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Executives Can See Problems Beyond File-Sharing

By NEIL STRAUSS

LOS ANGELES, Sept. 8 — Not long ago, the record industry's trade group issued an alarming statistic. Music shipments, it said, were down 15.8 percent in comparison with the previous year. The reason, according to the trade group, the Recording Industry Association of America, was in large part because of music downloaded on file-sharing services and music burned onto recordable CDs.

Shortly after, Universal Music announced that it would reduce wholesale prices on its CD's by several dollars in a move aimed at encouraging retailers to sell them for as little as \$10 each.

The chief reason was once again the drain from unauthorized song-swapping online.

Today, the campaign became even more aggressive with the announcement that the beleaguered industry had filed lawsuits against 261 people for the unauthorized digital delivery of thousands of songs to other people on file-sharing services like KaZaA and Morpheus.

But interviews with executives at record labels, Internet

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Britney Spears, Madonna and Christina Aguilera performing at the MTV Video Music Awards. With limited radio play for new artists, executives say, the industry relies on stars to maintain their popularity.

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companies and research companies revealed a much more complex array of problems facing the music business than just digital piracy.

"It's not all file-sharing," said Andy Gershon, the president of V2 Records, home to the recording artists Moby and the White Stripes. "I do think that right now, the business is sick but music is great."

Other record label executives agreed. Among the problems they cited were the consolidation of radio stations, making it harder to expose new bands and records, and the lack of a widely popular musical trend like teen-pop, which relied on stars like Britney Spears and 'N Sync to drive young people to record stores.

They also blamed a poor economy and competition for the limited time and money of teenagers and young adults, their main customers, who often find that they prefer buying DVD's, video games, sneakers and more.

Indeed, thousands of music retail stores have closed recently, and the ones that are still open have given shelf space to competing products, like DVD's and video games.

In addition, the introduction of CD's in the early 1980's encouraged consumers to replace their vinyl records with copies in the new format, but that sales spike has since abated.

And as major record labels have become part of large international corporations, industry insiders say, less attention is being paid to discovering and marketing music properly.

"So many labels are in play — they're trying to be acquired or acquire another company or merge — so anything that affects their immediate balance sheet is slashed," one record-label executive said. "Money is not being put into marketing and A. & R. because people don't want to spend the money because it looks bad on the balance sheet."

As for unauthorized file-sharing and CD burning, no one interviewed doubted that it is a serious problem. But research from independent sources suggests that while file-sharing may indeed be hurting CD sales, the problem is not as drastic as it has been portrayed by the industry.

"You can't just draw a line from A to B and say that sales are down" because of unauthorized music downloading, said Josh Bernoff, the principal analyst for media and entertainment at [Forrester Research](#).

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For one thing, the specter of a 15.8 percent drop in shipments of CD's provided by the record industry illustrates only how many CD's record labels are sending to stores.

According to the sales-tracking company Soundscan, which monitors actual consumer behavior, music sales are down by 8.7 percent in comparison with this period last year, a significant but much smaller number.

Moreover, analysts said that there are two different types of people swapping songs online.

"We did a survey recently of both adults and young people and were able to identify two groups of downloaders," said Mr. Bernoff of Forrester. "One that reduced their CD purchases and one that didn't."

Within that universe, he estimated that the record industry is losing \$700 million a year in CD sales because of file-sharing among both adults and teens.

Though that is a large number, even bigger figures have been bandied about by record-industry representatives. And, Mr. Bernoff noted, from 1999 to 2002, annual music sales have shrunk by a much larger figure: \$2 billion.

A similar study by Jupiter Research produced similar findings: a survey of file-sharing users showed that 31 percent said that their spending on CD's had decreased while 16 percent said that they spent more on CD's after downloading music.

Since the rise about three years ago of the now-defunct Napster, the first popular file-swapping service, a culture has been created in which getting songs online is simply part of the music experience.

As a result, even sharply cutting the price of CD's, as Universal has proposed, may not necessarily be effective in bringing people back to record stores.

"Price isn't the issue," said Rob Lord, a creator of Muse.Net, a computer media player. "The issue is access, integration and ease of use."

Thus, the record industry has been moving on two fronts: one is aimed at lobbying the government and using the judicial system to make free file-sharing services illegal. And the other has been toward creating pay services to download music legally online.

So far, however, only one of these legitimate services has

been viewed as a success, Apple's iTunes Music Store, which has sold more than 10 million songs despite being compatible with the computer systems of a thin sliver of PC users in the United States.

Still, even as legal downloading is expected to eventually become the predominant means of acquiring music, the CD is not necessarily disappearing anytime soon.

In 2008, according to Jupiter, online services like iTunes and Rhapsody are expected to account for only 25 percent of music sales (as opposed to the 7 percent predicted for this year).

"The music industry needs to realize that they have a multiplatform future," said David Schatsky, a senior vice president at Jupiter Research.

Meanwhile, even if a music-piracy-free future of healthy retail and online music sales ultimately arrives, many worry that the scars left by the recording industry group's aggressive tactics against music fans will not heal as quickly.

"They're doing a lot to bring the business back," said Mr. Gershon, the record label executive, "but we might have lost a generation of consumers in the process."



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