

# **The Business of Selling Recorded Music: 1990 to the Present and Thoughts on the Digital Music Revolution**

**By Noah Schwartz**

The business of selling recorded music is in flux. Today, music buyers and sellers are party to an on going paradigm shift, unique to modern times and the history of the music business.

## **Media, Pricing, Sales & Distribution**

To understand where the business of selling recorded music is today and where it is going, the recent history of the business should be understood. Some even consider the early to mid-nineties as the golden age of selling recorded music<sup>1</sup>. The following brief overview starts at the beginning of the compact disk era - approximately 1990. Four important factors are considered: Media, Pricing, Sales and Distribution.

### **Media**

By 1990, the business of selling compact disks was in full swing. Introduced to the American market in 1983, compact disks surpassed the gramophone record in popularity by 1988 and the cassette tape by 1993<sup>2</sup>. In the nineties, and especially by the mid-nineties, consumers had more media options for music than ever before: cassette tapes, CDs and records. CD and cassette players were becoming standard in all cars. There, consumers had the option to listen to the music of their choice rather than radio. This drove sales of recorded music up. The music playback medium used in cars has, and continues to be, a major factor in how music is packaged.

By 1996, compact disks were the bread and butter of the business. In that year, CDs had a 68 % unit-market share in comparison to all recorded music media. 779 million CDs were shipped in 1996 compared to 225 million cassettes, then about 20%. By this time, gramophone record sales occupied a niche market of less than 1%<sup>3</sup>. From 1996 to the present, compact disk sales still hold the largest market share of all music media being sold - peaking in 2002 when 91% of the market share was CDs.

In 1999, a new form of music media was widely introduced to the general public – the digital song. The technology required for this revolutionary format came together with compact disk technology. Its origins go back to 1992 with the introduction of the CD burner and the CD-R blank disk<sup>4</sup>. Just like all past music media, digital songs gave the consumer more control. This was similar to the introduction of cassette players with recording functions that allowed consumers to make their own mix tapes. Throughout the nineties, in fact, consumers slowly started to digitize their music through making customized mix-CDs.

---

<sup>1</sup> Alhadeff, Peter. "The Value of Music and the Trappings of the Marketplace 1990-1995", MEIEA Journal, Fall 2006, 13-28

<sup>2</sup> "Compact Disk." Wikipedia, 2006

<sup>3</sup> The Recording Industry of America. "2005 Consumer Profile" 2005

<sup>4</sup> Pohlmann, Ken C & Jeremy Despain. "History of CD Technology" OneOff Inc, 2005

1999 was the year that Digital songs really took off, for two reasons. The first was Napster. Napster was the most popular, and by far the most widely used, peer-to-peer file sharing program. It allowed users to trade digital songs from computer to computer, absolutely free. Napster took off unlike any other music media in history. By 2000, just one year after its launch, it had 40 million users worldwide<sup>5</sup>. By 2001, Napster had been shut down due to legal issues, but hundreds of other digital music file-sharing sites followed.

The second reason was the introduction of the mp3 player. 1999 was the year when the mp3 player began to become a household item. Just like previous music media shifts, consumers were able to control what they listened to. They were able to mix and match songs, artists and genres with an ease never before seen. Consumers, for the first time in history, could carry around, in their pocket, hundreds of their favorite songs. In 2001, Apple Computer released the iPod and the first iTunes program. The iPod, by far the most successful mp3 player ever, now has at least a 70% market share in the field<sup>6</sup>. In 2003, Apple opened the iTunes Music Store, the first completely online inventory dedicated to selling digital songs. It offered an alternative to consumers who were using file-sharing sites that provided free music as well as to purchasers of CDs and to other more traditional music media.

### **Price**

Since the early nineties, the price of recorded music has been falling in comparison with the yearly inflation increase<sup>7</sup>. Since music is a product with a generally high demand, especially for platinum hit songs, the dropping price of music does not make sense in terms of its price elasticity of demand. Smash hit platinum songs should be an inelastic product, which would generally mean the record companies would want to charge a high price. However, during the nineties, and continuing to this day, music was sold by a wide variety of retailers and competition was enough to keep prices from going too high. Also the Federal Trade Commission (FTC) does not allow price collusion between the major record labels, in an attempt to keep the market competitive. Even so, in the year 2000, the FTC ruled that collusion had existed between the record companies in the late nineties. According to the FTC, American consumers overpaid \$480 million for CDs<sup>8</sup>. Recently, consumers have started to notice a decrease in real prices, as record companies try to compete with free and legitimate digital download services. In 2003, Universal Music cut most of its CD prices to ten dollars<sup>9</sup>. Other labels have followed Universal's lead, with many of their CD prices. This pricing may have been brought about to compete with the iTunes Music Store, which sells all individual songs for 99 cents and most albums for \$9.99. The major labels have tried, and failed, to obtain a variable pricing scheme on iTunes. The labels argue that all music does not have the same value - a new hit record is monetarily worth more than a deep catalogue track. Apple claims fixed pricing is the best way to increase sales, keep current customers happy and gain a wider consumer base<sup>10</sup>.

---

<sup>5</sup> Intellectual Property Guide "Napster" Caslon Analytics, 2004

<sup>6</sup> Cantrell, Amanda. "Apple's remarkable comeback story" CNNMoney.com, 2006

<sup>7</sup> Alhadef, Peter. "The Value of Music and the Trappings of the Marketplace 1990-1995" op cit.

<sup>8</sup> op cit.

<sup>9</sup> Vance, Ashley. "Universals CD Price.", The Registrar, 2003

<sup>10</sup> "Apple wins the right to retain fixed-price download." Registrar, 2006

(Recently, EMI and Apple have reached an agreement to allow songs without digital copy protection to be sold at a higher rate. However this does not pertain to the argument about the value of music, just digital copy protection issues.)<sup>11</sup>

## **Sales**

Sales of recorded music increased most from 1990 to 2000, dropping only sporadically. 1997 was one of the years when sales dipped by 3.3%. However, from 1998 to 2000 sales were excellent. 942.5 million compact disks were sold in the year 2000 - the best CD sales volume of all time<sup>12</sup>. The steady increase in sales over the nineties can be tied to increased consumer access and constantly falling prices of CDs, CD-R's, CD players and especially portable CD players. From 2001 onwards, everything changed for the recorded music business, especially in terms of sales. Consumers had many different choices in terms of how they accessed music. The option of getting free digital songs was now on the plate. Between 2001 and 2002, sales of all recorded music media dropped 7%. 2003 brought another drop in overall sales - a 7.8% decrease. The establishment of the iTunes Music Store, again greatly changed the sales dynamic for the business. Now, Digital songs were not just the domain of consumers who did not want to pay for their music. In 2004, digital downloading accounted for only 0.9% of the market share for recorded music sales. In 2005, mainly because of iTunes, Digital songs took up a 5.7% market share of recorded music sales, a huge percentage gain from the previous year. In 2005, 366.9 million individual songs were sold online - a 163.3% gain in sales from 2004<sup>13</sup>. In 2006, Apple announced it had sold over 1 billion songs on iTunes<sup>14</sup>.

All through the nineties, the best selling genres of music have stayed fairly consistent. The "Rock" genre has been the best selling. In 1999 "Hip Hop/R&B" overtook "Country" as the second best selling genre and has stayed in that position. The best selling genres in order as of 2006 are; "Rock", "Hip Hop/R&B" and "Country". Also, throughout the nineties, current releases have always sold best, followed by catalogue (older recordings no longer on the charts) and then deep catalogue material<sup>15</sup>.

## **Distribution**

Before 1999, the distribution channels for the consumer to obtain recorded music were relatively few in number and simple to understand. There were record stores, other larger hypermarkets (WalMart, Target, Best Buy) and record clubs. Record stores were the traditional places to buy music. Throughout the nineties, records stores led the way in market share for places where consumers bought their music - peaking in 1997, when 52% of the recorded music was bought there. Record clubs have existed for many years and hit their peak in the mid nineties. In 1996, 14% of all recorded music purchased was from record clubs. As the nineties progressed and led into the 2000's, hypermarkets became more and more popular as places to buy recorded music. In 2004, 53.8% of all recorded music was sold at hypermarkets. For several years, starting in 2002, and ending

---

<sup>11</sup> "Apple Unveils Higher Quality DRM-Free Music on the iTunes Store" Cupertino, California; Apple, 2007

<sup>12</sup> Alhadeff, Peter. "The Value of Music and the Trappings of the Marketplace 1990-1995" op cit.

<sup>13</sup> The Recording Industry of America. "2005 year end statistics." Washington DC, USA, 2005

<sup>14</sup> Sliverstein, Jonathan. "iTunes one billion severed." ABC News, 2006

<sup>15</sup> Soundscan. "2006 US Music Purchases Exceed 1 Billion Sales." White Plains, USA, 2006

in 2004, hypermarkets had more than half of the market share in terms of where consumers purchased music<sup>16</sup>. One explanation for this, that cannot be ignored, is the willingness of hypermarkets to sell CDs at prices that lose the company money (music being the “loss-leading” lure). The intention of this strategy is to entice people to buy more expensive, complementary products, along with the music, like CD and mp3 players. Unlike record stores, hypermarkets have a different bottom line strategy. They can lose money on recorded music if it helps boost sales of more profitable complementary consumer electronic products.

The introduction of the Internet as a music distribution medium has forever changed the way people listen to and consume music. The innumerable ways to access music from the Internet is astounding and has given the consumer more control than ever before. Some of the many ways to acquire music free or for a fee include iTunes, file sharing programs like Kazaa and Bit Torrent, MySpace, a variety of online contests, electronic press kits and music blogs. Consumers can discover for themselves a multitude of bands – both independent and commercial. Consumers can listen to songs for free, for the most part legally. They can find out about the band in ways that an album booklet can never provide – such as up-to-date tour and biographical info, future projects and possible videos. Consumers also have the choice of getting music illegally for free from file sharing sites or legally from sites like iTunes. Clearly, there is more choice and control by the consumer than ever in the nineties.

### **The Future: The Golden Age is Today.**

As was mentioned earlier, the golden age of recorded music sales is seen as running from the early nineties up to the late nineties. This may be a generational outlook. It comes from a time when the record companies had most of the control and the consumers and artists had little choice and almost no control. Hundreds of millions of dollars were made signing the Backstreet Boys, the Spice Girls, Garth Brooks, Kelly Clarkson, Celine Dion and other artists—including a number of less than stellar acts. Mass marketing, radio and video promotion ran supreme, arguably subjugating music consumers everywhere. Sellers sought platinum mega hits. In economic terms, they had the pull of inelastic demand. Regardless, often a sub-par record would not make it in spite of all the publicity. Of course, piracy, especially illegal downloading, could be conveniently blamed—even when the evidence by the RIAA was not definitive<sup>17</sup>. But the existing paradigm has backfired. A fresher outlook is now needed to overcome the current predicament of the business.

The Golden Age is today. This is because with digital songs and the exponential rise of personal computing, a musical revolution is taking place that is bound to last. Like any good revolution, it is restoring power to the people. Every year it seems the music consumer is gaining a little more control.

In 1999, Napster was the revolution’s war cry and first strike. Finally the people had something on the record companies. Consumers could now sample before they bought -

---

<sup>16</sup> The Recording Industry of America. “2005 Consumer Profile” 2005

<sup>17</sup>The Recording Industry of America. “2005 year end statistics.” Washington DC, USA, 2005

but they still bought! Then, with iTunes, it became possible to download the platinum mega hit single without having to buy the entire album. Following that, sites like MySpace, YouTube, and Sonicbids, as well as dedicated music blogs, have done something much more important – unlike Napster, they have focused on artists, allowing an almost symbiotic relationship with consumers. It is music consumption without the middleman. The result is that records companies have lost much of their control (even if they still will be around for a while). The playing field is now much more even, like all the companies of the digital music revolution, record companies must also find their place in the ever-evolving ebb and flow of the new music business.

A scenario that could have never been possible ten years ago is playing out today on a daily basis. An artist in a home studio in New York records some music and video. He can upload them on MySpace and YouTube and have people in London, Islamabad and Dubai listen and comment the same day. He can create a Sonicbids electronic press kit and send it to talent buyers and record labels all over the world. And even if there is mediocrity, bands are making the music they wish to make—not just catering to the commercial success of a label. If there is no record company investment at stake, expressing oneself and getting listeners to share in the experience may be all that matters for many artists.

Overall, the history of the modern recorded music business seems to be a story about the gain and loss of control between buyer and seller, big business and niche markets, and talent and employer. This current juncture, if used and understood correctly has the potential to benefit both the artist and the consumer.