



# The Effects of Illegal Downloading on the Record Industry Association of America (RIAA)

Prepared for Dr. Le Roi Smith

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# Table of Contents

List of Tables and Figures	4
Executive Summary	7
Introduction	10
Problem Statement	12
Research Objectives	12
Research Methodology	14
Results	19
Secondary Research	19
Stats from SoundScan	26
Expert Interviews	26
Chris Solaczek of Nettwerk Productions	26
• Pinto, Lead Guitarist for Universal Music Group Recording Artist, Crystal Pistol	27
Paul Laine: Solo Artist & Lead Vocalist of Danger Danger	29
Survey	32
Survey Statistics	36
Conclusions and Recommendations	38
Limitations	40
Appendices	42
Secondary Research	42
The Digital Millennium Copyright Act of 1998	42
Origins of illegal downloading	43
RIAA: Their Opinion of Illegal Downloading	44
RIAA: Clarification of Sales	46

Record Labels: The Missing Link in the Distribution Chain	47
PBS/Frontline Interviews	47
Artists Against Downloading	50
Rob Zombie	50
Paul Stanley	51
Artists Who Support Downloading	51
• Janis Ian	51
Increase Product Line - Merchandising: The Alternative To CD Sales	52
CRIA (Canadian Record Industry Association): 2006 Case Study	53
The NPD Group: The Decline in Music Sales from 2007-2009	53
The Survey	55
Expert Interviews	57
Chris Soloczek of Nettwerk Productions	57
Crystal Pistol's Lead Guitarist: Pinto	58
Paul Laine: Solo Artist & Lead Vocalist of Danger Danger	61
Nielson SoundScan Top Ten Album Sales (2000-2009 unit sales)	64
Bibliography	67

# List of Tables and Figures

Table 1: Record Labels Changes 1988-2010	22
Table 2: Correlation Analysis (Digital Track Sales and Album Sales	24
Graph 1: How Often The Sample Size Illegally Downloads Music	30
Graph 2: Respondents That Purchased CDs Within The Last Calendar Year	31
Graph 3: Reasons For 73% of Respondents Do Not Purchase Music	31
Graph 4: Reasons For The Importance For Pirated Music	32
Table 3: Correlation Between Free Downloading and CD	34
Table 4: Sales RIAA Documented US Recording Industry	43

Thee Effects of Illegal Downloading on the Record Industry Association of America (RIAA)	Page 5







# Executive Summary

The main objective of this research study is to determine whether there is a correlation between illegal file sharing and the decrease in compact disc (CD) sales as stated by the Record Association of America (RIAA). Other secondary objectives involved other variables contributing to the decline in CD sales. These variables include the lack of label representation for artists, the quality (or lack thereof) of music being released, and merchandising and legal online distribution through payable download sites such as iTunes.

Primary research was conducted two ways, in-depth interviews with two musicians, (international and national) and a representative of a record label. The consensus opinion of these industry experts is that music piracy has changed the music industry and that CDs will become obsolete due to the change in consumer preference from CD to MP3 files available from the internet. Artists now rely on expanding product lines through merchandising and concert touring to generate additional revenue. The industry experts interviewed also advised that the decline in CD sales was not solely due to music piracy but also due to the poor quality of music, fewer distribution channels, loss of market share, and the treatment artists receive from the recording industry. A quantitative survey was conducted with a sample size of eighty residents in Metro Vancouver. The major results of these surveys indicated that there is a shift in consumer preference of distribution channels from brick and mortar to online channels such as iTunes. The results also indicate that fifty percent of the respondents that illegally download and continue to use file sharing software, admit to have purchased at least one CD in the past six months.



Secondary research was done with a previous case study done by students at Harvard University and North Carolina University on the effects of illegal downloading and CD sales, which indicated that file sharing has only had a limited effect on the CD sales. Further secondary research was conducted with trends in the US music industry, artists' point of views of illegal downloading, both positive and negative, and RIAA CD sales from 2000-2009. Although the RIAA definition of sales is misrepresented to the public, there are music industry people that are taking full advantage of the opportunities that are being presented to them by way of the emergence of new technologies.

After reviewing all this data, there is a correlation between illegal downloading and declining CD sales, however, it is not the sole reason. Poor products (music quality), expensive CD prices, and the convenience to download all play a part in declining CD sales. Survey results indicate that even though respondents have the ability to download free music, fifty percent of them choose to support artists by purchasing CDs. Survey results also indicate that the quick and easy aspect of the downloading process was considered far more important than free nature of illegal downloading. The secondary research indicated that there has been a shift in the preference of distribution channels, as digital single track sales have gradually increased over the past five years, while the overall album sales have incurred a significant loss over the same period of time.

We recommend that the recording industry should reposition themselves in the market and focus on the online distribution channel, to embrace instead of not accepting it. They should also focus on digital singles sales and not just full digital album sales as consumer preference has switched from full album purchasing, to single music track purchasing.







#### Introduction

This research study was conducted to determine if there is a correlation between illegal downloading and the decrease in compact disc (CD) sales as stated by the Record Industry Association of America (RIAA). The RIAA state music piracy, (one who makes use of or reproduces the work of another without authorization<sup>1</sup>), is negatively affecting sales of music CDs.. Illegal downloading, also known as file sharing or person to person file sharing (P2P), is a very popular and common activity done over the internet. Music files are uploaded on to the internet and people can download those files without paying a fee. The RIAA has made numerous claims since 1999 that illegal downloading has led to a decrease in CD sales in the United States of America (USA).

This report aims to discover if there is a correlation between illegal downloading and the loss of sales in units for CDs in the USA. There are many variables that could also affect the decrease in CD sales. Legal downloading through sites such as iTunes, a decrease in artists releasing CDs, independent CD sales at artists' concerts and websites, fewer record labels distributing CDs to retail outlets, and the quality of music being released could all play a part in the decrease of unit sales that the RIAA has continued to claim is as a result of illegal downloading..

<sup>&</sup>lt;sup>1</sup> The term "piracy" has many meanings. When this term is used in the contents of audio or video, this is a direct meaning for the use of unlicensed material for your own personal use or gain. This term is taken from "www.thefreedictionary.com/pirated",



# Problem Statement Research Objective

#### Problem Statement

The record industry has stated that illegal downloading has negatively affected the music business.

# Research Objectives

The RIAA is claiming that a decrease in unit sales for CDs since 1999 is in direct correlation to the existence of illegal downloading and/or file sharing. The purpose of this research study is to determine whether such a correlation exists or if there are other factors that are contributing to the decrease of sales for CDs.

Other objectives of this study are:

- 1. Is there a correlation between the lack of label representation and the decrease of CD sales
- 2. Determining if there are correlations between a decline in sales and the quality of music being released
- 3. Newer business models, such as merchandising and legal online distribution through iTunes and other payable download sites, have compensated for a decrease in CD sales

Our research topic is whether illegal downloading has truly negatively impacted the recording industry by contributing to declining CD sales. The purpose of this research study is to determine if this is the sole reason for the decline in CD sales and, to what degree, the other variables mentioned have contributed to this problem as well.



Research Methodology



# Research Methodology

This report was conducted between January 28, 2010 and April 8, 2010 using quantitative and qualitative methods. Exploratory research has been carried out to conduct secondary and primary research about artists' opinions, consumer thoughts, and the points of view of various professionals working within the music industry. This research was conducted to understand if music piracy has negatively impacted the revenues of the music industry. Secondary research was conducted to determine the nature of our research, followed by our field research, which consisted of a detailed survey and expert interviews.

The team started the research project by commencing exploratory research in order to define music piracy, illegal downloading and file sharing. Upon gathering this data, differing opinions on the issue were found. Data on the sales trends and revenue earnings of the recording industry were also researched in order to understand how the sales numbers changed per year. One member of the group was designated to look for previous studies on music piracy and found secondary research on Harvard's case study. The study mainly contained results of album sales trends over the last ten years.

Methodology for expert interviews varied upon the interviewee. The interviews were conducted to gain insights into the music industry. Furthermore, the interviewees were chosen from different fields within the recording industry, resulting in the selection of two artists and one professional within the recording industry.

#### Sample Design

The target population for this study was intended to be Americans ranging from 18 to 35 years of age. The appropriate sampling frame was based on a convenience selection process, and the primary sampling units selected for this study were the students of pre-selected Kwantlen Polytechnic University classes, and the secondary unit was residents of Coquitlam. The sample size, as decided upon by the group, was eighty respondents. Twenty-nine of the respondents



were Kwantlen Polytechnic University students and fifty-one of the respondents came from the Coquitlam BC area. A survey of seventeen questions was conducted to determine the correlation of file sharing on record album sales. The response rate was at ninety-eight percent, as twenty six of the total 1280 administered questions were unanswered.

#### Fieldwork and data collection

The field workers involved in the survey were three Kwantlen Polytechnic University students. The field workers were under no supervision from anyone else. The data collection occurred on three different days. On March 29, 2010 at 8am, Mohammed Pannun, and Simon Ali surveyed Kim Renwick's Marketing 1199 class in room G3045 on Kwantlen's Surrey campus. The second survey was conducted by Mohammed Pannun on March 30, 2010 at 7pm for Kim Renwick's Marketing 1299 class in the G3045 room at Kwantlen's Surrey campus. The other surveys were completed by residents of the Coquitlam area from March 25 to March 27 by Jeff Wright. The surveys were conducted at Coquitlam Cactus Club Cafe and the surrounding area.

The results of the survey were verified by the administrators on all the surveys, and clear instructions were provided on the top of each survey that stated "The goal of this survey is to identify a potential correlation between illegal downloading and the decline in CD sales. The following survey is being conducted for a group term project for MRKT 2340. All information submitted will only be seen by the group members and our instructor. This information will not be given to any other groups or organizations. We appreciate your participation in our survey and we guarantee your anonymity. Your name will not be used in this survey." This statement was also read out by the administrators at the start of the surveys.

#### **Analysis**

The statistical analysis used to understand the survey results were mainly descriptive statistics such as, percentages for each of the answers to understand the changes occurring in the preference of distribution channels among the consumers, and the purchase behavior



demonstrated by these consumers. One of the key questions from the survey was "What is your preferred method of purchasing music?" The answers to this question provided insight into current consumer behavior related to the purchasing of music. The responses to the sixth question on the survey, "When did you last purchase an audio CD at a retail store or online?" were analyzed to determine whether or not the respondents pay for their music. Question ten was also very important because the responses provided an understanding of why the respondents pirate music. Question eleven was designed to provide insight into why individuals choose not to purchase music from retail locations. In order to further understand why people download music illegally, the survey included a question on rating the importance of three different popular reasons to pirate music.

The second form of fieldwork conducted was three expert interviews. All three interviews were in a setting in which both parties were secure, comfortable and in a trustful position. All questions were standardized, open ended, unstructured, undisguised, and geared towards the primary objective of whether or not illegal downloading has impacted CD sales. An expert interview was conducted to get a sense of how the people in the industry feel about file sharing and how they believe the music industry can embrace it while still remaining profitable. Note that no tape recorder was used for any of the interviews; the group instead took notes verbatim.

On March 1, 2010, Simon Ali conducted an interview with local rock musician, solo Artist & Voice of Danger, Paul Laine. In this interview, Simon's goal was to touch on the artist's views and opinions regarding the channels of distribution of music. "What do you think artists should do to get their music to the people?" This question was designed to gain information on a music artist's perception on the future of music distribution. These questions were also designed to help the research team understand variables involved in the decline in CD sales and how the channels of distribution for music have changed. This interview was also a face-to-face question and answer type of interview that carried on for forty-five minutes.



On March 10, 2010, Simon Ali conducted an interview with the lead guitarist for the now defunct hard rock band Crystal Pistol. During the interview, Simon inquired about two significant points. The first goal was to understand if the record labels made any major mistakes that would prompt a decline in sales. The second goal of the interview was to gain insight into whether music artists feel that CD sales are decreasing because of downloading. Simon spent thirty minutes conducting this question and answer based interview.

On March 29, 2010, Jeff Wright conducted an interview with Chris Solaczek of Nettwerk Productions, an umbrella company of The Nettwerk Music Group. The interview with Chris was a casual one on one question and answer interview, which lasted approximately thirty minutes long. During the interview, Jeff asked several key questions that helped attain the goals of meeting the research objectives. The first question asked was, "Do you feel that music piracy has been the sole cause for the decline in music sales?" This question is designed to provide an indication regarding how much music industry professionals feel that piracy contributes to declining music sales. Another question asked was designed to determine whether the industry attempted to develop any different channels of distribution since the decline in CD sales became evident. This question was also designed to elicit information that may provide an understanding of the business models of record companies and strategies that they may be using to deal with the changes that the industry was facing.



# Results: Secondary Research Expert Interviews Surveys

#### Results

#### **Secondary Research**

Full secondary research reports are available in the Appendices.

The Digital Millennium Copyright Act (DMCA) was signed by President Bill Clinton and came into law on October 28, 1998. The DMCA is the law that states that copying and/or uploading copyrighted music is illegal unless the music has been copied for personal use (only). Copyright owners of sound recordings (and certain digital performances to the public) are protected by the U.S. Code from unauthorized use. Those in breach, for even only the first time, are punishable by as much as up to 5 years in prison and \$250,000 in fines. Offenders face criminal penalties even if the intent was not for financial gain.

There does not appear to be any kind of correlation with the enactment of the DMCA and album sales. One might be of the impression that the DMCA would have discouraged music file sharing to the point that album sales would have remained relatively flat, however, album sales continued to decline and music file sharing continues to be rampant in the U.S. The distribution channel that has emerged through legal music file purchasing from websites such as iTunes has likely contributed to the decline in album sales as well. Finally, there is also



the possibility that the quality of music, in consumers' opinions, is not high and could also contribute to a decline in album sales. The DMCA, itself, does not appear to have had a major impact on album sales.

Since 1999, the RIAA has made claims that illegal downloading is contributing to the decline in CD sales. For over eleven years, the RIAA has stated there is a direct relationship between illegal downloading from the internet, via file sharing applications such as Lime Wire, Kazaa, BitTorrent, and Napster, and the decrease in sales of Compact Discs (CDs). Mitch Bainwol, chairman and CEO of the RIAA since 2003, states "it was obvious that illegal downloads were



hurting music sales. It was obvious because the advent of file sharing coincided with a decrease in music sales. Therefore A led to B" (Cuban, 2005).

RIAA definition of sales is misrepresented to the public. In 2004, Harvard University and the University of North Carolina published a report that states "file sharing has only had a limited effect on record sales. While downloads occur on a vast scale, most users are likely individuals who would not have bought the album even in the absence of file sharing" (Oberholzer & Strumpf, 2004, p. 3).

Mark Cuban is an American entrepreneur who owns the National Basketball Association (NBA) team, the Dallas Mavericks. He is also the owner of Landmark Theatres, Chairman of HDNet, and a current internet blogger. Mark Cuban has spoken to Mitch Bainwol (CEO of the RIAA) to get more information on just how the RIAA is affected, be it positively or negatively, by illegal downloading. According to Cuban, "The sales are not the total sales of all music, but the sales of only the 100 top charting CDs each year. The point he's making is that those numbers can't be used as proof of declining overall sales, but can suggest declining market share for the RIAA's members and big name artists like Britney Spears" (Cuban, 2005).

The Canadian equivalent to the RIAA, The Canadian Record Industry Association (CRIA), conducted a case study in 2006. Mike Masnick of the website, "The Tech Dirt" reviewed this case study. Masnick states "there have been plenty of academic studies over the years that have suggested that file sharing (a) doesn't hurt the music industry, and may help it and (b) the reason music sales are down often has nothing to do with file sharing. However, every time this evidence is presented; the recording industry ignores it, and trots out its own, often questionable, studies instead" (Masnick, 2006). In his article, he states how the RIAA has done their own study and because the outcome was not what they expected, they kept the details very quiet. Masnick goes on to say, "the study pretty much disproves much of what the recording industry keeps claiming. It shows that those who download music from file sharing services are the



people who tend to buy the most music. It also shows that teenagers (who we're told repeatedly never buy CDs) are actually the biggest purchasers of music CDs" (Masnick, 2006).





Recording artists do not share the same point of view on illegal downloading. Some artists are against it and some embrace the new form of distribution. Artists like Rob Zombie and Paul Stanley are against the idea of illegal downloading and file sharing. Artists such as Janis Ian embrace illegal downloading and have been vocal about it over the past twelve years. Rob Zombie states "I don't know what is going to happen, probably because in another year people won't even bother manufacturing CD's, no one will even want them. The

Rob Zombie

downloads do not match up with the record sales, so you know people are stealing mostly everything. The touring business is still really good, but now you are starting to get these artists that are really raping and pillaging the crowds and tickets are \$200 - \$500. The industry seems to be eating itself, and it's kind of a bummer" (Muñoz, 2007). Paul Stanley, front man for the rock

band KISS is strongly against illegal downloading. Stanley states "Downloading is one of the tragedies of the 21st century. Under the guise of technology and fancy jargon, people have legalized stealing. When you say you're sharing files . . . you can't share what you don't own. I can't share your car. Sharing something with one person is one thing, sharing with tens of thousands of people is a crime. It's robbery" (Adams, 2007). Both artists did not state how they know that illegal downloading is affecting CD sales. This could be seen as a personal statement that does not have the facts to be backed up.



Paul Stanley of KISS



Janis Ian (courtesy of RIAA)

Janis Ian is an American singer from the 1970's, believes the RIAA have taken extreme measures to stop file sharing, because of a couple of reasons: the fear of losing control of their own environment and blindly following rules that have outdated the industry's own existence. Ian goes on to express her beliefs that the RIAA is hesitant of adopting a new business model, because of the losses they could suffer for its older business model. Janis Ian is an artist who like the

publicity and promotion associated with global file sharing/illegal downloading.



The NPD Group, a leader in market research for the entertainment industry, [2] says "twenty-four million fewer people bought music in 2009 compared to 2007" (Peoples, 2010). Vice President and Senior Analyst, Russ Crupnick, of The NPD Group, presented some insightful data on USA music purchases from 2007 to 2009. He states, "there were thirty-three million fewer CD buyers in the USA and twenty-four million fewer music buyers in total, a 21% decrease. As the number of music buyers declined, the average amount spent by each buyer rose 2%. That implies a 19% drop in total music spending over those two years, according to Billboard's calculations. Digital spending, on the other hand, rose 52% to \$50 a year per digital buyer" (Peoples, 2010).

The report by The NPD Group includes details about a significant number of consumers that stopped buying CDs in each of the last two years, (2007 to 2009). There were seventeen million fewer CD buyers in 2008 compared to 2007, resulting in sixteen million fewer people that bought CDs in 2009. An earlier study from last year, 2009, stated that there were thirteen million fewer music buyers in 2008 compared to the prior year. The study indicates a large drop in the number of files traded via P2P networks. According to Crupnick, "lower quality, threats of spyware, competition from legal services, and music shared through other means such as transfers from external hard drives were a reason for the drop in P2P file trading. Another plausible factor in the decline, not mentioned by Crupnick, could also be from file delivery sites such as Mega Upload" (People, 2010). Just like the CRIA case study of 2006, this case study cannot find a direct correlation between illegal downloading and the decline in CD sales.

In 2004, PBS did an extensive interview with record label presidents, recording artists, record producers, and entertainment managers. Their objective was to also find a correlation between illegal downloading and the decline in CD sales. These interviews, titled "The Perfect Storm", shed light on the other variables that contributed to the decline in CD sales. The consolidation of record companies, MTV, Wal-Mart, and illegal downloading all play a part in the state of the recording industry.



Big Six (1988-1998)	Big Five (1998-2004)	Big Four (2004-2008)	Big Four (Since 2004)
1. Warner Music Group	1. Warner Music Group	1. Warner Music Group	1. Warner Music Group
2. EMI	2. EMI	2. EMI	2. EMI
3. Sony Music	3. Sony Music	3. Sony BMG (Joint	3. Sony Music Entertainment
4. BMG Music	4. BMG Music	venture between Song	(Sony acquires 100% of
5. Universal Music	5. Universal Music Group	and BMG)	BMG)
6. Polygram	(Polygram was bought by UM	C4. Universal Music Group	4. Universal Music Group

Table 1: Record Labels Changes 1988-2010

Danny Goldberg, President of Gold Vision Entertainment and David Crosby, International Recording Artist both stated that the "corporization" of the record companies has attributed to the decline in market share for the recording industry. Goldberg states "corporization; thinking too corporate, not giving their "products" enough time to develop, or they are shipping out their "products" before the product is actually completed, so what you have is a retail shelf full of unfinished or rushed products, products being the artists, weak products is equating to a lack of sales" (PBS, 2004). David Crosby added that "record companies no longer being run by music enthusiasts; people who know nothing about the industry are running record companies. "They are trying to run it as if they're selling widgets, plastic-wrapped widgets that they can sell more of. And they want easily definable, easily accessible, easily creatable, controllable product that has a built-in die-out, so that they can create some more. Has become a numbers game, and the companies are pulling the plug on bands after even a first record, they're not giving their "products" enough time to develop, or give a second, third, or fourth effort" (PBS, 2004).

Michael Guido, partner with Carroll, Guido, & Groffman, LLP, an entertainment law firm based in New York City, believes MTV played a vital role in the decline in CD sales. Guido states, "I think MTV was the beginning of the end for the recorded music business, in that it solidified a mindset that exalted marketing over substance. The recording company's main concern was establishing a single and a video to go with it play the thing on MTV and sell the albums, regardless of if that album contained three quality songs or not; distribution/promotion and price took over, while the products quality was only secondary." (PBS, 2004)



There is also David Gottlieb, Senior Vice President of Marketing and Artist Development with RCA Music Group. Gottlieb states "ironically, the Best Buys and Wal-Marts are the bulk of the recording companies business, but for the Wal-Marts and Best Buys, those same record companies are only equivalent to 1/10th of 1 percent of total revenue (in Wal-Marts case), and to Best Buy about 3-5% revenue. Out of 30,000 records released a year, 750 make it into Wal-Mart, also, bands are forced to record "clean" versions of their songs in order to be distributed at Wal-Mart, and they decide which CDs to adopt based on what they think is going to sell. Wal-Mart is such a dominant force in the retail market, and in some cities and countries the local Wal-Mart might be the only place within 30 miles to buy a CD, and if Wal-Mart doesn't distribute that product, then it is unlikely that a consumer will venture to a farther store to look for the CD's that Wal-Mart chooses not to distribute." (PBS, 2004)

Toure is an American novelist, music journalist, cultural critic, and television personality based in New York City. He believes it is a demographic concern. He has said that the demographic over the age of thirty-five are purchasing CDs, however the consumers under twenty-five want to purchase MP3s and singles and would rather download for free than waste money on a CD in which they will only like one or two songs. Toure believes the record industry has to market singles to teenagers again, like it was done in the 1960's. According to Toure, the only people to blame for the decrease in CD sales are the record companies.

Technology has played a big role in the way music is distributed and how it is listened to by the consumer. In 2001, Apple Computers introduced to the market a revolutionary product called the iPod. Apple was well-positioned for the digital music industry and is now a leader in portable MP3 players. A few years prior to the iPod was the launch of iTunes. iTunes is a safe and reliable software that allows the consumer to copy songs from purchased CDs, directly to their computers' hard drives. iTunes made it easy to listen to music without playing a CD. By 2004, Apple launched the iTunes store. Consumers could now pay to download an enourmous amount of music from every genre



imaginable. By 2005, seventy percent of legal music downloads was directly through iTunes.

#### Stats from SoundScan

	2005	2006	2007	2008	2009	Variance
DIGITAL TRACK SALES (in millions)	352.7	581.9	844.2	1070	1159	112841.8
OVERALL ALBUM SALES (in millions)	654.1	646.4	584.9	535.4	498.8	4607.387

Table 2: Correlation analysis between digital track sales and overall album sales

Covariance = -17726.7132

Correlation coefficient = -0.77743804

The correlation analysis suggests that there is a strong inverse relationship between total album sales and digital track sales. This analysis suggests that in the last five years total album sales have been negatively affected by the rise in digital track sales.

#### **Expert Interviews**

Each expert interview is available in it's entirety in the Appendices.

#### **Chris Solaczek of Nettwerk Productions**

On March 26, 2010, Jeff Wright conducted an interview with record label representative, Chris Solaczek of Nettwerk Productions, an umbrella company of The Nettwerk Music Group. The Vancouver-based company has offices in New York, Los Angeles, London, Boston, Nashville, and Hamburg. Nettwerk handles the careers of artists like Sarah McLachlan, K-OS, and Sum 41.



Chris stated that music piracy has changed the industry. Record labels are not successful as they were ten years ago, from the major CD sales of the 1990's and by 2000, the market size of the industry decreased. He believes CDs are

by Simon Ali, Rajan Khaira, Colton Little, Karan Narula, Mohammed Pannun, Jeff Wright



worthless compared to the past and record labels are not making money and going out of business. Chris also states that artists must tour and sell merchandise to generate revenue instead of just rely on CD sales. He believes talented artists are becoming popular because talent is what drives the industry and not record labels like in the past. Chris does think there is a positive effect to downloading illegally, he states that the quality of music has increased and artists who would not have become popular in the past, now have a chance to be because the market size has increased with the accessibility of the internet on a global medium.

The "360 Deal" is what the record industry is now doing to generate revenue from artists. What this does is ensure the record labels get a percentage of revenue from all merchandise sales from each artist. Chris mentioned that the business model for the record companies has changed. Due to the online presence and popularity of MP3 files, labels now can rely on this new method of distribution. He believes that there will not be a physical format to replace CDs, (like vinyl was once replaced by CDs, 8-Track was replaced by cassette tapes). Chris states that music will soon

Pinto, Lead Guitarist for Universal Music Group Recording Artist, Crystal Pistol On March 10, 2010, Simon Ali conducted an interview with lead guitarist for the now defunct hard rock band, Crystal Pistol. The local Vancouver band was signed to Alert Records, a subsidiary company of Universal Music Group. Crystal Pistol released one full length CD on February 2, 2005 and broke up in August of 2009.

Pinto claims that the record industry mistreats artists, and that they themselves, created the issue that the record industry is going through right now. Pinto believes that illegal downloading has played a small part in the decline of CD sales, but he does not believe it is the sole reason. He is against illegal downloading because, as an artist, he does not get any revenue from those who choose to download for free. He does state that it is the record labels greed that has contributed to the decline in CD sales and the record industry's market share. Pinto feels that the record industry abuses artists and refuses to sign other artists who deserve to have their music heard by the music buying consumers. By not signing artists, the artists are now left to distribute their music on their own, through the internet and mail order. This, in turn, causes the record industry



to lose sales. Pinto gave an in-depth analysis of what occurred to Crystal Pistol and why they did not reach the level of success they deserved.

Crystal Pistol were expected by fans and critics, to follow in the footsteps of hard rock giants Guns n' Roses and Mötley Crüe. However, Pinto discussed the issues that soon surfaced once their debut CD was released on February 2, 2005. He, along with the other members of the band, felt that their record label did not want to support and nurture their career as they



were once promised when they signed a deal with Alert Records. Promotion for the CD was minimal as the band was scheduled to only have four interviews on local rock radio stations in Vancouver, Calgary, Regina, and Winnipeg. The first sign of an issue was when their record label refused to ship more CDs to retail locations in Winnipeg once the first shipment sold out. Retailers were advised that they would not receive any more copies of their CD. The entire band and management team did not know why this was happening. In total, only 1000 copies of the CD were sold in Canada. The band was able to sell more copies through their website. The first single from the CD, "Watch You Bleed" had no effect on rock radio in Canada and they did not have a distribution deal with the USA. "Watch You Bleed" was not the right single to lead off the CD as it was not a song that could reach the target market that Crystal Pistol should have been marketed towards.

The entire band felt that the record label had misrepresented the band and was set up for failure. A second single, "Rock Star", was also released and had even less impact than the first single. This song should have been the first single as it has an appeal to the segment of the target market Crystal Pistol was reaching for. Their album was mixed by Mike Fraser, who is best known for his work on Mötley Crüe's biggest selling CD, 1989's "Dr. Feelgood". At that time, Mötley Crüe was on an extensive world tour and Crystal Pistol's big break could have been as special guests on this tour. Mike Fraser advised Crystal Pistol to ensure that their management would



secure a deal to join the tour, but neither their management, nor the record label, did anything to nurture their career.

Two months after their major label debut CD, Crystal Pistol were left bound to a contract with a label that now owns their music and does not want to support the band. A two year legal battle to break their contract overshadowed the creativity within the band. Once they were able to leave the label, they soon found out that they did not own their own master recordings and that the label has full rights to use their songs at any given time. Without a label to distribute their music, the band was not sure of their future until an independent promoter in Europe decided to bring the band over on a tour that took them from the United Kingdom, France, Italy, Austria, Germany, and other countries of the European Union. The band was re-energized and ready to play live once again. Classic Rock Magazine, United Kingdom's biggest selling rock magazine, gave the band a glowing review and a full page article. Upon their return home, the band did enter the studio with their own money so they could send new music to other record labels. After ten different labels turned them down, the band decided to manufacture their own CD and sell their music directly through their website. Even though Crystal Pistol sold more copies without the assistance of a label, the band decided to break up in August of 2009.

If other artists are treated as poorly as Crystal Pistol than this is another reason as to why artists are selling their CDs directly and not using the help of the record industry. Declining sales are attributed to artists who are not signed to labels that are represented by the RIAA. The consumer will then directly shop at the artists' website because it is the only way to purchase their product.

#### Paul Laine: Solo Artist & Lead Vocalist of Danger Danger

On March 1, 2010, Simon Ali conducted an interview with local rock musician, Paul Laine. Paul has released two solo albums and five with the New Jersey hard rock band, Danger Danger. Paul is an international artists with distribution throughout North America, Europe, and Asia. He has also toured extensively all over the world. In 1990, Paul released his first solo studio album, "Stick It In Your Ear" via Elektra Records (a part of WEA Music). He had more success and sold more CD's in the USA than in Canada. In 1993, Paul fronted Danger Danger and went on to record five albums and toured the world over. In 2006, Paul returned to Vancouver to open a new recording studio and pursue his solo career once again.





Paul Laine (centre) with New Jersey rock band, Danger Danger (photo courtesy of www.myspace.com/paullaine)

Paul Laine has seven CDs sold worldwide since 1990. He has seen the industry change from musical styles to the format in which music is distributed. Paul states that the recording industry is a fragile business that is run by people who are not fans of music. He believes their greed has turned the industry in to the state it is currently in, with diminishing CD sales and artists struggling to have their product heard to the music buying consumers. As a recording artist, Paul is against illegal downloading and file sharing and has seen how artists have to increase their product line

and sell merchandise and tour extensively to promote themselves and their music.

Paul has felt the repercussions of illegal downloading as he is not selling as many units as he did in the past. Since he has distribution in North America, Europe, Australia, Asia, and South America, he still has consumers in those markets purchasing his back catalogue of CDs. The CDs recorded with Danger Danger are not as widely distributed as his solo material sells more units. As Paul stated, "You can't sell product if people can't get it". He also states that there are other variables to why CDs sales are declining;

- Lack of label representation
- Lack of radio play
- No promotional videos on Mtv
- Decline in ads in print media
- Fewer retail CD locations

Mtv assisted in the promotion of artists through their media channel and by the early 2000's, Mtv turned in to a reality TV channel that did not show music videos anymore. Paul stated that people could not see or hear music like they did in the past and with CD retailers closing, the



exposure artists had up till the early 2000's has changed. There were other ways to promote artists in the past through radio, print media (newspapers and magazines). With all these methods of promotion disappearing, the consumer had less knowledge of new products and their ability to buy these products decreased with the closure of retail CD stores. When record labels consolidated, they dropped established artists from their label and this led to the consumer to not have the product available to purchase.

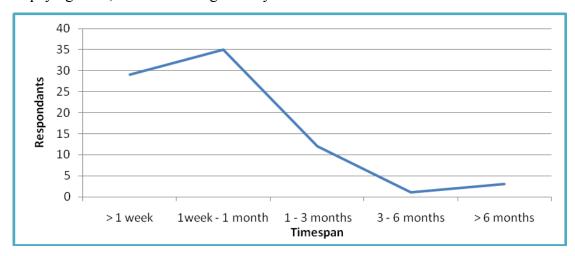
Paul does believe that there is a negative impact on CD sales due to illegal downloading but the labels need to reorganize themselves and reposition themselves to gain market share. He says labels should accept online downloading through payable sites like iTunes. The record industry is not selling much product as before because artists are not releasing CDs like in the past.



#### Survey

The survey given to our sample population is available in the Appendices.

- All respondents have downloaded music for free, at least at some point in time.
- iTunes is the most popular/preferred method of purchasing music, other online websites were insignificant.
- Channels of distribution have switched, but not completely. Online > Retail.
- Price and convenience are almost equally weighted, according to respondents, when asked why they do not buy retail, and why they download for free.
- Over 50% of respondents indicated they had not purchased a CD in the last 6 months. Either they are downloading individually, and paying for it, downloading albums, and paying for it, or downloading entirely for free.

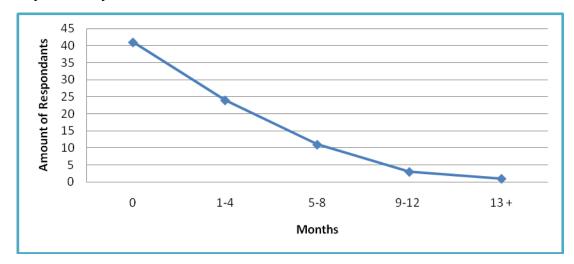


Graph 1: How often the sample size illegally downloads music

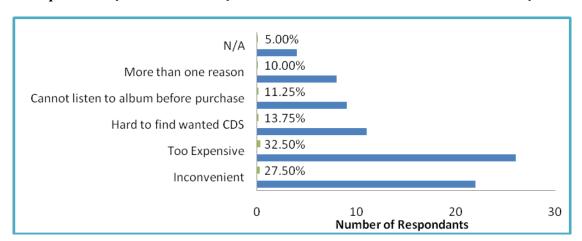
Eighty percent (80%) of all respondents have admitted to downloading music for free, online, within the past month. This supports the idea that the downloading music for free is prevalent, also all respondents have admitted to downloading music for free at some point in time. Fourty-one percent (41%) of all respondents do not buy music at all when asked the question, "What is your preferred method of purchasing music". Only twenty-six percent (26%) of respondents purchase music at brick and mortar stores, thirty percent (30%) of respondents uses iTunes as a means of purchasing music. Interestingly enough respondents were given the choice of either b) online websites or c) iTunes; music is easily accessible for purchase through many different



websites; however, respondents are primarily using iTunes to buy music (digitally). There has been a shift in channels of distribution, brick and mortar stores are declining in popularity, while buying music online (via iTunes) is increasing in popularity. The shift in distribution was ultimately caused by: Price and convenience factors.



Graph 2: Respondents that purchased CDs within the last calendar year



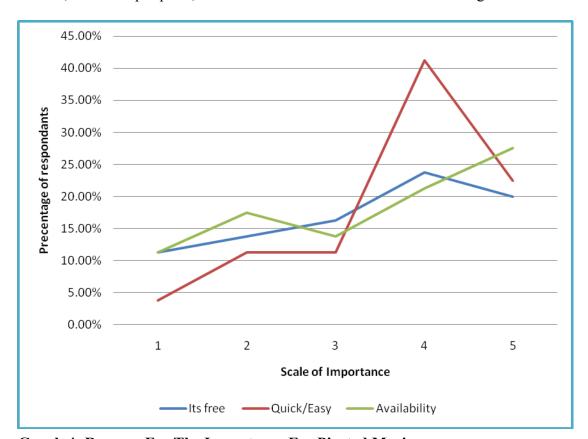
Graph 3: 73% that do not purchase music from retail stores, these are the reasons why

Respondents have indicated that only twenty percent (20%) do not buy music, whether by retail or online. When participants were asked "how many CD's have you purchased in the last six months", over fifty (50%) had purchased zero, and only thirty percent (30%) had responded "1-4". This indicates that consumers are either: downloading music for free, or are simply buying music by individual song (digitally), the answers to this survey question is implying that consumers are shifting their preferences of distribution, or their buying behaviors. If they are in



fact purchasing music, they are buying individual songs, purchasing full albums, or simply not paying at all.

Eighty percent (80%) of respondents admitted that they only paid for twenty-five percent (25%) (or less) of their total music files on their computer or mp3 player; respondents have illegally download seventy-five percent (75%) or more of total music in their possession. The two main determining factors for why respondents downloaded music for free were: 1. "I do not want to pay for music", with thirty percent (30%) selecting this answer, and 2. "Easier then going out to buy a CD", with twenty-eight percent (28%). There is only one percent (1%) difference between the two responses. This indicates that respondents are as equally concerned with price, as they are with convenience. The fact that going out to buy a CD is inconvenient is deterring physical purchases; however, music is readily available online for purchase, which offers a similar convenience. If price is equal to convenience, then consumers should be willing to purchase music online, for a cheaper price, but at the same convenience as downloading for free.



**Graph 4: Reasons For The Importance For Pirated Music** 



Seventy-three (73%) of respondents admitted that they do not purchase music from retail stores; the top two reasons were also price (thirty-two percent (32%) and convenience (twenty-seven percent (27.5%). Survey results indicate that people are downloading music for the same purposes that they are not purchasing retail, price and convenience.

Survey results found that Hip Hop and Top Fourty music were the two most popular genres of music that are listened to the most by respondents, at thirty-four percent (34%) and twenty-four (24%), respectively. Music that is popular, such as Top Fourty, will be downloaded for free more frequently than other forms of music. The target market of Top Fourty is a younger age demographic, conversely the younger demographic is also tech savvy, thus leading to more illegal downloads in this genre. (When you compare this to say, the most recent ACDC album, which sold extremely well, the target market of ACDC would mostly be older people, who are less tech savvy then today's youth. This age demographic is used to buying records from brick and mortar stores; however, the younger generation is used to downloading music, consumer preferences must be shifted into paying for music via electronic download).

When respondents were asked to rate their responses, based on not important to very important, results found that respondents felt that the quick and easy ability to download music for free was very important to why they download music for free, price fell far short, quick and easy accounted for fourty percent (40%), while only twenty percent (20%) felt that the free nature of the downloads were 'very important'.

Seventy-eight percent (78%) of respondents agreed that downloading music for free has negative effects on artists; however, this contradicts the survey participant's morality.



#### **Survey Statistics**

Cross tabulation between downloading free music and paying for CDs

Download Free Music	0	1 to 4 CDs	5 to 8 CDs	9to12 CDs	13+ CDs	Total
Yes	11	9	2	0	0	22
No	4	1	2	0	0	5
Total	15	10	4	0	0	

Table 3: Correlation Between Free Downloading and CD Purchases

Fifty percent of the respondents that use a file sharing software did not purchase a CD during the past six months, and fifty seven percent of the people that do not use a file sharing software did not purchase an album in the past six months. However, 50% of the respondents that use a file sharing software and can acquire their music for free; have purchased at least one CD in the past six months.

# Conclusions and Recommendations Limitations

### Conclusions and Recommendations

- There is a correlation between illegal downloading and decline in CD's sales, but its not the sole cause for the decline in sales
- Poor products, high price, and limited distribution are all factors contributing to the decline of CD sales
- File sharing may not hurt the industry, but may help it. More exposure, unlimited distribution for low expense; shift in consumer demands, and purchasing behaviour from Brick and mortar to online distribution channels like iTunes.
- Secondary research:
- Marketing Mix is overinflated: poor products, high price, limited distribution, selective promotional efforts – is what has led to the decline in physical CD sales
- There is no one opinion voiced by artists, some see the potential of digital distribution, while others absolutely despise it – Digital spending rose 52% to \$50 a year per digital buyer
- CD sales continue to decline, while digital downloads continue to increase; however, they do not off set each other. The rate of decline (CD's) is greater then the rate of increase (digital downloading).
- There is no direct correlation between illegal downloading and the decline in CD sales, according to secondary research
- "Corporization"/commercialization of the music industry have lead to shelves full of rushed and unfinished products which led to a decrease in product quality.
- Record companies are no longer run by music enthusiasts people who know relatively nothing about music are running the record companies.
   They are thinking in terms of quarterly figures, especially focusing on the 4<sup>th</sup> quarter Christmas rush.



- Music is not a product like a widget; you can't easily define, create or control the production of it.
- Record company should market singles oppose to albums like it was
  done in the 1960s to get the younger generation purchasing. Because of
  the way consumers listen to music (iPod).
- The sale for single tracks has gradually increased over the past 5 years while album sales have gradually decreased over the same period.
- Survey:
- All respondents have admitted to downloading music for free at some point
- 50% of respondents that replied that they use file-sharing programs admit to have bought at least 1 CD in the past 6 months.

### **Conclusion**

After observing secondary and primary research data, there is a correlation between illegal downloading and declining CD sales. However, it is not the sole cause for this occurrence; poor products are being created because there are time limits and quotas for the artists to meet in order to make a profit of their music. One of the main reasons reflected upon by the respondents to our survey, as to why they do not purchase CDs from retail locations was the high prices of CDs, which may be a result of overhead costs carried by the retailers. The inconvenience factor also plays a part, as forty percent of the respondents chose "Quick and Easy" as a very important reason for downloading music. Survey results also indicate that even though respondents have the ability to download free music, fifty-percent of them elect to support artists by purchasing CDs. The secondary research indicated that there has been a shift in the preference of distribution channels. Upon conducting a correlation analysis the sales of digital tracks and overall albums revealed a strong inverse relationship that is as digital tracks sales have increased over the past five years, overall album sales have significantly decreased.

Illegal downloading may not hurt the industry, but it might not help it either. Most artists have conflicting ideas over the effects that illegal downloading has helped the industry. Artists such as Radiohead and Janis Ian have grown to embrace the file sharing system, and feel strongly about



the average consumer's ideals, claiming that file sharing is an effective way to gain popularity, and that their fans would support them.

#### Recommendations

We recommend that the recording industry should refocus their efforts on to the online channels instead of the tradition retail store channel. Moreover, the industry should focus its marketing efforts on digital single track sales as they are gradually gaining popularity and album sales are suffering major declines over the past five years. The recording industry should embrace the model of single track sales, because of the way consumers listen to their music.

### Limitations

Due to the nature of university projects, there were several pertinent limitations that affected the results of this report. The most severe issue that the group faced was the lack of any monetary budget. This limitation led to an inability to conduct research with American sources.

The group made the decision to interview Canadian artists and label representatives used in expert interviews. There was an effort to contact the RIAA for a telephone interview; however, this interview was declined.

The sample size for surveys was very small; it consisted of mostly students which was not the entire target population. Sample frame could not be US residents due to budget deficiencies and were therefore forced to use Metro Vancouver residents in the sample.

There were few limitations due to the results of the survey. These limitations included an apparent confusion with some of the posed questions. The results on the amount of people who do not purchase varied by question and was not conducive to exemplifying which respondents truly do not purchase music.





### Appendices Secondary Research

### The Digital Millennium Copyright Act of 1998

The data in this section includes the views of the RIAA, Appendix B of the U.S. Copyright Law, a December 1998 U.S. Copyright Office Summary of the Digital Millennium Copyright Act (DMCA) and a copy of the DMCA itself. President Bill Clinton signed the DMCA into law on October 28, 1998. The DMCA is the law that states that copying and/or uploading copyrighted music is illegal unless the music has been copied for personal use (only). Copyright owners of sound recordings (and certain digital performances to the public) are protected by the U.S. Code from unauthorized use. Those in breach, for even only the first time, are punishable by as much as up to 5 years in prison and \$250,000 in fines. Offenders face criminal penalties even if the intent was not for financial gain.

The key points of this data include the details of the DMCA that state that unauthorized use of copyright protected sound recordings and certain digital performances to the public are illegal. The data also outlines the activities that would be considered in breach of the law. A variety of punishments that offenders could face, if convicted, are described in detail. The RIAA provides an overview of instances in which it is legal to copy music as well as examples of when copying music violates the law. These laws are in place to help protect the value of creative work by ensuring that all reproduction, adaptation or distribution of copyright protected works is authorized by the copyright owner. The RIAA encourages the public to take responsibility to educate themselves on copyright laws so as to respect copyrights and avoid activities that could leave one at risk of facing significant criminal penalties.

A law professor at the University of Ottawa, named Dr. Michael Geist, is critical of the DMCA. Dr. Geist holds the Canada Research Chair in Internet and E-



commerce law. He is also a columnist for the Toronto Star and Ottawa Citizen in which he authors articles on technology law issues. Dr. Geist feels that the U.S. made a mistake with the DMCA and is of the opinion that it stifles creativity. He is concerned that the DMCA was not produced for the digital century and that it potentially limits free speech. Finally, Dr. Geist has found that researchers that have been in breach of the DMCA have been threatened with jail time and lawsuits which can potentially have a negative impact on a researcher's ability to conduct studies.

Patti Santangelo, of New York, has five children and due to file sharing of music files that occurred at her Internet Protocol (IP) address, she was being sued by the RIAA. Santangelo could not afford a lawyer but refused to settle and when her story became public, she found support from many U.S. citizens that empathized with her situation. A script was even developed that would give anyone that wanted to contribute to a fundraising campaign for the Santangelo family, the ability to contribute into a PayPal account set up for the Santangelo family.

There does not appear to be any kind of correlation with the enactment of the DMCA and album sales. One might be of the impression that the DMCA would have discouraged music file sharing to the point that album sales would have remained relatively flat, however, album sales continued to decline and music file sharing continues to be rampant in the U.S. The distribution channel that has emerged through legal music file purchasing from websites such as iTunes has likely contributed to the decline in album sales as well. Finally, there is also the possibility that the quality of music, in consumers' opinions, is not high and could also contribute to a decline in album sales. The DMCA, itself, does not appear to have had a major impact on album sales.

### Origins of illegal downloading



File sharing first originated in 1999 with Napster, an online music file sharing service. At that time, "not many people participated in file sharing but within four years, in 2003, there was more than three million users sharing approximately half a billion files" (Oberholzer & Strumpf, 2004, p. 2). In 2001, rock band Metallica, alongside hip hop artist, Dr. Dre, sued Napster for copyright infringement. Metallica drummer, Lars Ulrich stated, "our beef hasn't been with the concept of sharing music. The problem we had with Napster was that they never asked us or other artists if we wanted to participate in their business" (BBC News, 2001).

There is no definite causality between illegal downloading and the decrease of music sales. There are many variables to this ongoing debate. The Record Industry Association of America (RIAA) is adamant in the correlation between illegal downloading and a decrease in Compact Disc (CD) sales. "The number of CDs shipped in the U.S. fell from 940 million to 800 million-or 15%--between 2000 and 2002 (though shipments continued to rise during the first two years of popular file sharing, 1999-2000). The record industry has claimed this decline is due to file sharing" (Oberholzer & Strumpf, 2004, p. 1).

"Over 60 million Americans above the age of twelve have downloaded music" (Ipsos-Reid, 2002). Demographically, file sharing is heavily skewed towards computer savvy youth. "While a majority of Americans under eighteen have downloaded and half of those are heavy users, only a fifth of those aged 35-44 have downloaded files" (Edison Media Research, 2003). Illegal downloading, also called "file sharing" has no physical distance because people around the world can participate.

### RIAA: Their Opinion of Illegal Downloading

The RIAA state music piracy, (one who makes use of or reproduces the work of another without authorization<sup>2</sup>), is negatively affecting sales of music CDs. According to the Institute For Policy Innovation (IPI) and the RIAA, music piracy is responsible for "\$12.5 billion of economic losses every year, 71,060 U.S. jobs lost, a loss of \$2.7 billion in workers' earnings, and a loss of \$422

<sup>&</sup>lt;sup>2</sup> The term "piracy" has many meanings. When this term is used in the contents of audio or video, this is a direct meaning for the use of unlicensed material for your own personal use or gain. This term is taken from "www.thefreedictionary.com/pirated",



million in tax revenues, \$291 million in personal income tax and \$131 million in lost corporate income and production taxes" (Record Industry Association of America, 2010, p.1). For over eleven years, the RIAA has stated there is a direct relationship between illegal downloading from the internet, via file sharing applications such as Lime Wire, Kazaa, BitTorrent, and Napster, and the decrease in sales of Compact Discs (CDs). Mitch Bainwol, chairman and CEO of the RIAA since 2003, states "it was obvious that illegal downloads were hurting music sales. It was obvious because the advent of file sharing coincided with a decrease in music sales. Therefore A led to B" (Cuban, 2005).

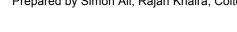
On September 18, 2003, Cary Sherman, RIAA President stated, "there's no minimizing the impact of illegal file-sharing. It robs songwriters and recording artists of their livelihoods, and it ultimately undermines the future of music itself, not to mention threatening the jobs of tens of thousands" (USA Today, 2003)

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Industry Revenue (\$ Million)	14584.5	14323	17740.9	12614.2	11854.4	12345	12296.9	11758.2	10372.1	8480.2
Full- Length CD's (% of Sales)	83.2	89.3	89.2	90.5	87.8	90.3	87	85.6	82.6	77.8
CDs Sales	12134.3	12790.44	15824.88	11415.85	10408.16	11147.54	10698.3	10065.02	8567.355	6597.596
Digital Download (% of total sales)	n/a	n/a	0.2	0.5	1.3	0.9	5.7	6.7	11.2	12.8
Digital Sales(\$)	n/a	n/a	35.4818	63.071	154.1072	111.105	700.9233	787.7994	1161.675	1085.466

Table 4: RIAA Documented US Recording industry Revenue 3

The International Federation of the Phonographic Industry (IFPI) represents the recording industry worldwide, with approximately 1400 members in 66 countries and affiliated industry associations in 45 countries. Jay Berman, Chairman of IFPI states, "Internet piracy means lost

<sup>&</sup>lt;sup>3</sup> "Consumer Profile"





livelihoods and lost jobs, not just in record companies but across the entire music community. For those who think the 10.9% first half sales fall in 2003 does not speak for itself, look at the other evidence. Artist rosters have been cut; thousands of jobs have been lost, from retailers to sound engineers, from truck drivers to music journalists" (Berman, 2003).

### RIAA: Clarification of Sales

For over eleven years, reports from the RIAA state the reason for the decline in CD sales is attributed to illegal downloading, however, this is not actual fact. This is a misrepresentation by the RIAA. In 2004, Harvard University and the University of North Carolina published a report that states "file sharing has only had a limited effect on record sales. While downloads occur on a vast scale, most users are likely individuals who would not have bought the album even in the absence of file sharing" (Oberholzer & Strumpf, 2004, p. 3).

Mark Cuban is an American entrepreneur who owns the National Basketball Association (NBA) team, the Dallas Mavericks. He is also the owner of Landmark Theatres, Chairman of HDNet, and a current internet blogger. Mark Cuban has spoken to Mitch Bainwol (CEO of the RIAA) to get more information on just how the RIAA is affected, be it positively or negatively, by illegal downloading. He conducted an article on his blog to advise people on just how the RIAA counts sales. According to Cuban, the way in which the RIAA counts sales is not as clear as one might think. "The sales are not the total sales of all music, but the sales of only the 100 top charting CD's each year. The point he's making is that those numbers can't be used as proof of declining overall sales, but can suggest declining market share for the RIAA's members and big name artists like Britney Spears" (Cuban, 2005).

According to Cuban, RIAA sales are down because they lost market share. The RIAA only counts the data they receive from SoundScan. "Nielsen SoundScan is an information system that tracks sales of music and music video products throughout the United States and Canada. Sales data from point-of-sale cash registers is collected weekly from over 14,000 retail, mass merchant and non-traditional (on-line stores, venues, etc.) outlets" (Nielson SoundScan, 2010). Cuban states, "There are more CD's being self published or released by non RIAA members than ever



before. Sales from websites, concerts and car trunks are taking away sales from traditional labels. Access and awareness of that music has exploded through web radio, websites, P2P (Person to Person file sharing), satellite radio and tours. When the RIAA refers to the "record industry," they are always misrepresenting themselves. In this era of massive self-publishing, they have no idea what sales are for the entire record industry. Only what SoundScan or their members report to them. Both of which under report the incalculable number of self publishing artists" (Cuban, 2005).

### Record Labels: The Missing Link in the Distribution Chain

In order for the consumer to obtain any type of product, it must be readily available to purchase. Record labels are a distribution channel. They ensure the CDs are shipped to the retail stores for consumers to purchase. Since the late 1980's, the labels continued to consolidate with each other, and in turn, it gave the consumer less opportunities to purchase their products. Table 1 lists the major labels that used to exist and what there is as of 2008.

Big Six (1988-1998)	Big Five (1998-2004)	Big Four (2004-2008)	Big Four (Since 2004)
7. Warner Music Group	6. Warner Music Group	5. Warner Music Group	5. Warner Music Group
8. EMI	7. EMI	6. EMI	6. EMI
9. Sony Music	8. Sony Music	7. Sony BMG (Joint	7. Sony Music Entertainment
10. BMG Music	9. BMG Music	venture between Song	(Sony acquires 100% of
11. Universal Music	10. Universal Music Group	and BMG)	BMG)
12. Polygram	(Polygram was bought by UM	<b>⊘</b> . Universal Music Group	8. Universal Music Group

Table 1: Record Labels Changes 1988-2010

#### PBS/Frontline Interviews

Is there a correlation between the lack of label representation and the decrease of CD sales? PBS did extensive interviews with members of the RIAA. Label presidents, artists, and record producers were interviewed on a variety of subjects; Wal Mart, Mtv, and how the labels became a corporization. The following excerpts helped in determining if our research objective is correct.



#### The Perfect Storm

### Dannny Goldberg, President of Gold Vision Entertainment

"Corporization; thinking to corporate, not giving their "products" enough time to develop, or they are shipping out their "products" before the product is actually completed, so what you have is a retail shelf full of unfinished or rushed products, products being the artists, weak products is equating to a lack of sales" (PBS, 2004).

### David Crosby, International Recording Artist

"Record companies no longer being run by music enthusiasts; people who know nothing about the industry are running record companies. "They are trying to run it as if they're selling widgets, plastic-wrapped widgets that they can sell more of. And they want easily definable, easily accessible, easily creatable, controllable product that has a built-in die-out, so that they can create some more. Has become a numbers game, and the companies are pulling the plug on bands after even a first record, they're not giving their "products" enough time to develop, or give a second, third, or fourth effort" (PBS, 2004).

### The MTV Effect

## Michael Guido partner with Carroll, Guido, & Groffman, LLP, an entertainment law firm based in New York City

"I think MTV was the beginning of the end for the recorded music business, in that it solidified a mindset that exalted marketing over substance. The recording company's main concern was establishing a single and a video to go with it play the thing on MTV and sell the albums, regardless of if that album contained three quality songs or not; distribution/promotion and price took over, while the products quality was only secondary" (PBS, 2004)

#### **Wal-Mart Effect**

David Gottlieb, Senior Vice President of Marketing and Artist Development with RCA Music Group



"Ironically, the Best Buys and Wal-Marts are the bulk of the recording companies business, but for the Wal-Marts and Best Buys, those same record companies are only equivalent to  $1/10^{th}$  of 1 percent of total revenue (in Wal-Marts case), and to best buy about 3-5% revenue. Out of 30,000 records released a year, 750 make it into Wal-Mart, also, bands are forced to record "clean" versions of their songs in order to be distributed at Wal-mart, and they decide which CDs to adopt based on what they think is going to sell. Wal-Mart is such a dominate force in the retail market, and in some cities and countries the local Wal-Mart might be the only place within 30 miles to buy a CD, and if Wal-Mart doesn't distributed that product, then it is unlikely that a consumer will venture to a farther store to look for the CD's that Wal-Mart chooses not to distribute" (PBS, 2004).

### Internet Piracy. So why does the record industry make the argument?

Toure, a is an American novelist, music journalist, cultural critic, and television personality based in New York City.

"It's very easy for the over thirty-five's, their record buying mentality is go to a store and buy a CD. There's a huge generational divide in the way that we buy music that the record business has not responded to. People under twenty-five are looking for MP3s and singles that they can download for free or to buy. This is a completely different way of consuming. The record business has been set up for thirty or fourty years to give albums to adults" (PBS, 2004).

Toure states "It's been since the '60s that they haven't marketed singles to teenagers. So they have to find a way to shift to giving the teenagers, the prime consumers, the product in the way that they want it, which is convenient, fun Web sites that make it easy. For the record business a lot of times the piracy issue is an excuse... most Americans think that most records, most albums, don't really have that many good songs. Even a superstar artist — for the most part you're going to get, what, two, maybe three good songs? And the rest is going to be crap. So when you go into the transaction thinking "I'm going to get screwed," there's no guilt in stealing it through downloading because



they're putting out crappy product anyway. I mean, how many records have you bought, that you feel you got burned? "I paid \$15 and only two songs I want to hear." And it happens over and over and over (PBS, 2004).

Toure believes the record companies are solely to blame for the change in consumer perception of music. Toure goes on to say, "the idea was that they must stop this theft immediately; the first idea was to invest in protective devices and software, and lawsuits. So, the lawsuits, suing children, and even a grandmother for ridiculous amounts of money (\$50–100 million), this led to terrible PR. So instead of trying to embrace the online systems, they went as far as setting up barriers of access, and cannibalizing their very own customer base (PBS, 2004).

All equates back to iTunes and Steve Jobs, had the idea to embrace the online culture and get record executives back on track; they're still kinks in the system, but at least the industry is moving in the right direction.

### **Artists Against Downloading**

Some well established artists who started their career and found success before downloading began, have a negative opinion of the new way to distribute music.

#### **Rob Zombie**



Best known for his shock rock theatrics and the role as director of horror movies "The Devil's Rejects" and the remake of "Halloween", **Rob Zombie** finds it hard to survive as an artist in the age of file sharing.

Zombie states "I don't know what is going to happen, probably because in another year people won't even bother manufacturing CD's, no one will even want them. The downloads do not match up with the record sales, so you know people are stealing mostly everything. The touring business is



still really good, but now you are starting to get these artists that are really raping and pillaging the crowds and tickets are \$200 - \$500. The industry seems to be eating itself, and it's kind of a bummer" (Muñoz, 2007).

### **Paul Stanley**



In 2007, The Herald Sun, an Australian newspaper, conducted an interview with **Paul Stanley of the rock band KISS**. Stanley lashed out on people who download music illegally. "Downloading is one of the tragedies of the 21st century. Under the guise of technology and fancy jargon, people have legalized stealing. When you say you're sharing files . . . you can't share what you don't own. I can't share your car. Sharing something with one person is one thing, sharing with tens of thousands of people is a crime. It's robbery" (Adams, 2007). Stanley also rejected claims that well established artists like KISS and Metallica have already made enough

money to not worry about downloading. Stanley stated, "I don't owe anyone any justification for wanting to get paid [and] for anybody else to decide when I have enough money is bollocks. I feel angry about it happening to me, but it will kill new artists. New bands depend upon that money to carry on. They desperately need that money and, on principle, I want it" (Adams, 2007).

### **Artists Who Support Downloading**

"The Internet, and downloading, are here to stay... Anyone who thinks otherwise should prepare themselves to end up on the slagheap of history." (Janis Ian during a live European radio interview, September 1, 1998)

### Janis lan



Janis Ian is an American singer from the 1970's. Her most popular song was the 1975 hit "At Seventeen". In her 2002 article, "FALLOUT - a follow up to The Internet Debacle" Ian explains that she believes the RIAA have taken extreme measures to stop file sharing, because of a couple of reasons: the fear of losing control of their own environment and blindly



following rules that have outdated the industry's own existence. Ian believes "that it's all about protecting their internet-challenged business model. Their profit comes from blockbuster artists. If the industry moved to a more varied ecology, independent labels and artists would thrive - to the detriment of the labels" (Ian, 2002, p.2). Ian goes on to express her beliefs that the RIAA is hesitant of adopting a new business model, because of the losses they could suffer for its older business model.

Ian explains that her research has made her hopeful for the future. She feels confident in the ability of the general public to make their case. She explains that "although RIAA and their supporting companies can afford to spend fifty-five million dollars a year lobbying Congress and in the courts, they cannot afford to alienate every music buyer and artist out there. At that point, there will be a general strike, make no mistake. Just one week of people refusing to play the radio, buy product, or support our industry in any way, would flex muscles they have no idea are out there" (Ian, 2002, p.3).

Ian also states that power lies in the hand of the general public, and that the government would not pass any laws that would unreasonably hurt the public's interests. Although, she does state that the public have to make their voices heard.

### Increase Product Line - Merchandising: The Alternative To CD Sales

Alternative methods to generate revenue have been a part of the music industry for decades. Elvis Presley and The Beatles were the first mega stars to branch out from just their music. At first, the only merchandise you could buy besides vinyl records were t-shirts. Elvis starred in thirty-three movies and has a wide product line, all with the "Elvis Presley" brand. The Beatles starred in five movies and also has a wide product line. It was KISS, who is more a brand than a

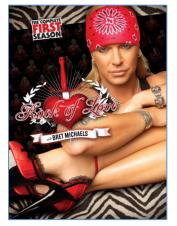


really knew how to market and themselves. Their merchandising has since the 1970's and is unparalleled to



any other musical artist. KISS have starred in two movies and have over 3400 product lines from burial caskets to condoms, and a KISS Coffee House in Myrtle Beach. . Madonna had an endorsement deal Versace. Hip Hop producer, Sean "Diddy" Combs has his clothing line, Sean Jean and Jay Z, Hip Hop entertainer, has his clothing line, Roca-Wear. Mariah Carey and Jennifer Lopez also have a perfume line. Vince Neil, lead vocalist for Mötley Crüe has his own tattoo studio in Las Vegas and Bret Michaels, lead vocalist for Poison is also a reality TV star.

Below are advertisements for each of these product lines (all pictures courtesy of Wire Images)



### CRIA (Canadian Record Industry Association): 2006 Case Study

Mike Masnick of the website, "The Tech Dirt" reviewed the 2006 case study done by the Canadian Record Industry Association, (CRIA). Masnick states "there have been plenty of academic studies over the years that have suggested that file sharing (a) doesn't hurt the music industry, and may help it and (b) the reason music sales are down often has nothing

to do with file sharing. However, every time this evidence is presented; the recording industry ignores it, and trots out its own, often questionable, studies instead" (Masnick, 2006). In his article, he states how the RIAA has done their own study and because the outcome was not what they expected, they kept the details very quiet. Masnick goes on to say, "the study pretty much disproves much of what the recording industry keeps claiming. It shows that those who download music from file sharing services are the people who tend to buy the most music. It also shows that teenagers (who we're told repeatedly never buy CDs) are actually the biggest purchasers of music CDs" (Masnick, 2006). Masnick finished his article by stating "it pretty much boggles the mind to realize that the industry has a study that shows their own strategy is hurting their market, and they refuse to believe it. That takes a special kind of business cluelessness" (Masnick, 2006).

The NPD Group: The Decline in Music Sales from 2007-2009



The NPD Group, a leader in market research for the entertainment industry, 4 says "twenty-four million fewer people bought music in 2009 compared to 2007" (Peoples, 2010). Vice President and Senior Analyst, Russ Crupnick, of The NPD Group, presented some insightful data on USA music purchases from 2007 to 2009. He states, "there were thirty-three million fewer CD buyers in the USA and twenty-four million fewer music buyers in total, a 21% decrease. As the number of music buyers declined, the average amount spent by each buyer rose 2%. That implies a 19% drop in total music spending over those two years, according to Billboard's calculations. Digital spending, on the other hand, rose 52% to \$50 a year per digital buyer" (Peoples, 2010).

The report by The NPD Group includes details about an even number of consumers that stopped buying CD's in each of the last two years, (2007 to 2009). There were seventeen million fewer CD buyers in 2008 compared to 2007, resulting in sixteen million fewer people that bought CDs in 2009. An earlier study from last year, 2009, stated that there were thirteen million fewer music buyers in 2008 compared to the prior year.

Crupnick states, "the number of people who purchased downloads dropped to 34.6 million in 2009 from 35.2 million in 2008, as new digital buyers tried out the format and quickly lost interest" (Peoples, 2010). The study indicates a large drop in the number of files traded via P2P networks. According to Crupnick, "lower quality, threats of spyware, competition from legal services, and music shared through other means such as transfers from external hard drives were a reason for the drop in P2P file trading. Another plausible factor in the decline, not mentioned by Crupnick, could also be from file delivery sites such as Mega Upload" (People, 2010). Sales cannibalization occurs when a company's store is stealing traffic away from another one of their own stores. An interesting point made in the study by The NPD states "that free online radio leads to a 41% increase in paid downloads but free on-demand music leads to a 13% decrease in paid downloads" (Peoples, 2010). As one medium helps increase sales in paid downloads, another medium decreases sales for a total of 28%, instead of 41%.

<sup>&</sup>lt;sup>4</sup> This comment is directly from a 2009 press release from The NPD Group. You can view the entire press release at http://www.npd.com/press/releases/press 090317a.html



### The Survey

The goal of this survey is to identify a potential correlation between illegal downloading and the decline in CD sales. The following survey is being conducted for a group term project for MRKT 2340. All information submitted will only be seen by the group members and our instructor. This information will not be given to any other groups or organizations. We appreciate your participation in our survey and we guarantee your anonymity. Your name will not be used in this survey.

Gende	
a.	Male
b.	Female
What y	ear were you born?
Do you	use Peer-to-Peer (P2P/file sharing) software, such as BitTorrent or Kazaa?
a.	Yes (which do you use)
b.	No
Approx	cimately, when was the last time you downloaded music for free online?
a.	Within the past week
b.	1 week to 1 month
c.	1 months to 3 months
d.	3 months to 6 months
e.	Greater than 6 months
What i	s your preferred method of purchasing music? Please choose only one.
a.	Retail Stores (HMV, Best Buy, Future Shop, etc.)
и. b.	Online websites (Amazon, CDUniverse, CDman etc.)
c.	iTunes
d.	I only download and don't pay for music
e.	Other (please state):
a. b. c. d.	lid you last purchase an audio CD at a retail store or online? Within 1 month 1-3 months ago 3-6 months ago 6 months or greater I do not buy CD's
e. If so, a	oproximately how many have you purchased in the six months?
How m	any music CD's have you purchased in the past 6 months?
а. b.	1-4
c.	5-8
d.	
e.	13 +
	oproximately how many have you purchased in the six months?
ւյ so, ալ	proximately now many have you purchased in the six months:
Downlo	pading music for free has the following effect on the artists: (Please choose only on Positive
а. b.	Negative
c.	No effect
C.	hriefly explain your choice



9)	Approxi	imately what percentage of the downloaded music files on your computer or MP3 player did you pay				
	a.	0-25%				
	b.					
	c. 51-75%					
	d.	75-100%				
10)	-	o download for free, what is the purpose of it? Please choose only one.  I download to listen to the songs so I know if I want to purchase the CD				
	a. b.	I download to listen to the songs so I know if I want to purchase the CD				
	c.	7.1 1 11 12 12 1 1 1 1 1 1 1 1 1 1 1 1 1				
	d.	I download because I don't like all the songs on a CD and do not want to pay for the whole CD				
11)		ot buy music from retail locations because (select all that apply):				
	a.	It is inconvenient				
	b.					
	c. It is hard to find the CD's I want					
		I cannot listen to the album before I buy it.				
	e.	Other (Please state):				
	If you de question	o not pay for downloading music, please answer this question, if you do pay for your music, please skip to 1 13.				
12)	I do no	t pay for music but I do support the artist by: (Please choose only one.)				
	a.	Going to concerts				
	b.	Buying other merchandise made by the artist (clothing, cologne/perfume, etc.)				
	c.	I do not support the artist by buying merchandise or going to concerts				
13)	What g	genre of music do you listen to the most?				
	a.	Hard Rock				
	b.	Hip Hop				
	C.	Dance (house, trance, electronic)				
	d.	Jazz/Blues				
	e. f.	Top 40 Other (please state):				
	1.	Other (piease state)				
		dicate the importance of the following statements (Questions 14A-14C) based on the appeal of ding music (please circle the appropriate number):				
	ot Import	ant, 2 - Somewhat Important, 3 - Important, 4 - Very Important, 5 - Most Important nusic:				
	1	2 3 4 5				
Not I	mportant	Somewhat Important Very Important Most Important				
B) It	is quick :	and easy to download music: 2 3 4 5				
Not I	mportant					
C) I (	can find v	virtually any unreleased or commercially released song:				
	1	2 3 4 5				
Not I	mportant	Somewhat Important Very Important Most Important				

Prepared by Simon Ali, Rajan Khaira, Colton Little, Karan Narula, Mohammed Pannun, Jeff Wright



### **Expert Interviews**

### Chris Soloczek of Nettwerk Productions

(www.nettwerk.com)

On March 26, 2010, Jeff Wright conducted an interview with Chris Solaczek of Nettwerk Productions, an umbrella company of The Nettwerk Music Group. The Vancouver-based company has offices in New York, Los Angeles, London, Boston, Nashville, and Hamburg. Nettwerk handles the careers of artists like Sarah McLachlan, K-OS, and Sum 41.

Q: How do you feel the recording industry is affected by music piracy?



A: Completely changed the industry. There are no real major successful record labels in the industries anymore, at least with the

success of as early as 10 years ago. In the late 1990s the industry started dying and became very small in 2000s. Record labels were massive in early 90s with CD sales huge. Mainstream (pop) music was immense with double or triple platinum sales. Such mediums as much music were hugely popular where now it is hard to even find music on this channel. CDs are worthless now. Record labels are not making money and are going out of business. Nobody is getting retribution for sales. Artists rely on concert merchandise sales. Smaller bands are not gaining recognition due to P2P [file sharing]. Talented bands are now becoming more popular. It is fantastic that currently, talent drives the industry not record labels.

### Q: How have artists been affected?

A: Artists are open to free sharing of music. CD sales are not making them money so they rely on

concerts and merchandise sales to make money. Larger pop artists do not have the advertising dollars from the recording industry to help them gain popularity so such artists as Britney Spears do not nearly hold the sales they once did. Smaller independent bands are now becoming popular as P2P sharing increases. People share their favourite unknown bands and the more talented bands that have little money to promote themselves are able to become popular. They then have an avenue to make money as they are asked to play more concerts and festivals where they have this opportunity.

#### Q: How have the record labels been affected?

A: Have been forced to implement the '360 deal'. Record companies are taking a cut from all revenue a band makes where before it was only from concert and record sales. [They] want a piece of everything. Now even merchandise sales are going to record labels.

## Q: Has the industry attempted any different means of distribution since the decline in CD sales?

A: Business models of record companies changed. Web presence is vital and MP3 presence is popularized. Labels do not rely on record sales solely to make them money. There is no new physical format that will take over for CD's. The distribution of music will be mostly online.

Some artists are only releasing singles; Lil Wayne [Hip Hop artist who has the hit single "Lollipop" in 2008] releases one single at a time. Not many artists can do this, hip hop and dance music is all about singles. Not all genres are able to release only singles because for this to work, the artist must first have a significant fan base.



### Q: Do you feel there are any positive effects to music piracy?

A: Quality music is now becoming popular and independent bands that would otherwise not 'make it' are now able to succeed.

### Q: Do you feel that music piracy has been the sole cause for the decline in music sales?

No. Record labels were screwing the consumer, and there has been anger. This is why piracy became popular. The consumer felt ripped off by the record labels so the consumers in turn ripped off the labels. [The changes are due to a] a combination of a lot of things. Quality of music had declined over the late 90s and early 2000's. Many albums have a one good song on an album and people felt this was a waste of money. Good music sometimes takes time to appreciate and is it hard to play this type of music on the radio. Often this type of music is not as 'catchy' and with peoples short attention spans these days, if it is not a catchy song, it will not be popular on the radio.

### Q: What is the future for means of music distribution?

**A:** Online sales. But as I said, festivals, merchandise sales, and even TV or movie spots are now the way to make money.

### Q: Will CD's go the way of the 8-track and cassette?

A: Yes, but no new physical format. The classifying of gold and platinum albums has decreased: I think that 1,000,000 was platinum, 100,000 is now platinum. (Editors note: this is an incorrect statement as the CRIA (Canadian Record Industry Association changed the number for gold sales from 50,000 to 40,000

units sold and platinum is now 80,000 instead of 100,000. The RIAA is still 1,000,000 units sold as a platinum certification. He did state that he was unsure of the actual numbers as it was not his area of expertise but stressed the importance of the variance). Now a successful CD debut is considered to be 50,000 units sold in the opening week and 5000 per week in the following.

Live Nation<sup>6</sup> is now extremely prevalent and can charge what they want for concert tickets. There is a huge following for these festivals and this is the future of music. I feel this is a great way to bring people and good music together so I feel that even though my job will not make me as much money as it once would have, the music industry is in a better place. I would rather believe in what I am selling then make a lot of money selling poor quality music.

## Crystal Pistol's Lead Guitarist: Pinto (www.crystalpistol.com & www.myspace.com/crystalpistol)

On March 10, 2010, Simon Ali conducted an interview with lead guitarist for the now defunct hard rock band, Crystal Pistol. The local Vancouver band was signed to Alert Records, a subsidiary company of Universal Music Group. Crystal Pistol released one full length CD on February 2, 2005 and broke up in August of 2009.

<sup>&</sup>lt;sup>6</sup> Live Nation Entertainment (NYSE-LYV) is the largest live entertainment company in the world, consisting of five businesses: concert promotion and venue operations, sponsorship, ticketing solutions, e-commerce and artist management. (Courtesy of Live Nation.com: About Us (http://www.livenation.com/company/getCompany/Info)



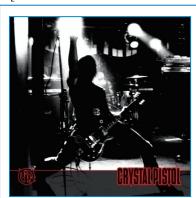
<sup>&</sup>lt;sup>5</sup> According to the RIAA website as of March 29, 2010 (http://www.riaa.org/goldandplatinum.php) and the CRIA website as of March 29, 2010 (http://www.cria.ca/cert.php)

Q: First off, thank you for taking the time to sit with me and share your experience in the music industry. Crystal Pistol was the up and coming hard rock band from 2002 till you released your first album via Universal Music Group in 2005. Critics and fans were saying Crystal Pistol was the rebirth of sleazy rock n' roll like Guns n' Roses and Mötley Crüe. Those are big shoes to fill, so can you tell us what happened after the CD was released?

A: Our management company, Alert Music Inc/Teamworks signed a deal for us with Alert Records/Universal Music Group in Canada. They funded the entire recording process and released the CD on February 2, 2005. We had our CD release party on the same day at The Roxy in downtown Vancouver and our first single was released to Canadian rock radio, "Watch You Bleed". We were booked on a club tour that took us as far east as Winnipeg and we had various radio interviews across the country.

Q: A few years ago, you told me retail CD stores in Winnipeg were sold out of the CD and were trying to order more. What did the record company say that made you realize there was a problem?

A: That was troubling. A&B Sound [entertainment store that sold CD's], sold out of



Crystal Pistol's self title debut CD (courtesy of Universal Music)

our CD and wanted to order more. There was demand from the public so they tried to order after one month of the release. The label told them

that they will not send any more copies of the album because the album is done. We were clueless as to why they would do that.

### Q: How many CD's were sold in retail stores?

A: Embarrassingly, only one thousand. We sold more copies of our home made demo CD's than our official release. We were angry and frustrated, to say the least. They did release our second single, "Rock Star" but there was no push, nobody heard it.

Q: At that same time, big named hard rock bands, Mötley Crüe and Velvet Revolver were both touring North America. Did your label or managers try to get you as special guests on these tours?

A: They didn't do a damn thing. We asked them to try their best, especially because Mike Fraser [mixed Crystal Pistol's CD], worked with Mötley Crüe for years and he suggested we should try and more than likely, get on the bill. Instead, two other new bands got it and we were left on our own.

### Q: Did your label and managers do anything to help nurture your career?

A: No. At first, they helped us straighten out because we were all partying way too much and living the rock n' roll lifestyle. They put us in the studio, helped us get Mike Fraser [Mike mixed the RIAA certified six-time platinum and CRIA certified three-times platinum Mötley Crüe CD, "Dr. Feelgood"] and released the album. After that, they left us in a two year long legal battle.

#### Q: What was the legal battle?

A: We wanted to leave the label to pursue other labels that would help distribute our next album. We knew Alert/Universal wouldn't do anything



at all, we knew they wouldn't release a second CD either. All we wanted was to own our songs again because the label now owns our songs. We spend thousands of dollars on lawyer bills and ended up losing our rights to our songs. The publishing rights are owned by the label, we don't have our own masters, but we were able to get out of our contract.

### Q: What happened after that?

A: Classic Rock magazine in the UK got a copy of our CD and gave us a glowing review. We were named the best new rock band that year and a local UK promoter booked an entire European tour for us. We started to feel better about our career and took off for Europe. The tour took us through England, France, Germany, Italy, Austria, and some other countries that I can't remember right now. The tour was a success and even though we didn't have a new label, we were fired up again and began writing a new CD.

### Q: That CD never came out, what happened?

A: We couldn't get another deal with a label and the hell we went through the first time became a deterrent. The band lost its confidence and after seven years of being a band, we broke up last year.

### Q: How would you describe the way the record industry is towards artists?

A: They are cut-throat. They don't care about the artists. It seems like they just want to own your music so they can benefit from it if they feel like it. We were abandoned and left to die and I know there are countless artists and bands out there that have been treated the same way.

## Q: The record industry state CD sales are decreasing because of downloading. Do you believe this is a true statement?

A: Not really. Sure it sucks when people steal our songs and we don't get paid for it but in my opinion, it's the industries greed that created this problem with sales decreasing. They abuse artists and don't want to sign other artists so now bands are using the internet to distribute their own music and by-pass the labels.

### Q: Do you have any regrets about the career you chose?

A: Not at all. I get to play for people live and when people enjoy what I play, that satisfaction is enough. Sure it would be great to be a successful rock star and live the dream but I had a chance and I took it. I'm now in another band and we play for fun, just like I did in Crystal Pistol. No regrets.

### Q: Thank you for being so candid about your experience.

A: It's my pleasure. If I can help shed some light on how corrupt I believe the music industry is, then I'm happy I can help.

### Q: You have time for one more statement, what would you like to say?

A: It's too bad the record industry is in disarray but I believe their greed caused a shift in the distribution process. Too bad because there are so many great songs people will never hear. Labels forget that we are the talent and without us, they don't have product to sell.



### Paul Laine: Solo Artist & Lead Vocalist of Danger Danger

(www.myspace.com/paullaine & www.dangerdanger.com)

On March 1, 2010, Simon Ali conducted an interview with local rock musician, Paul Laine. Paul has released two solo albums and five with the New Jersey hard rock band, Danger Danger. Paul is an international artists with distribution throughout North America, Europe, and Asia. He has also toured extensively all over the world. In 1990, Paul released his first solo studio album, "Stick It In Your Ear" via Elektra Records (a part of WEA Music). He had more success and sold more CD's in the USA than in Canada. In 1993, Paul fronted Danger Danger and went on to record five albums and toured the world over. In 2006, Paul returned to Vancouver to open a new recording studio and pursue his solo career once again.

Q: Paul, thank you for allowing me to interview you for this research study. Could you give me your view on the record industry, as an international artist?

A: The recording industry is a fragile business that is run by people who are not fans of music. They are so far removed from music that they don't know how to run a legitimate business. When my first solo CD was released, I was marketed as the Canadian version of Bon Jovi. I found this really frustrating because I didn't want to be a second rate Bon Jovi because I'm a first rate Paul Laine but it was out of my control. My management and label thought they knew how to market me. In my own country, I didn't have much success but I did very well in the US. The industry follows trends and doesn't let artists be who they are. Every few years, there is a band that shocks everyone and becomes successful on their own agenda, then the entire industry follows their lead. It happened with Bon Jovi, Guns n' Roses, and Nirvana. Next thing you see are carbon copies of the original.

They over saturate the market and ruin a style of music that people enjoy. My style of rock n' roll was popular in

the eighties and early nineties but



Paul Laine live Vancouver 2009 (courtesy of www.mypsace.com/paulaine)

when Nirvana broke out, I was tossed away and left in a legal hell for years after.

Q: Is that the reason you joined Danger Danger (Editors note: Danger Danger was fronted by Ted Poley until he was fired in 1993. Before that, Danger Danger released two albums with success worldwide with songs "Naughty Naughty", "Monkey Business", and "Bang Bang". They also toured North America and England with KISS in 1990 and 1992).

A: I was asked to join Danger Danger when Ted Poley was fired. I knew I had more chance for success with them because of their previous success so I jumped at the chance to front that band. Of course, Danger Danger soon found out that they could not reclaim their past glories and we struggled for almost six years.

Q: Is it true that the record label, Epic Records, sent out promotional singles to US radio stations for the song "Sick Little Twisted Mind" under a different band name?

A: Yeah they did and it was an instant success. Rock radio picked up on the single right away and loved it. They didn't know it was Danger



Danger because of my voice. We went under the name, "Cockroach", and the track climbed the rock charts. However, there was a legal dispute from the original vocalist and the label decided to stop promoting our new single and didn't release the album we recorded. It took seven years to get the rights to finally release that album.

### Q: So the label originally tried hard to promote the band?

A: They did try and the way they did it was great because people got to hear a great song from a great band and it didn't matter if we were from a different era than at the time, the grunge era was so popular. But in typical fashion, the label panicked and didn't know how to deal with us and left us in limbo from 1993 till 2000. Instead of relying on Epic Records, we started our own label, Low Dice Records, and released four albums. Our distribution was with Roadrunner Records in Europe, Japan, and the US.

# Q: You have seen the industry change since you first started. CD sales are decreasing and artists are having trouble making a living. What are your thoughts?

A: It all boils down to greed. The labels tried to have too much control over the talent and when the internet exploded and people could market themselves and sell their music directly to the consumer, the labels panicked again. Of course, I hate file sharing and think it's horrible that people steal music from artists. Now any money an artist can make is through merchandising, sell a wide product line. Touring is a great promotional tool to sell your products. So tour, bring CD's, shirts, and whatever else you can put your name on and make sure people buy it.

### Q: Was this the reason you decided to open a recording studio and leave Danger Danger?

A: Not at all. I left Danger Danger because of my son. I wanted to be close to him and give him a better life so I opened my recording studio. This way I can also help new artists who don't know how to market themselves. Artists get their rights taken away by labels and I want to help them get their music to the people so they can make a career out of it. Nobody deserves to get screwed over by their employer.

### Q: What do you think artists should do to get their music to the people?

A: Well I don't approve of illegal downloading. I know one band that toured extensively and all they did was brought copies of their CD's that they made themselves. They asked the crowd to donate whatever they could afford and take a CD home with them. Most nights, they made enough to cover the production costs of the CD and some nights they made enough to eat the next day as well. It was an interesting promotional idea. Word of mouth spread and the band had a successful tour. I don't think it's the right way to distribute your product but it was an interesting way of doing it.

## Q: Have you felt the negative affects of downloading? Have your past album sales declined?

A: I've left the repercussions, oh I have. I'm lucky that my albums are sold worldwide and many people in Japan and Europe still buy CD's. So I do have royalty cheques still coming in from my album that was released twenty years ago. Now the Danger Danger albums didn't sell as much as before but that could be because our distribution rights through Low Dice Records were not as good as with Elektra or Epic Records. You can't sell product if people can't get it. Online sales are good but not like the way sales were when people would just go to a store and pick up a copy of your album. I'm sure

Prepared by Simon Ali, Rajan Khaira, Colton Little, Karan Narula, Mohammed Pannun, Jeff Wright



downloading plays a big part too but there's really no way of knowing for sure. There are too many variables. Lack or label representation, lack of radio play, no more videos on Mtv, and now illegal downloading.

Q: You mentioned Mtv. A great promotional item for an album was music videos. Michael Jackson redefined the music industry with his videos and that set a huge movement in music. Artists could now be seen visually and heard musically. Do you think that there is not a good method to promote now that Mtv is a realty tv channel?

A: Oh of course. Mtv set a new standard for artists to get their music to the people twenty-four seven. With that promotional and distribution channel gone, people don't get to see and hear music like they once did. Not only are retail CD stores disappearing but there is no more Mtv. Sure YouTube is around but it's not the same.

Q: You also mentioned that there are many variables to why the industry is not as successful. Could you expand on that please?

A: At one time, the music industry had Mtv, radio, print media through magazines and newspapers, and retail locations. There were so many ways to market and advertise artists. When the record companies started to consolidate in the early 1990's, there were less bands being signed which gave the consumer less product to purchase. Then Mtv changed to a reality television channel, the internet took over for print media so ads and articles couldn't be placed in magazines or newspapers, then retail locations started closing down. Now I gotta say, retail locations started struggling for many reasons. I think the first reason is because the labels dropped so many established artists in the late 1990's that retailers couldn't purchase CD's anymore. There are a limited amount of bands [product] to stock on shelves. Consumers started looking at finding songs online, through ordering the CD or just downloading it for free.

You are studying marketing, so you know that the consumer cannot purchase product if nobody can get it. The record labels are just a form of distribution and when they started clamping down and not signing artists or dropping artists from their roster, the consumer suffered.

Q: Actually you are right on the money with that statement. I had to order all the Danger Danger albums through third party distributors because I could not purchase it locally. I used to spend over \$50 per CD. Were you surprised to hear artists like KISS left Universal Music Group after twenty-six years on the label [KISS was originally on Casablanca Records which was bought by PolyGram which was then bought by Universal in 2000] or that Bon Jovi refused to release a CD until he knew it would get the proper attention and promotion?

A: I think what Jon Bon Jovi did was brilliant. He knew the merger of the labels would be an issue and he didn't want to release an album until he knew the consumer would be able to get it. Sheer brilliance on his part for foreseeing an issue while it was unfolding. I was shocked to hear KISS left Universal but I understand why. They knew they would not get the attention their music needs so they formed their own label. Another smart marketing idea from a smart band.

Q: Now bands are dealing with exclusive selling through Best Buy and Wal Mart. Is that a new trend or just an old trick trying to keep the industry alive?



A: Well AC/DC and Garth Brooks are pushing a lot of units by selling exclusively through Wal Mart. It is a great distribution channel because you can guarantee your product will be in every location nationwide or worldwide, depending on the deal. It is a way to fight the affects of your music being downloaded for free, it also helps against relying on a record label, and it ensures you know consumers can purchase your product. I think it's a good marketing idea.

Q: Do you believe the record industry is suffering from sales declines because of illegal downloading?

A: I believe there is a negative impact from illegal downloading but the industry is not suffering only from that. Labels need to reorganize themselves and accept online downloading, as they have through iTunes and other payable downloading sites. They might not be selling as many albums but that's because there aren't that many artists with albums out nowadays. I once heard the phrase "The Perfect Storm" created the problem with the recording industry and that statement it true. There are many variables and all of them have to be looked at and dealt with accordingly.

## Nielson SoundScan Top Ten Album Sales (2000-2009 unit sales)

#### 2000

No Strings Attached / 'N Sync ~ 9,936,104
The Marshall Mathers LP / Eminem ~
7,921,107
Oops!... I Did It Again / Britney Spears ~
7,893,544
Human Clay / Creed ~ 6,587,834
Supernatural / Santana ~ 5,857,824
1 / The Beatles ~ 5,068,300
Country Grammar / Nelly ~ 5,067,529
Black & Blue / Backstreet Boys ~ 4,289,865
2001 / Dr. Dre ~ 3,992,311
The Writing's on the Wall / Destiny's Child ~ 3,802,165

#### 2001

Hybrid Theory / Linkin Park ~ 4,812,852 Hot Shot / Shaggy ~ 4,507,568 Celebrity / 'N Sync ~ 4,421,231 A Day Without Rain / Enya ~ 4,410,053 Break the Cycle / Staind ~ 4,242,507 Songs in A Minor / Alicia Keys ~ 4,102,482 Survivor / Destiny's Child ~ 3,718,446 Weathered / Creed ~ 3,581,344 O Brother, Where Art Thou? / Various Artist Soundtrack ~ 3,460,852 Now That's What I Call Music! 6 / Various Artists ~ 3,133,462 2002 The Eminem Show / Eminem ~ 7,807,925
Nellyville / Nelly ~ 4,916,073
Let Go / Avril Lavigne ~ 4,121,396
Home / Dixie Chicks ~ 3,690,413
8 Mile / Various Artists ~ 3,498,497
Missundaztood / Pink ~ 3,144,947
Ashanti / Ashanti ~ 3,099,216
Drive / Alan Jackson ~ 3,054,736
Up! / Shania Twain ~ 2,909,499
O Brother, Where Art Thou? / Various
Artist Soundtrack ~ 2,736,049

#### 2003

Get Rich or Die Tryin' / 50 Cent ~ 6,535,809

Come Away with Me / Norah Jones ~ 5,137,468

Meteora / Linkin Park ~ 3,478,361

Fallen / Evanescence ~ 3,364,738

Speakerboxxx/The Love Below / Outkast ~ 3,089,849

Dangerously in Love / Beyoncé ~ 2,527,485

Chocolate Factory / R. Kelly ~ 2,439,536

Metamorphosis / Hilary Duff ~ 2,405,544

Shock'n Y'all / Toby Keith ~ 2,324,437

A Rush of Blood to the Head / Coldplay ~ 2,183,997

2004

Confessions / Usher ~ 7,978,594



Encore / Eminem ~ 3,917,097 Feels like Home / Norah Jones ~ 3,842,920 When the Sun Goes Down / Kenny Chesney ~ 3,072,224

Here for the Party / Gretchen Wilson ~ 2,931,097

Live Like You Were Dying /  $Tim McGraw \sim 2,786,840$ 

Songs About Jane / Maroon 5 ~ 2,708,415 Fallen / Evanescence ~ 2,614,226 Autobiography / Ashlee Simpson ~ 2,576,945

Now That's What I Call Music! 16 / Various Artist ~ 2,560,316

#### 2005

The Emancipation of Mimi / Mariah Carey  $\sim$  4,968,606

The Massacre / **50 Cent** ~ 4,852,744 Breakaway / **Kelly Clarkson** ~ 3,496,192 American Idiot / **Green Day** ~ 3,360,394 Monkey Business / **Black Eyed Peas** ~ 3,037,251

X&Y / Coldplay ~ 2,615,280 Feels Like Today / Rascal Flatts ~ 2,511,209

Love. Angel. Music. Baby. / Gwen Stefani ~ 2,505,390

Late Registration / Kanye West ~ 2,413,580 The Documentary / **The Game** ~ 2,275,646

#### 2006

1,856,284

High School Musical / Various Artist
Soundtrack ~ 3,719,071
Me and My Gang / Rascal Flatts ~ 3,479,994
Some Hearts / Carrie Underwood ~ 3,015,950
All the Right Reasons / Nickelback ~ 2,688,166
FutureSex/LoveSounds / Justin Timberlake ~ 2,377,127
Back to Bedlam / James Blunt ~ 2,137,142
B'Day / Beyoncé ~ 2,010,311
Hannah Montana / Various Artist
Soundtrack ~ 1,987,681
Taking the Long Way / Dixie Chicks ~

Extreme Behavior / **Hinder** ~ 1,817,350 **2007** 

Noël / Josh Groban ~ 3,699,000
High School Musical 2 / Various Artist
Soundtrack ~ 2,957,000
Long Road Out of Eden / Eagles ~
2,608,000
As I Am / Alicia Keys ~ 2,543,000
Daughtry / Daughtry ~ 2,497,000
Hannah Montana 2/Meet Miley Cyrus /
Various Artist Soundtrack/Miley Cyrus ~
2,487,000
Minutes to Midnight / Linkin Park ~
2,099,000
The Dutchess / Fergie 2,064,000
Taylor Swift /Taylor Swift ~ 1,951,000
Graduation / Kanye West ~ 1,817,000

#### 2008

Tha Carter III / Lil Wayne ~ 2,874,000
Viva La Vida or Death and All His Friends / Coldplay ~ 2,144,000
Fearless / Taylor Swift ~ 2,112,000
Rock N Roll Jesus / Kid Rock ~ 2,018,000
Black Ice / AC/DC ~ 1,915,000
Taylor Swift / Taylor Swift ~ 1,599,000
Death Magnetic / Metallica ~ 1,565,000
Paper Trail / T.I. ~ 1,522,000
Sleep Through The Static / Jack Johnson ~ 1,492,000
I Am... Sasha Fierce / Beyoncé ~ 1,459,000

### 2009

Fearless / Taylor Swift ~ 3,217,000
I Dreamed a Dream / Susan Boyle ~ 3,104,000
Number Ones / Michael Jackson ~ 2,355,000
The Fame / Lady Gaga ~ 2,238,000
My Christmas / Andrea Bocelli ~ 2,207,000
Hannah Montana: The Movie (soundtrack) / Hannah Montana ~ 1,823,000
The E.N.D. / Black Eyed Peas ~ 1,787,000
Relapse / Eminem ~ 1,735,000
The Blueprint 3 / Jay-Z ~ 1,515,000
Only by the Night / Kings of Leon ~ 1,398,000



The Effects of Illegal Downloading on the Record Industry Association of America (RIAA)	Page 66



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The Effects of Illegal Downloading on the Record Industry Association of America (RIAA)	Page 69

