Are Digital Downloads Crippling the Music Industry?
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This essay analyzes the growing problem among the two main sectors of the music industry—record labels and concert promoters—and the effects of digital downloads on each. Both sectors serve equally significant roles in the overall health of the industry, but face completely different challenges. The advent of digital music has drastically changed the industry in both positive and negative ways; however, more attention has been focused on the negative impacts on the industry, more specifically, the record labels’ plummeting profits. While record labels are struggling to adapt to the new digital market, concert related businesses are thriving. This raises the question of just how significant of an impact digital downloads are having on the overall health of the music industry.

Introduction

The music industry is a peculiar field of business with multiple factors playing major roles. The industry as a whole is both a service trade of live entertainment, and a retail business with the sale of music in physical and digital formats. Add in the factors of a faltering economy and severe consumer spending cuts, and the problems facing the industry as a whole become extremely complex to diagnose. In recent times, the digital realm of the music industry has received a high level of attention. Just as the compact disc replaced the cassette tape and the cassette tape the vinyl record, digital media seems to be the new frontier in the music business, but is it going to be as successful as previous transitions? The downturn in the music industry can easily be mirrored with the rise of digital media which would seem to suggest that the two are directly related. While digital downloads have made a significant and irreversible impact on the music industry, the unprofitable sale of digital music alone will not bring the music business to its knees.

Record Labels’ Relevance to Concert Industries

To determine where the music industry’s weak points are, an analysis of the relation between the two sectors of the industry is crucial. There is a clear and obvious division in the industry itself: the record companies which record, promote, and sell music and the concert related businesses which book and promote concerts and sell merchandise. The live entertainment business would seem to be completely unharmed by the sale of digital music— or any
format of music for that matter, yet they also would seem to be dependent on major record labels’ efforts to popularize music and create demand for concerts and merchandise in the first place. These record labels are extremely affected by the profitability of digital music. Whether or not digital music alone is the cause, EMI and Warner Music, two of the major record labels, are drastically cutting cost causing artists to receive less marketing and promotional support for concerts and albums (From Major to Minor, 2008).

Concert Attendance Independent of Downloads

With this informal equation of record label profitability plus label promotions equals the number of concerts and concert attendance, if record labels are not as profitable and cannot fund as many marketing and advertisement campaigns, the number of concerts – and in turn the health of the entire industry – would seemingly decline; however, an interesting paradox is occurring within the live entertainment market. Billboard reports that in 2008 (a year after EMI and Warner Music began cost cutting measures) both average revenues and average attendance increased for concerts in North America specifically $198,160 from $168,253 at almost 18% for revenues and a 6.3% increase for average attendance (Waddell, 2008). Why would the apparent factors leading to concert success or failure not coincide with actual concert performance? Planning appears to be the “x factor”. AEG Live CEO Randy Phillips claims that the concert figures from 2008 are irrelevant because most tickets for concert tours were sold in the first half of 2008, before the economy and consumer spending turned sour (Waddell, 2008). The long term effects of the economy on the concert business have yet to be felt. Phillips predicts that restricted consumer spending will be apparent from April to June of 2009 (Waddell, 2008).

Live Business Not Affected By Digital Downloads

Although the effects of the economy on the live industry have yet to be deciphered, there is no denying the significance of concerts and merchandise is the grand scheme of the music industry. The major and minor live entertainment businesses reported in Ray Waddell’s (2008) article The Rules of the Road gross from a range of over one billion to thirty million dollars a year – at least in 2008, thereby solidifying the live industry as a major money maker in the overall picture (Waddell, 2008). From this sector of the music industry, the main threat to the music business as a whole is clearly the economy and consumers’ willingness to spend money on concerts but definitely not digital downloads. As Ray Waddell (2008) puts it, “…eating trumps concerts on the hierarchy of needs in most every case” (Waddell, 2008). But this diagnosis is only from one half of the sector. Would record labels who deal with digital music downloads hands-on offer a different answer to the industry’s woes?
A Tumultuous Transition

Just as the industry as a whole is divided into two groups – the performance and the sale of music – the recorded music industry is divided into two main sales focuses: digital downloads and hard copy compact disc. For years CD’s have been the major source of income for record companies. The digital world seems to be proving difficult for most major record label to handle. This seems strange seeing as how the music industry has historically transitioned from one media (vinyl, cassettes, CD’s) to another with relative ease. Is the internet and digital media really that hard to master? Perhaps the challenge is not the media but the consumers themselves.

Consumers’ Digital Mindset

The advent of the internet has drastically changed and accelerated change in daily life, technological advancement, and personal taste. People are “plugging in” more and more and are beginning to overwhelmingly prefer digital music to the hard copy compact disc. In 2006 EMI managers invited some local teenagers to discuss some of their listening habits. When none of them took an assortment of free CD’s offered to them on their way out, EMI managers knew, “the game was completely up” (From Major to Minor, 2008). While this is only a limited view of record labels’ consumer demographic, there is no denying that popular music is directed to the younger age groups. With the preferences of the large, young audience in mind, why wouldn’t record labels embrace this new digital format wholeheartedly?

CD’s Function as a Major Money-Maker

The first reason would logically be that CD’s are still making money, and lots of it. In 2006 CD sales still accounted for over 80% of global music sales (From Major to Minor, 2008). When CD’s are still proving to be a profitable enterprise, there is no reason for labels to switch; except for the fact that CD sales are dropping drastically – as much as 21% in Canada – and digital download sales are growing but are not replacing revenues lost from declining CD sales (From Major to Minor, 2008). It would seem logical that record labels could and would find a way to make revenues from CD’s and digital downloads equal so that this new media would continue year to year profits instead of leaving themselves scrambling for answers. Further complicating this dilemma is the fact that record labels make the same amount of money per song from both physical and digital sources. The United States Copyright Royalty Board set the price per song for both physical and digital media paid to the record labels at 9.1 cents per song (Christman, 2008). These figures are conspicuously unchanged from previous standards.
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Piracy Still Practiced

Even more disheartening for the digital industry are consumers’ expectations in regards to digital media. Napster’s infamous battle with the rock band Metallica and others comes to mind. The fact of the matter is people have not always paid for digital music. Changing standards most people have become accustomed to will undoubtedly be met with resistance. While the internet is a great source for information, some information may be exchanged by illegal means. According to the Economist (2008), “Internet piracy of music is not merely widespread; it is regarded as normal by a generation of young people who expect music to be free” (A Catchy New Tune, 2008). The internet is in a sense the “wild west” of information technology. With little regulation and laws with a narrow jurisdiction, the act of pirating music does not seem to be going away anytime soon although not as big of a threat to the music industry as it once was with Napster.

Choice Causing Decline

Piracy is not the only threat record labels are facing with the internet. Even when digital songs are sold in legal manners, they produce a fraction of the profits seen with the compact disc. The problem in this scenario comes from two sources: the taste of consumers and the ignorance of record labels. On the consumer front, people are not looking to buy entire CD’s anymore. Michael Lee (2009) describes the change in consumer preferences as, “Consumers have been spoiled by one of the advances that iTunes helped popularize: choice. People can now cherry pick and choose the specific songs they want instead of having to purchase the entire CD (or a still-pricey EP)” (Lee, 2009). Purchase of single songs instead of entire CD’s is obviously not as profitable for record labels, but is there an alternative?

Tiered Pricing the Answer?

iTunes, arguably the largest and most popular internet music store, recently enacted a three-tiered pricing system in the wake of ailing record label profits. Michael Lee (2009) shows that this move was seemingly enacted to coerce consumers into buying entire albums citing Led Zeppelin’s re-release of their hit album IV which sells for $1.29 a song and only $8.99 for the entire album (Lee, 2009). On the other end of tiered pricing – songs that are being sold for $0.69 – (Lee, 2009) believes that cheaper songs will act as a sort of bait to attract new fans which labels hope will drive them to turn around and buy entire CD’s after being exposed to new, cheaper music (Lee, 2009). In theory this system seems to be a Godsend for the declining record labels, but it is too early to tell if the system works. The hopeful and promising profitability of a tiered pricing structure is not the only challenge facing record labels on the net.
Internet Radio’s Drastic Impact

The most recent and growing trend in internet music is free streaming music sites such as Pandora and Last.fm. Most all of these sites are free to use or at a minimal cost to consumers. Douglas MacMillan (2009) claims that consumers are even beginning to substitute these streaming music sites for buying CD’s and digital downloads (MacMillan, 2009). MacMillan goes on to show a staggering statistic, “For every 1,000 songs streamed at Lala, users pay the 99% download fee for only 72 of them. They pay 10% for only 108 out of 1,000. The remaining 820 songs are played for free” (MacMillan, 2009). Assuming similar statistics for other streaming music sites, internet radio appears to be the Achilles heel for record labels. Making matters worse is the fact that some of these sites are not even profitable. Imeen is primarily run off of advertisement, but has not been a profitable business model (MacMillan, 2009). Why am/fm radios are profitable and internet ones are not is puzzling, but the core issue is that record labels are going to have to change their attitudes when it comes to dealing with these types of sites; they are not the catalysts for downloads as they were once thought.

A Declaration of Independence

As changing and less profitable consumer preferences are hitting record labels from one side, artists themselves are slowly emerging as a major threat to bigger labels. Artists are beginning to break ties with major record labels in search of a more independent means of creating and selling music. Madonna left Warner Music in 2007 to sign a deal with the concert promoter Live Nation and the Eagles released a CD without any ties to a record label whatsoever (From Major to Minor, 2008). While these acts have a sound financial backing generated through their previous successes to execute these risky moves, it is safe to say that other acts may consider jumping ship as well if the risk taken by these artists pays off. On the other hand, when new acts come on to the scene, they may still seek out the power of major labels to make their music more popular and more profitable. No matter what scenario an artist falls under, there is a clear message being sent to the record labels: artists are demanding more freedom. It appears as if consumers and artists are preferring independence and choice while record labels are still lagging with an individualized approach to business.

Conclusion

What is being seen with record labels is an apparent contraction. There is simply less money exchanging hands – online especially, but physically too. The markets for music are becoming too numerous and the big record labels are too slow in reacting. The cause for the contraction? There is no doubting that digital music is playing a part, but other factors such as economic con-
ditions and poor management must also be considered. Record labels are being forced on the defensive and must come up with ways to make digital downloads profitable – which is not out of the question. Although in a state of contraction, the record labels will not become extinct in the foreseeable future and should eventually plane off from their current downturn. The problems facing the music industry are great, but not insurmountable. The answers will not be a simple, one plan fits all type of business model, but rather complex and even combinations of models. As for the music industry as a whole, the business seems to enjoy a unique advantage in an everlasting demand for music. Whether it is live, digital, or on compact disc, people worldwide have a thirst to be entertained by music and appear willing to pay – at least a little – for their favorite band or artist. Concert related business have an even bigger edge: a CD or digital download cannot capture the excitement, atmosphere, and experience of a live concert which will allow that sector of the music businesses to continue to thrive. The core of the issue with digital media is not that it is not profitable, but that the industry has not changed with consumers’ preferences. Only after the music industry satisfies consumers’ expectations with low cost, high choice, and theoretically profitable business models, can the argument be made that digital media is killing the music industry. This dramatic and permanent change in consumer behavior can be capitalized on, but the industry must make equally dramatic and permanent changes in its approach to business.

References


