**GLOBAL MUSIC INDUSTRY:** IS THIS THE END OR A NEW BEGINNING?

# A musical paradox

**For the music industry, buffeted by declining sales of albums and slowing digital downloads, the writing on the wall is clear. Embrace innovative business models or go under.**

BY AMIR MOIN

In 2009, revenues through performance rights stood at a meagre $800 million. Even though there has been growth in digital distribution, the industry still has a long way to go

If you watched Beyonce Knowles perform during the Grammy Awards last month, you could be forgiven for thinking that the music industry is on a roll. Award nights, like the Grammy's, never fail to throw up new music sensations and once in a while their newly-recorded albums soar to the top of charts, hauling in record sales in a matter of weeks. As for the established stars à la Britney Spears or Rihana, it's no conceit on their part to think of the world as their oyster, with legions of music aficionados waiting eagerly to lap up their muscial offerings. The current pop sensation, Lady Gaga's debut album *The Fame* has sold over 3 million copies worldwide and has spawned several hot tracks, which have become international chartbusters. But it would be naïve to think that the music industry is wallowing in the moolah. The truth, alas, is more sombre.

At the end of last year, the music business was worth half of what it was ten years ago and the decline doesn't look like it is going to be arrested any time soon. According to the latest data given out by the International Federation of the Phonographic Industry (*IFPI*), global revenue from digital music sales, inspite of increasing 6% to $4.6 billion in 2010, was down from a 12% increase in 2009. The overall recorded music market decreased approximately 9% in trade value, according to IFPI's "Digital Music Report 2011." While digital revenue accounted for 29% of the global music industry's total revenue in 2010, the report estimates approximately 95% of all global downloads were via illegal services. Not too long ago the music industry was in much better shape when global recorded music sales stood at a staggering $26.9 billion in 1999.

The phenomenal decline since then can be traced back to the June 1999 debut of Napster, a peer-to-peer file-sharing service that gave users access to free music. Not only did Napster help change the way most people got music, it also lowered the price point from $14 for a CD to free. Although Napster was forced to shutter its service in 2001, under overwhelming industry pressure, other Napster-like clones moved in quickly to fill the void. In the time between Napster's shuttering and iTunes' debut in 2003, many of Napster's 60 million users found other online file sharing techniques to get music for free.

In hindsight, Napster only acted as a catalyst for forces that were soon to alter the dynamics of the music business. It set the trend for the way music content is distributed, sold and marketed over interactive channels. Today, music can be accessed for free and legally downloaded. Internet radio services such as Pandora and Grooveshark, and music services such as Spotify have started giving users access to free but legally downloaded music. Result: there is now a generation that believes music is available to download for free on the internet. The sheer size in terms of number of tracks obtained through internet downloads as well as via illegal file sharing on mobile phones is growing and is much larger than legal purchases of music.

At a fundamental level, the music industry's woes can be ascribed to its inability to come up with new alternative music products tailored to keep pace with the changing face of music. Another is the failure of traditional music companies to alter their existing business model, largely based on physical distribution of music (*selling CDs*), which still accounts for almost 73% of their total revenue pie. Crispin Reed, Managing Director, BrandHouse, a UK based brand consultancy, fully agrees. "Although, sticking to conventional business models might have been a conscious decision, it's equally likely that this was due to inertia, which is typical in well-established sectors. It's often easier to create a new paradigm than change a long established one" says Reed. Thankfully, a few big players seem to have accepted the harsh realities of file-sharing, music downloads and independent do-it-yourself market taking over. According to an industry report, both Universal and Sony are using digital music downloads to build buzz around a particular album, which will follow the single months after.

iTunes stores have also shown the industry a way to monetise the digital platform. Introduced by Apple in 2004, users are charged a nominal downloading fee per song. Today, iTunes accounts for 70% online digital music sales and is the largest legal online music retailer in the world. Johnny Ryan, Senior Researcher at The Institute of International and European Affairs (*IIEA*) offers some ideas on how the industry can buoy up sales of music. He tells B&E that "the lesson for the music industry lies in the gaming industry. Computer game sales have risen as the music industry's have fallen, and a part of the former's success is a result of its approach to piracy and community". The most successful computer games offer players online communal experiences that allow them to compete against each other, and to leverage the community and social strengths of the internet. At the same time, they also require players to connect via online subscription services that make software piracy impossible. Transferring this concept to the music industry might actually be a good approach. B&E

## Percentage change in recorded music sales by region (*2008-09*)

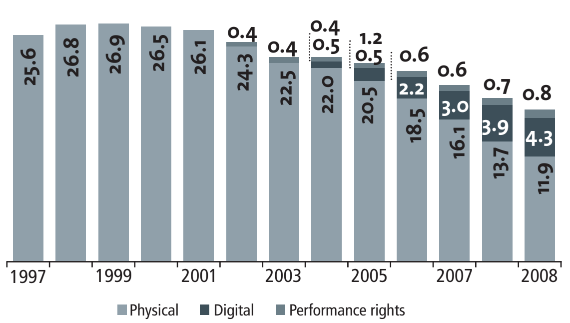
Sales through physical distribution have taken a hit globally

| | Physical | Digital | Performance rights | Total |
|---|---|---|---|---|
| North America | -17.9% | 1.1% | 20.3% | -10.4% |
| Europe | -8.9% | 29.7% | 4.1% | -4.1% |
| Asia | -15.4% | 10.4% | 11.9% | -9.2% |
| Australia/New Zealand | -2.4% | 41.4% | 8.6% | 3.5% |
| Latin America & Caribbean | -4.7% | 17.6% | 23.2% | -0.7% |
| Global | -12.7% | 9.2% | 7.6% | -7.2% |

Source: IFPI

## Global recorded music sales (*1997-09*)

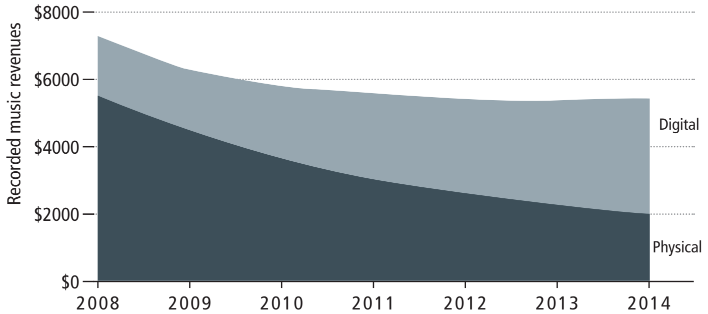
Revenues have been declining consistently for the past 10 years




Source: IFPI (*Figures in $ billion*)

## Revenue forecast for physical and digital distribution (*US*)

Decline in physical revenues is far greater than the digital uptake




Source: Forrester Research Inc. (*Figures in $ million*)