglets-proof-positive-that-big-contents-efforts-often-backfire.html). Piracy may be reduced, but it will not cease to be an issue in the near future despite the RIAA's efforts. Many avid music fans used OINK because it was simply the fastest, vastest, and most user-friendly Internet library available.

Labels must out-compete free services. They are frustratingly encumbered by an unwillingness to sacrifice short-term profits for a better long-term model. They must provide a service that is faster, easier, and more complete than any free alternative. Public libraries do not make Bookstores irrelevant. Network TV does not make Satellite TV less appealing. People pay for high-speed Internet even though free dial-up alternatives exist. These are the models that the music industry should examine for distribution techniques.

REPLACEMENT FACTOR OF CDS IN THE 1990s

Many articles written about current declining music sales blame the end of the CD replacement factor that helped boost sales in the 1990s. The theory is that CD sales boomed in the 90s in part because consumers were replacing their vinyl and tape collections with CDs. Several writers point to a decline in this replacing factor of older recordings for decreasing album sales following the year 2000, but fail to provide support.

One study by Hong from 2004 attempts to show evidence that "transition from LPs to CDs might describe the increase in music sales during the 1990's as well as the recent slowdown." Hong examined buying patterns of consumers from different age groups during the mid to late 1990's and found that older consumer's purchases increased in the mid 1990's, but decreased in the late 1990's—before Napster would have been a factor, he argues. If one assumes that decreasing music purchases from consumers aged 48-67 are completely a result of a fading replacement factor, Hong's conclusions suggest that this is responsible for 44.7% of the decline in total music sales from 1999-2000. It is a very dubious assumption, though, that all music purchases for that age-range are based on replacing vinyl and tapes with CDs. Hong admits that "in order to quantify this effect precisely, more work needs to be done in this direction." (http://siepr.stanford.edu/Papers/pdf/03-18.pdf)

My personal research regarding this hypothesis does not support this theory. Nielsen Soundscan does not report on overall catalog sales (as in, old releases) from before 2004, but for the years 2004-2007, deep-catalog sales have increased from about 25% of total sales to 28% of total sales. I also traced sales of The Beatles' classic album, *Abbey Road*, from 1995 to 2007. Sales increased every year (Nielson Soundscan). This is not conclusive evidence that the replacement factor is irrelevant, but it does not offer support if older albums are selling better today than a few years ago.

DECREASING VALUE OF CDs

Another possible contributing factor in the decrease of album sales may come from a decline in the perceived value of CDs that has not been accompanied by a decrease in cost. In 2000, 42 states and three territories filed a federal anti-trust case against the major labels for artificially fixing CD prices as higher than their market value would dictate. The big five major label companies from 2000—which are now four since Sony merged with BMI—settled to pay $67,375,000 in cash and provide $75,500,000 worth of free CDs to charitable organizations, libraries, schools, etc. as consumer compensation (Fisher, http://arstechnica.com/mews.ars/post/20020930-1254.html).

This trial occurred the same year that album sales reached their peak and began to decline. Another factor, besides price fixing, that has contributed to CDs' weakening value is the rise of alternate forms of media and electronics such as DVDs, video games, cell phones, etc. With the exception of 2007, DVD sales have been increasing every year since their inception (Snider). The video game industry has been on the rise since 1992 (Liebowitz, 2005). Between 1999 and 2003, DVD sales rose over $5 billion and video game sales rose $3 billion—a 40% increase for video games (Oberholzer-Gee and Strumpf, p. 37). Furthermore, there are several other new technological innovations that are potential competitors for consumer dollars including new subscription television and radio services, computers, cellular phones, and—slightly ironically—the MP3 player.

Liebowitz, however, argues that DVDs cannot be blamed for the decline in music sales. He argues that one must include all forms of video and movie revenues if they are to be considered a substitute for money spent on music. Movie rentals declined slightly in 2000 and therefore offset the spike in DVD sales for total video and movie revenue, according to Liebowitz. Because 2000 was the turning point in music sales, Liebowitz believes that DVDs cannot be a major contributing factor in the downturn.

Liebowitz' argument shows that DVD and videogame sales/rentals may not be the only reason for decreasing album sales. However, the increasing sales of DVDs over the years when music sales have decreased is a likely and legitimate contributor. I think it is inappropriate to compare movie rentals to music purchase. It is better to compare DVD purchase to CD purchase. In this comparison, there are further reasons why DVDs might replace CD sales. DVDs come with more than just a movie. They often include bonus materials that presumably increase their value. The stakes are being raised as technology improves. I would argue that there is increasing pressure for albums to be accompanied with bonus materials—videos, ringtones, posters, making-of footage, etc.—to make music purchases more valuable. Furthermore, record companies' efforts to keep music fans from sharing their legitimate purchases have caused several technical complications. As Ben and Dan Snyder put it in their 2003 report, "When a DVD costs $19.99 and includes the movie in multiple formats with bonus materials and no hassle, and a CD costs $18.99 and comes with potential legal hassles, limits on fair use, and all the finger waving the RIAA can muster, the choice of which product to buy becomes clear."

DIGITAL RIGHTS MANAGEMENT AND THE BIG FOUR

Four companies own the distribution rights for over 70% of the world's music (Jobs). When these four giants decided that they must sell downloadable, digital music via the Internet, they also agreed that there must also be some means for keeping those files from being pirated. The solution was to imbed each MP3 with a restrictive "lock" that keeps consumers from sharing the files between computers. This "lock" is called Digital Rights Management or DRM. Until very recently, all major label digital music downloads were required to have some form of DRM.

Labels also tried embedding CDs with DRM. This caused many problems. In 2002, several labels under the majors' umbrella like BMG, RCA, and Arista imbedded their audio CDs with DRM. These DRM CDs would not play in some CD-players or computers. This understandably caused outrage among consumers. In 2005, Sony BMG launched its own form of audio CD DRM that loaded software on to the purchaser's computer secretly and without consent. This software caused security weaknesses and left computers open to viruses. Consumer outcry caused Sony BMG to recall millions of CDs and provide a software remedy.

After these debacles, major labels stopped using DRM on audio CDs. CDs can easily be imported DRM-free into any computer (and subsequently shared). However, major label DRM MP3s downloaded from the Internet continue to cause significant problems for consumers. First, there is a lack of interoperability between distributors and MP3 players. MP3s bought from Apple's online store, iTunes, can only be played on Apple's iPod; MP3s bought on Microsoft's Zune can only be played on Microsofts Zune player; and MP3s from Sony's Connect store can only be played on Sony's player.

A further example of the bizarre climate created by DRM comes from a Wired Magazine article by Frank Rose (note: the following confusion is not due to typos),

> "As a member of the Consumer Electronics Association, Sony joined the chorus of support for Napster against the legal onslaught from Sony and other music giants seeking to shut it down. As a member of the RIAA, Sony railed against companies like Sony that manufacture CD burners. And it isn't just through trade associations that Sony is acting out its schizophrenia. Sony shipped a Celine Dion CD with a copy-protection mechanism that kept it from being played on Sony PCs. Sony even joined the music industry's suit against Launch Media, and Internet radio service that was part-owned by […] Sony. Two other labels have since resolved their differences with Launch, but Sony Music continues the fight, even though Sony Electronics has been one of Launch's biggest advertisers and Launch is now a part of Yahoo!, with which Sony formed a Major online partnership." (Snyder)

As the chaos over DRM continues, consumers are starting to react negatively. A 2007 survey of over 1700 respondents from a broad sampling across the UK, indicates consumer awareness and dislike for DRM is on the rise. In 2006, 53% of respondents had not heard of DRM but by 2007 only 37% had not heard of it. This demonstrates an increase in at least some awareness of DRM by 16%. 68% of those who expressed an opinion on DRM said the only music worth purchasing was DRM free. Significantly, 63% of those with an opinion also agreed that DRM was a good idea because it "protects copyrighted music from illegal file-sharers". This suggests a willingness to purchase music, but a simultaneous disdain for the cumbersome problems associated with DRM (Entertainment Media Research in association with OLSWANG).

Retailers have also expressed dislike for DRM. The British Entertainment Retailers Association (ERA)—associated participants in the survey study mentioned above—have called for an end to DRM. Speaking on behalf of UK music retailers, copy protection mechanisms are "stifling growth and working against the consumer" (Paul).

In a marketplace where Apple sold 72% of all portable music players in 2007, it is essential for any online music retailer to sell MP3s compatible with Apple's iPod (Burg). eMusic founder Nate Anderson realized this and turned his subscription-based online music service into the second top digital retailer behind iTunes. Most impressively, he did it all without any major label content. Eschewing 70% of the world's music, Schonfeld used independent labels, a convenient subscription model, and DRM-free content for great success.

Even Steve Jobs, owner of the Apple Corporation, has called for an end to DRM. Apple has famously refused to license their form of DRM known as Fairplay to other companies. In an open letter that Jobs wrote regarding music and DRM, he claims that this was not to keep competitors from selling music to be played on the popular iPod, but rather because of the importance of keeping the Fairplay DRM technology form leaking—a situation which could potentially cause iTunes to lose their major label contracts. However, Jobs goes on to say that if labels were willing to go DRM-free, "Apple [would] embrace this wholeheartedly" (Jobs). Jobs compellingly points out that 90% of the labels' sales still come from CDs that are now released DRM-free, making DRM precautions online mostly a cumbersome limitation on what could be a burgeoning and innovative retail solution for labels.

Someone at the Majors must have been listening. On January 10, 2008, the enormous online retail store, Amazon.com, completed its major label roster and will sell DRM-free downloads from over 12,000 labels including the four majors. This represents a massive step in online music distribution. Large retail chains have shown great success recently in CD sales—Walmart and Best Buy held the top two spots in the market share in 2007 (www.itfacets.biz/index.php?id=P8622). I predict that Amazon will only be the first step in the destruction of DRM and the creation of more consumer-friendly distribution models.

Consumers expect interoperability for their music purchases. They expect to be able to download a song, email it to their friend, put it on their iPod, Zune, cell-phone and, burn it to a disc. Labels would presumably prefer to make a consumer pay for each step along this path, but as long as labels fight consumer expectations, they are driving potential customers away. If consumers can't get what they want through legitimate music purchase, they will be pushed to free music downloading or other forms of entertainment. Older consumers especially may simply be discouraged from music acquisition entirely; where would they turn if online purchase is confusing and traditional music retailers are vanishing? DRM is not the answer to

Internet piracy. It is especially ridiculous given that a Forrester Research survey 59% of digital audio files come are imported from CDs . DRM was a failed experiment and should be removed from all music files.

DIGITAL SINGLES EFFECT

Overall album sales figures were quite grim in 2007. These numbers include 10 digital singles as equivalent to a digital album. However, total sales, which include the total number of singles, CDs, digital albums, vinyl, and music videos as equivalent units—increased 14% in 2007 to a record-breaking 1.37 billion. In 2006, total sales rose 16%. Digital singles represent a massive chunk of total sales—increasing 65% between 2005 and 2006, and 45% between 2006 and 2007. Digital singles made up almost 62% of all units sold in 2007.

This huge rise in units sold implies that consumers are still willing to exchange money for music products. However, the fact that consumers are now able to purchase just the single tracks of their choosing, instead of full albums, means that consumers can satisfy demand while spending less money. In other words, the rise of digital singles is simply failing to offset the declining sales of overall albums—whose measurement includes sales of digital singles.

The industry's prior model before the Internet allowed for very profitable bundling. If a music fan wanted three songs from an album, they probably had to purchase the whole album. Now, consumers can simply purchase those three songs for $0.99 each. This will increasingly become a problem as Internet music sales continue to rise. Labels should look for bundling opportunities wherever available. They must try creative new ideas for encouraging customers to purchase whole albums instead of singles or to buy multiple products simultaneously.

LIVE MUSIC

Between 1990 and 1998, concert ticket sales hovered around $1 billion per year. Interestingly, as CD sales began to top-off and decline, ticket sales began to increase. In fact, industry wide ticket sales have shown record high numbers for the last 9 years consecutively!

This suggests several trends at once. First, the decrease in CD sales does not imply a decreasing interest in music generally. Consumers are shifting their music spending from recordings to performances. This also means a shift in revenue sources for artists. Seven years ago, around the time when the recording industry began its decline, musicians derived two-thirds of their profit from recorded music and one-third from concerts, merchandise, and endorsements. Now, the opposite is true (www.economist.com/business/ PrinterFriendly.cfm?story_id=9443082).

For artists, this transition may be perfectly acceptable. Booking agents and tour managers don't take as large a percentage of ticket sales as labels do from recorded music sales—85% or greater. This also implies an increased incentive for artists to give away their music for free essentially as a promotional item for their more profitable live show.

This shift does not serve labels well because they rely on sales of recorded music for profit. To counter this, labels are introducing new contracts that include clauses allowing them to take a percentage of all revenue sources for musicians. These new contracts, often known as 360-degree contracts, are discussed in more detail in the following section.

Year	Industry Total Ticket Sales in Billions US Dollars	% Change Total Ticket Sales	Top 100 Tours Grosses	% Change Top 100 Tours
1990	1.1			
1991	0.83	-24.5%		
1992	1	20.5%		
1993	0.9	-10.0%		
1994	1.4	55.6%		
1995	0.95	-32.1%		
1996	1.05	10.5%		
1997	1.3	23.8%		
1998	1.3	0.0%		
1999	1.5	15.4%		
2000	1.7	13.3%	1.5	
2001	1.75	2.9%	1.51	0.7%
2002	2.1	20.0%	1.63	7.9%
2003	2.5	19.0%	1.95	19.6%
2004	2.8	12.0%	1.97	1.0%
2005	3.1	10.7%	2.07	5.1%
2006	3.6	16.1%	2.37	14.5%
2007	3.9	8.3%	2.28	-3.8%

Source: Pollstar

A final interesting note about concert sales is that, similar to album sales, top grossing performers are making up less of the concert industry's total sales then in previous years. In 2007, for instance, the overall industry sales in dollars increased 8 percent from 2006. However, ticket sales from the top one hundred tours, expressed in dollars, decreased about 4% from 2006, and the top twenty touring artists' sales decreased by 15%. Granted, the Rolling Stones don't tour every year. Ticket sales will vary based on which big name artists are touring in any given year. However, the trend seems to hold true starting from 2000—as far back as my data goes—that overall ticket sales are rising faster than the top one hundred tours (Pollstar). This trend is very much in accord with a general democratization of the music industry spawned largely by the Internet.

MAJORS, INDEPENDENTS AND ARTISTS: NEW METHODS OF DISTRIBUTION, MARKETING, AND CONSUMPTION

Major labels are losing control of the music industry. New digital recording technology has made it possible to make very high quality recordings at exceptionally low cost. Furthermore, the Internet has created incredible new methods of distribution and marketing for little or no money. This has created massive possibilities for smaller independent labels with business models that do not require artists to sell gold or platinum records to turn a profit. Furthermore, there are several examples of artists both new and well-established turning away from labels entirely and simply producing, marketing, and distributing their music without labels.

In 2007, independent labels claimed an unprecedented 4 spots in Billboard's weekly top-10 selling artists—Arcade Fire and Spoon (both on Merge Records), The Shins (on Sub Pop), and Bright Eyes (on Saddle Creek) (http://www.locced down.com/ 2007/12/29/flagging-disc-sales-tour-business-send-industry/). This demonstrates a dramatic change in the dynamic of the music industry. Granted, Merge and Sub Pop are big indies, but until 2007 Sub Pop had never had an artist higher than No. 79. Arcade Fire's 2007 release was the fastest selling album in Merge Record's history (Spotts).

Indie label sales are also declining with major labels, but not as fast. One analysis of this fact suggests consumer efficacy allowed by the Internet. The founder of an Indie label based out of Tampa Florida described this trend by saying that "fans are dictating" (Leeds, http://www.iht.com/articles/2005/12/28/features/record.php). The increasing popularity of indie focused blogs and music review websites like

Pitchfork, Hype Machine, and Stereogum support the argument that fans may be turning to Indie artists for “Individualism and Integrity” (http://www.locceddown.com/2007/12/29/flagging-disc-sales-tour-business-send-industry/).

If anyone in the music industry is benefiting from file-sharing and free sampling, it is certainly indie artists who do not receive frequent radio airplay. The Internet allows bands that might never be heard otherwise a serious shot at success. Clap Your Hands Say Yeah! (CYHSY) is a striking example. CYHSY sold 200,000 copies of their debut LP without any label support. Sean Greenhalgh, the band’s drummer, explained that “the question we asked record companies was essentially, “what can you do for us that we can’t do for ourselves?” (http://www.cbsnews.com/stories/2007/05/28/eveningnews/main2858961.shtml).

Another shining example is the sixteen-year-old rapper from Atlanta who goes by the moniker Soulja Boy Tellem. Soulja Boy used the Internet to catapult himself from anonymity to having a number one single in about a year. His dance sensation “Crank That (Soulja Boy)” came with a media onslaught set off from his home PC—a hugely popular instructional dance video on YouTube.com, massive play count on MySpace, and clever marketing and distribution tricks. Using popular P2P file sharing sites, Soulja Boy “took whatever the number one song was, say it was 50 Cent ‘In Da Club.’ I’d rename ‘Crank That’ to that and send it out, and everybody would download it for free. But when they’d get it, it’d be my song. Then the Google searches and MySpace searches came through wondering who I was.” 10

million MySpace views later, Soulja Boy brokered a contract with Interscope Records for his debut release.

Not only unknown acts are using non-traditional distribution and marketing techniques. Several well-established and hugely famous artists are trying out new methods for getting their music to fans. Radiohead, one of the most widely respected and well reviewed rock bands of the 1990's and 2000's, recently made huge press by allowing their label contract to expire and releasing their new album for download on their own website for whatever price consumers chose to pay. Months later, Radiohead released the album through normal distribution channels with the label XL and took the top spot in Billboard's sales charts. There is some discrepancy regarding how well Radiohead's online experiment worked. Comscore, an Internet survey company, reported that 60% of downloaders chose to pay nothing for the Radiohead album. Radiohead, however, claim that statistic is "totally inaccurate" and "speculative", but have not released their own calculations (Sponder).

Following Radiohead's experiment, several other massive acts announced that they too were going to try non-traditional release methods. Oasis, The Charlatans, and Nine Inch Nails all have announced plans for releasing their music online, without labels, or even for free. Madonna, one of the industry's highest selling artists, has left her label, Warner, for an innovative deal offered by the concert-promotion company, Live Nation. Traditionally, a big act like Madonna would record and release an album with a label, and then make a separate deal for touring with a company like Live Nation. Instead, Madonna will use Live Nation for all recording, production, distribution, marketing, and touring funds. Several other big acts have followed suit including rapper Jay-Z and the mega-band U2 (Sabbagh). One last example of the new possibilities for artists is Paul McCartney's deal with Starbucks' new label called Hear Music. The CD is available in traditional music markets, but also internationally in Starbucks coffee stores.

Increasingly, highly functional methods of music production, marketing, and distribution are spreading to companies and individuals who previously did not have the expertise or financial power to compete with major labels. Almost anyone can release recordings through iTunes, Amazon.com, or MySpace. As lndependent label-owner Peter Rojas explains,

> "It's the Britney Spearses of the world that are hit hardest by all of this change. Manufactured pop doesn't do quite so well when consumers have better options to choose from. The majors thrived in an era of artificial scarcity when they were able to control the production and distribution of music. Today, we have an infinite number of choices available to us, and when content is infinitely abundant, the only scarce commodities are convenience, taste, and trust. The music companies that are successfully shaping the Internet era are recognizing that the real value is in making it easier to buy music than to steal it, helping consumers find other people who share their music tastes, and serving as a trusted source for discovering new music." (http://www.cbsnews.com/stories/2007/05/28/ eveningnews/main2858961.shtml)

It is increasingly clear that in order to survive, major labels will have to follow

Rojas' suggestions and focus on providing on providing superior products—which does not necessarily mean the best music in today's iPod, MySpace, YouTube, cyber-reality—that are extremely convenient to purchase.

I do not mean to overstate the extent to which music listening habits have changed. A Forrester Research survey found that listeners still devote approximately half of their listening time to traditional radio. Digital audio, which in this study includes MP3s, Internet radio, and podcasts make up 30% of consumers' listening time. Furthermore, 59% of digital audio files were imported from listeners' personal CD collection or from CDs borrowed from others. This data shows that the transition to digital audio is not yet complete, but James McQuivey—author of this Forrester Research study—projects that half of all music sold in the US will be digital by the year 2011 (pp. 7-9).

If consumers are purchasing music off of the Internet, it logically follows that they will also look online for music discovery. Because of the publishing equity provided by the Internet, this further suggests a loosening of control for major labels. A New York University study published in 2007 suggests that Blog chatter—frequent positive mention of a band on many blogs—has a strong positive correlation with album sales. "When legitimate blog posts exceeded a threshold of 40 before an album's release, sales were three times higher than for albums that did not generate this kind of buzz. When blog activity reached more than 250 posts, sales were six times higher. The number of an artist's MySpace friends—social network users who have agreed to be "friends" with a band on MySpace—"also contributed to higher future sales, but had a weaker correlation as compared to blog chatter" (Chang and Dhar). This study also found that traditional factors, such as reviews in *Rolling Stone*, are still relevant but this is the first hard evidence of the sales impact of user-generated reviews. Furthermore, the study found that average consumer ratings on sales websites like Amazon.com, are better predictors of sales than reviews from mainstream publications.

One way that major labels can still throw their weight around, however, is through huge media onslaughts combining movies, music, and television. These multi-angle media blitzes can result in enormous album sales. For Instance, the High School Musical soundtrack was the highest selling album of 2006; cleverly using Disney Channel's television superstar, Hannah Montana, in a blockbuster movie to create a number one soundtrack album. It appears that increasing consumer efficacy, decreasing cost of distribution, and reducing exclusivity of mass marketing tools are making it difficult for major labels to successfully push their music above the din. They must increasingly rely on bigger and more ubiquitous media synergy to generate the big sales that have traditionally been part of their business model.

Major labels' business models have consistently relied on huge selling acts to subsidize the 90% of bands and artists that do not recoup from production and marketing costs. Record companies typically release over 30,000 albums per year, and most of these releases sell under 1000 copies (Timmer). There is a huge reliance on albums that top the charts. Unfortunately, these higher selling albums no longer have the same staying power that they once had.

> "Consumer fickleness has become evident on the Billboard charts, where the old blockbuster album appears to be a dying breed. More titles have come and gone from the No. 1 place on the magazine's national album sales chart [in 2006] than in any other year since the industry began computerized tracking of sales in 1991. Analysts say that reflects the lackluster staying power even among songs in demand." (Leeds, http://www.nytimes.com/2006/12/11/business/media/11music.html?pagewanted=2&ei=5089&en=c30d615e4991bd1d&ex=1323493200&partner=rssyahoo&emc=rss).

This "chart churn" shows that consumers seem to have a shorter attention span for new music. This makes perfect sense given the incredible ease of music discovery today. An interesting caveat to the "chart churn" problem is that there are two kinds of releases that are less susceptible: releases which debut very high in the charts, and female artists. Anticipation for a release seems to increase staying power. This trend implies that major labels should push acts that are expected to sell very well, but for newer releases with less hype, it may be safer to consider indie labels' model, which can profit on lower sales figures.

A new Record Label started in the UK uses a business model that shows this decreased expenditures idea is already catching on. For this label, "Unlike traditional recording contracts signed by the top labels, artists will not get big advance payments but will enjoy a much greater share of revenues." (http://www.wealth-bulletin.com/article_detail.php/2666/ex_citi_private_) Major labels can also save money through cutting down on lavish spending methods that are becoming unnecessary due to new technology. Terra-Firma, the private equity company that purchased major label EMI, proposed a plan in 2007 to cut spending on several fronts. This plan took “$58 million from its A&R and marketing budget. The savings would come from requiring talent scouts to rely more heavily on sites such as MySpace to find talent.” (Sandoval, http://www.webware.com/8301-1_109-9818988-2.html).

If a label is very confident in an artist, however, they may be interested in increasing their commitment rather than looking for less expensive marketing tools. For instance, there is an emerging trend among major labels to give artists what are known as 360-degree contracts (also known as a multiple-rights contract or all-rights contracts) (www.economist.com/business/PrinterFriendly.cfm?story_id=9443082). These contracts give labels a slice of profits generated from touring, merchandise, and endorsements, etc. Ten years ago this would have been a preposterous idea, but it is currently becoming an important option for big labels. Contracts of this nature raise skepticism among artists and managers. Not all artists would be willing to sacrifice even more power and profit to their labels in an industry famous for exploitation. In the inimitable words of Hunter S. Thompson, “The music business is a cruel and shallow money trench, a long plastic hallway where thieves and pimps run free, and good men die like dogs. There's also a negative side.” (http://www.brainyquote.com/quotes/authors/h/hunter_s_thompson.html)

Some artists, however, like the female-fronted pop-punk band Paramore, have been quite happy with their 360 degree contract. This type of deal can take the pressure off artists to produce mega-hits and can provide more tour-support and time to build a fan-base. Craig Kallman, chairman of Atlantic Records that signed Paramore to a 360 degree deal, argues that, “If we weren’t so mono-focused on the selling of recorded music, we could actually take a really holistic approach to the development of an artist brand.” Artist as brand strongly sums up the 360 degree concept as Paramore sells everything from flip-flops to tube-tops. The main goal is to create fans that are dedicated and long-term who will buy merchandise and attend every concert they can. This will ideally generate a greater profit for a longer time-period than an artist who sells “1.5 million albums off one single, and here comes your clothing line, and here comes you personalized phone,” without a truly dedicated fan-base who would buy that merchandise. Increasing the amount of 360-degree contracts would probably mean devoting more resources and risk to smaller rosters of artists (Leeds, http://www.nytimes.com/2007/11/11/arts/music/11leed.html?_r=2&oref=slogin&oref=slogin).

There are several new options for labels ranging from greater investment and involvement which only major labels or massive concert promoters could pull off, to the increasingly appealing independent model that involves relying more on the power of the Internet. The decreasing power of major labels is affecting different sectors of the music industry in different ways. In an industry that has always had low rates of success for artists, the new methods of marketing and distribution must seem like a godsend to unsigned acts and small labels. Major label artists no longer have such an extreme advantage from major labels’ publicity machine. It is more difficult to make a hit song or album truly successful by major label standards in an oversaturated market.

SOLUTIONS

Having examined several of the major problems affecting the recording industry, I will now focus on the various solutions available to labels and artists, some of which were mentioned above. As for the consumer, conditions will only improve in the future. Music is such fundamental part of human existence that artists will continue to make great recordings and performances for consumers to enjoy, even if album sales continue to decline. Technology will continue to put music into the hands and hard drives of listeners around the world in ever faster and more convenient ways. That being said, though, there are certainly benefits for artists and consumers—not to mention label employees—if labels can afford to pay for studio-time, tours, promotion, album art, etc. Let's focus directly on the pros and cons of various possible solutions for labels to overcome declining album sales.

Encourage discovery, sharing, and acquisition

The greatest contribution that the Internet has provided to the music industry is vastly increased ease of music discovery, sharing, and acquisition for consumers. Labels have traditionally viewed this as a plague rather than a blessing. However, it may be a better business model to encourage and utilize increasing methods of matching consumer preferences to products provided by the Internet. Music has always been a major aspect of our cultural identities. Music fans love sharing music with their friends. Young people especially relate over music and make bonds through fandom. Consumers even purchase t-shirts and bumper stickers to support the artists they love and to advertise their own music preferences and cultural values to the world.

Instead of discouraging sharing with digital rights management, labels should encourage limited sharing. For instance, iTunes could include in each purchase of a full album the option to send one free single from that album to a friend with the option of a discounted purchase. Other possibilities include offering a discounted album with the purchase of two other albums. Literature about music purchases consistently suggests that consumers have certain set budgets for music and recreation. Offering free or discounted options with legitimate purchases will make recorded music seem like a bargain. I don't believe that there are a certain amount of albums that a consumer will acquire each year and that the industry must figure out how to make sure they get the appropriate amount of money for those acquisitions. An individual's music acquisition is very much in flux. Interest generates interest. Increased exposure, sharing, and cheap options for consumers will create more profits than if every consumer paid the correct amount for the music they have. Paid services must out-compete free alternatives.

Labels and artists should look for new and creative ways to increase the availability of music purchases and merchandise. Even if listeners can stream music off the Internet, actual possession of digital music is vital for MP3 players, which will increasingly be fundamental to consumers' experience of music in headphones, through home audio systems, and in cars. I strongly encourage MP3 player manufacturers to continue looking for ways to provide portable wi-fi music stores in MP3 players—similar to ring tone technology in cell phones. Online social networking is another great arena for increased legitimate music acquisition. The website Last.fm offers consumers a music-based online community of taste swapping and free music discovery. Once a consumer decides that they want to make an artists' music part of their personal collection, they will need to acquire the digital files for their MP3 players. Maybe they want to purchase t-shirts or posters. All these products should be made quickly and immediately available on music community websites.

Death to DRM

The above ideas for increasing music sharing and acquisition obviously include the end to Digital Rights Management. Sharing is a fundamental part of today's music experience. I expect that it's safe to assume that the reader can when a friend or relative gave you a free burned CD or emailed you an album, and you in turn purchased that artists next several following releases, attended their concerts, etc. Don't fight small scale sharing; don't complicate music purchasing; don't disallow interoperability. All those things will only frustrate and discourage consumers.

Piracy: friend or foe

Current literature suggests that piracy is responsible for between 0-30% of the decline in album sales from the year 2000. However, there is simply not enough research on this issue to make any definitive claims. It is a very a counter-intuitive notion that illegal downloading is not hurting album sales. However, these issues are obviously more complex in reality than in my non-economist's projections.

Whatever the case, the RIAA is making some very dedicated enemies with their prosecution tactics. Examine www.boycott-riaa.com for a good example. It doesn't seem like a good business plan for an ailing industry to pursue tactics that keep active fans and potential consumers from purchasing music based solely on principle. Fear of prosecution certainly discourages some potential down-loaders and it also probably keeps the Internet from becoming a complete free-for-all, but resentment is also discouraging some potential purchasers. I suggest finding some more fan-friendly and less Orwellian tactics for discouraging illegal file-sharing.

Piracy Surcharge on ISPs

Jim Griffin, a digital consultant for three of the four major labels, has been a chief proponent of the idea that Internet Service Providers (ISPs) should collect a surcharge from their users to be divided between music copyright holders. The argument is that the Internet is like one big radio. Song-writers get paid when their music is played on the radio and Griffin believes that artists are constantly being deprived of deserved royalties when people stream music over the Internet. Furthermore, there is the piracy issue.

This is an interesting idea, but it seems very flawed. Putting an effective music tax on all Internet use just wouldn't sit well with most Internet users. I do not foresee ISPs agreeing to this kind of subsidy unless the government forced them to, and I would be surprised if that happened. I think the industry would be better served to look for synergistic arrangements like YouTube's recent deal with the four major labels. This deal allows YouTube to legally display copywritten content as long as they use their content management tools to keep track of user activity and appropriately compensate artists and labels (Gonzalez).

Different recording contracts

If albums are not selling as well, labels must devise methods to make money without relying completely on album sales. This can mean either looking to emulate the increasing success of many indie labels that generate profit through smaller investments which require fewer sales, or the emerging 360-degree model that major labels are utilizing for bands that they believe can become effective brands rather than just hit-makers. 360-degree contracts allow labels to take a slice of artists' concert, merchandise, and sponsorship revenue.

The availability of inexpensive marketing tools and recording technology make it possible to profit from smaller financial investments. I would expect this to be amenable to label and artist alike if it's effective. It may be less likely to make an artist hugely famous with smaller contract figures, but I believe this is consistent with growing "middle class" of the music industry. The opposite approach of the 360-degree angle seems much more controversial. Artists might understandably be concerned about giving up an even greater portion of their hard-earned money to record labels. On the other hand, artists may welcome the long-term implications and extra support associated with these multiple-rights contracts.

I expect to see both of these trends perpetuate. Artists from independent labels will increasingly take bigger chunks of chart space, advertising background music spots, etc. Major labels may experiment with smaller deals, but will also continue to pursue bigger and more inclusive contracts. They will also continue the current trend of purchasing or partnering with tour and management firms to expand their share of concert and merchandise revenue (www.economist.com/business/ PrinterFriendly.cfm?story_id=9443082).

Subscription services

There are three basic formats for music subscription services. The first involves monthly fees for a limited amount of downloads per month. A second format allows unlimited "borrowing" of music as long as users maintain their subscription fees. The last kind of subscription service gives away "borrowed" music for free, but forces users to sit through significant amounts of advertisements to use the service.

SpiralFrog is one of the ad-based subscription services. This service targets individuals who are willing to spend significant amounts of time if they can download music for free. Users must download songs individually, thereby encouraging users to sit and watch the ads that support the service. Digital Rights Management makes SpiralFrog basically irrelevant, as users can't get music on a Macintosh, an iPod, or a Sony Zune player (http://www.spiralfrog.com/pages/faq.aspx).

Rhapsody also deals in unlimited "borrowed" music, but for a monthly fee. Subscribers then have an option to buy the music permanently. Again, DRM is a major problem for this service because users simply can't transfer this borrowed music onto iPods, Zunes, etc.

Finally, we have eMusic, which offers different pay-based subscription options that allow users to download, keep, and transfer a prescribed number of songs per month. eMusic refused to sell MP3s that would play on any computer or portable MP3 device. This has traditionally meant that only music from independent labels has been offered through eMusic. The major labels' recent willingness to change their policy and sell DRM-free music through Amazon.com may signal a change in the relevance of this kind of service. The business model has been successful for eMusic, but has not gained mass popularity because of a limited amount of music available without major label contracts. The death of DRM will change this. I see this model of subscription service as the most likely to succeed under the industry's current conditions.

As a final note on this issue, the Financial Times have reported rumors that Apple Inc. is looking into beginning a "borrowed" music style subscription service as an option for their already successful iTunes music store. At this point, Apple has declined to comment on this issue (Lundgen).

Videogames

Music video games make up approximately 8% of the 18.8 billion dollar U.S. video game market for PCs, consoles, and portable systems (Hiatt, *Rollingstone.com*; Riley, NPD Group). Music video games, which include games like Guitar Hero now owned by Activision and Rock Band now owned by MTV, allow gamers to play along to pre-existing songs on instrument shaped controllers and dole out points for accuracy. On previous versions, the songs in these games were re-recorded cover versions of popular songs. Now, labels are scrambling to get their original versions of songs in to these incredibly profitable games. The potential in this market is massive. Owners of these games can—and do—download hundreds of bonus tracks to play along to their favorite songs and artists. As Activision music executive explained to *Rolling Stone* in October of 2007, "We're an entirely different revenue stream that the music business didn't have at their disposal five months ago." (Hiatt) Video games will not be a be a long-term solution for the industry's ailments, but I imagine it could provide a much needed revenue shot for the next several years while these games maintain their popularity surge.

Bundling

A major hurdle that the music industry will need to deal with is the rise of digital singles over albums. Consumers now have the option to purchase only a few tracks from an album over the Internet, instead of shelling out for the full package as they would have prior to the Internet era. The result is increasing transactions with decreasing profits. My suggestion is that digital stores offer greater incentives to purchase multiple items simultaneously: free album downloads with the purchase of a t-shirt and a poster; three digital albums for the price of two; 2 free music videos with the purchase of an album, etc. Sadly, the value of recorded music seems to have decreased. Fortunately, however, the cost of distribution has also decreased. The industry is presumably reluctant to contribute to a further devaluation of recorded music by offering excessive discounts as suggested above, but I strongly suggest looking for incentives to encouraging bundled purchases.

CONCLUSION

The causes for the recording industry's downturn beginning in the year 2000 are vast, complex, and intertwined. Piracy may be a partial explanation, but even that has not been proven. Increasing digital distribution in its current form will only exacerbate the problem because consumers are purchasing single songs instead of full albums—causing a decrease in overall profitability of recorded music. Labels must therefore deemphasize massive album sales as a part of their business model. Major labels can no longer focus on creating enormous hits to subsidize less successful artists. They can either imitate the increasingly successful independent model through smaller investment that require smaller returns, or they can involve themselves deeper in an artist's career by investing more and taking a share of profits from touring, merchandise, sponsorship, publishing, etc. Furthermore, labels need to find methods of infusing music sales with greater value by including discounts, merchandise, and bonuses.

Many musicians are benefiting from these new developments in the music industry. There are many new and innovative options available to unknown and famous acts alike. Changes in the hierarchy of album sales and concert revenues taken by artists both suggest a growing middle-class of musicians. Top musicians on major labels make up a smaller percentage of album and ticket sales than they did eight years ago. Furthermore, the market suggests a de-emphasis on album sales and an increase in the importance of the growing concert industry. Massive success may be harder to achieve, but I argue that new egalitarian forms of promotion and distribution make meager to moderate success more plausible than ever. As a musician, I view this as a positive change.

Finally, consumers are the true beneficiaries of the modern recording industry. Digital Rights Management is obnoxious, but it is already disappearing. New technologies make it easier to find new music and acquire recordings than ever before. Social networks allow fans to share music and connect with artists in exciting new ways. It will only get better as labels continue to offer superior services to compete with file-sharing. If there is a downside for today's music consumer, it will be over saturation in a market where any serious musician has the tools for mass marketing and distribution.

REALATION TO MY OWN COMPOSITIONS

My interest in the Recording Industry is quite personal. I am the singer, synth-player, and songwriter for a band with professional aspirations. We are called Red Wire Black Wire and we blend digital and organic sounds into indie-pop songs. We are in the early stages of trying to figure out how best to distribute our music, gain fans, and get paid for out efforts. Our debut EP is attached as part of this thesis and I will briefly describe the history of my band's efforts as a first-hand case-study for the options available to new bands today.

After a year of performing together, the band was offered a recording contract from an independent label. We met the owner of Drivethru Records because our guitarist had played in a band in high school that had garnered some label interest but did not end up getting signed. We played our demos for him and he came to see us play live in Manhattan once. He later sent us a contract for a new, small imprint of Drivethru known as Love Minus Zero Records. The contract offered a $10,000 dollar recording budget and would have obligated us to produce four albums for the label if they didn't drop us before that. Our lawyer said it was one of the worst contracts he had ever seen for an artist—selling our copyrights with no guaranteed tour support, marketing, or distribution. Furthermore, the label owner was consistently rude and difficult to contact. After a year of lengthy lawyer negotiation and rude treatment, we decided not to take the deal and attempt to self-release a five song EP.

Modern, digital, recording equipment is incredibly inexpensive when compared with tape recording technology from twenty years ago. My band recorded most of the material for our EP using our own equipment that we've acquired over the past few years. Basically, all we needed beyond our respective instruments was a digital-audio interface, some microphones, and a computer with recording software. We were also able to sneak in some time with nicer microphones by paying recording students at discount rates.

Drums are more difficult to record, so we paid professionals for the sections on the EP that have live drums. We also paid a professional mixer to help us perfect the sound of our raw audio. Not including the equipment we already owned, we completed the EP with about $3000 worth of studio time. We probably could have done this for significantly less if we recorded drums at a cheaper studio.

We printed 200 copies of the physical CD for $1.80 each and used a website called Tunecore that allows unsigned artists to sell their music on iTunes, eMusic, Amason.com, and Rhapsody Music for a very small fee. We also maintain a Myspace.com page so people can sample our music, and we use Facebook.com to promote performances. Lastly, we've sent free copies of our EP to various blogs that we know about from Hypem.com's list of top blogs. The release has been mentioned on five websites so far, one of which was feature on a high traffic website called RCRDLBL.com. Without these social networking websites and blogs, I don't know how anyone outside of our friends and family would know about us.

Last week, we were given a proposal from a new "digital label" called Tough Customer. This label focuses on Internet publicity utilizing blogs, social networks, P2P sites, and search engines. In their written proposal to us, the label argued that recorded music should serve mostly as a promotional tool for the band while generating profits from "alternate revenue sources" such as "merchandise," "tickets," and “licensing opportunities and placements in films.” The deal would be similar to a 360-degree contract where the label would take 20-40% of all of Red Wire Black Wire’s profits including touring, merchandise, publishing, and album sales. I’m not convinced that this deal is a good option, but I am interested in the idea of a single profit-share based service that functions as a publishing company, booking agent, and manager, and record label.

LIST OF MUSIC WEBSITES

Here I present descriptions of several websites relevant to this paper. Many of the descriptions are quoted from the online encyclopedia Wikipedia.com or from the websites themselves.

Myspace.com: “**MySpace** is a social networking website offering an interactive, user-submitted network of friends, personal profiles, blogs, groups, photos, music and videos for teenagers and adults internationally.” “MySpace operates solely on revenues generated by advertising as its user model possesses no paid-for features for the end user.” “According to Alexa Internet, MySpace is currently the world's fifth most popular website, and the third most popular website in the United States, though it has topped the chart on various weeks.” Myspace allows users to post their music, videos, bios, tour information, pictures, etc. on their personalized pages.” (wikipedia) Myspace also provides methods of directly contacting other members of the massive network for free marketing. For instance, bands can look through “friend lists” of similar artists and contact those fans who are most likely to be interested in their music. Furthermore, musicians can now sell their MP3s directly from their myspace pages through an imbedded store provide by snocap.com

Facebook.com: “ The website has more than 64 million active users worldwide. From September 2006 to September 2007, the website's ranking among all websites, in terms of traffic, increased from 60th to 7th, according to Alexa.” (Wikipedia) Facebook has recently started allowing musician pages similar to those of Myspace.

iLike.com: “iLike has a free Facebook application which allows users to play clips of music they like on their profile, show concerts they are going to and play a music trivia quiz. The application had great success after its release, making it one of the most popular applications on the Facebook Platform. As of November 2007, iLike has more than 15 million users. With the launch of Facebooks Pages, iLike now creates pages for bands.” (Wikipedia)

Youbtube.com: “**YouTube …** is a video sharing website where users can upload, view and share video clips.” All 4 major labels have now signed deals with google—youtube’s owner—agreeing to compensate labels for music video publication.” (Wikipedia)

iTunes: “iTunes is a digital media player application, introduced by Apple on January 8, 2001 at the Macworld Expo in San Francisco, for playing and organizing digital music and video files. The program is also an interface to manage the contents on Apple's popular iPod digital media players as well as the iPhone. Additionally, iTunes can connect to the iTunes Store via the Internet to purchase and download digital music, music videos, television shows, iPod games, audiobooks, various podcasts, feature length films (available only in the USA), Movie Rentals and Ringtones.” (wikipedia) iTunes is the second largest music retailer.

Amazon.com: "launched in 1995, Amazon.com began as an online bookstore but soon diversified its product lines by adding VHSs, DVDs, music CDs, MP3s, computer software, video games, electronics, apparel, furniture, food, toys, and more." (Wikipedia) In 2007, Amazon.com signed agreements with all 4 major labels to sell MP3s online without any DRM restrictions.

Oink.cd: Oink's Pink Palace "(frequently written as **OiNK**) was a prominent BitTorrent tracker located at Oink.cd (previously Oink.me.uk), which operated from May 30, 2004 until October 23, 2007, when it was shut down by police. Copyright agencies described Oink as an online pirate pre-release music club; former users described it as one of the world's largest and most meticulously maintained online music repositories. About a month before the shut-down, music magazine *Blender* elected Oink's creator, Briton Alan Ellis, to their *The Powergeek 25 — the Most Influential People in Online Music* list" (Wikipedia)

Waffles.fm: launched almost immediately after police shutdown OiNK. Access to this site is available by invitation only from pre-existing users. The following is taken from their front page (note that 10/23/07 was the date OiNK was shutdown:

"-The sale of invites to this site (www.waffles.fm) is strictly forbidden and results in both the inviter and invitee losing their accounts.
-Membership is free, users do not pay to have access to this site (www.waffles.fm). We do not make any profit from this website (www.waffles.fm)

-We do not force our members to donate.

-None of the files shown here are actually hosted on this server. The links are provided solely by this site's users. The administrator of this site (www.waffles.fm) cannot be held responsible for what its users post, or any other actions of its users. You may not use this site to distribute or download any material when you do not have the legal rights to do so. It is your own responsibility to adhere to these terms.

-If you've been disabled on the 18th of February (GMT), kindly join the IRC help channel.

-Never forget. 10/23/07" (Waffles.fm)

eMusic.com: "EMusic is an online music store that operates by subscription. It is headquartered in New York, New York, and owned by Dimensional Associates, LLC. As of March 2007 eMusic has over 250,000 subscribers, which makes it the largest subscription-based online music store.

EMusic differs from other well-known subscription music services (such as Napster and Rhapsody) in that the files available for download are in the MP3 format, making them fully compatible with all digital music players, and free from digital rights management software restrictions such as expiration dates, or copying or CD burning limitations. (Wikipedia)

While lauded by many, the lack of digital rights management (DRM) encoding and low price model have made the service unappealing to the Big Four record labels, leading it to specialize in underground artists and non-mainstream music genres, including indie rock, pop, jazz, electronica, new age, underground rap, traditional music, classical music, and experimental music, all on independendent labels." (Wikipedia)

Last.fm: "Last.fm is a UK-based Internet radio and music community website, founded in 2002. It claims over 15 million active users based in more than 200 countries. On 30 May 2007, CBS Interactive acquired Last.fm for £140m (US$280m), making Last.fm the largest European Web 2.0 purchase to date.

Using a music recommendation system known as "Audioscrobbler", Last.fm builds a detailed profile of each user's musical taste by recording details of all the songs the user listens to, either on the streamed radio stations or on the user's computer or portable music device. This information is transferred to Last.fm's database ("scrobbled") via a plugin installed into the user's music player. The profile data is displayed on a personal web page. The site offers numerous social networking features and can recommend and play artists similar to the user's favourites." (wikipedia)

SpiralFrog.com: "SpiralFrog is entirely supported by advertising, allowing free download of its music. The ads are presented in the form of banner ads much like any news website rather than in the form of popups or adware. Songs downloaded from the service can not be burned to a CD, put on more than two portable devices and will not work on Mac OS X or the Apple iPod, iPhone, or the Microsoft Zune." (Wikipedia)

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