Napster Said to Hurt CD Sales

By THE ASSOCIATED PRESS

Los Angeles (AP) -- Recording industry officials have brought forth new evidence in their attempt to prove that Napster, the Internet music-swapping service, has cut into their business.

Shipments of CD singles sank by 39 percent last year, according to data released by the Recording Industry Association of America.

"Napster hurt record sales," said RIAA president Hilary Rosen. In particular, Rosen pointed to the drop in the sales of singles, once the format that fueled the music industry, as evidence of Napster's affect.

The industry released the figures after a federal court ruled this month that the service helped users to violate music copyright laws. Financial penalties and an injunction have placed the future of the popular service in question.

Napster chief executive Hank Barry said the association is twisting the data to support the recording industry's claim that they have suffered "irreparable harm" at the hands of Napster users.

"In order to argue we’ve done irreparable harm, it would be great if there were some irreparable harm to show," he said. "We haven’t seen a credible survey yet that suggests Napster is hurting CD sales."

Last week, music executives shook off Napster’s offer to settle a copyright infringement lawsuit, saying it didn’t offer a viable business model and failed to address concerns over the security of online music.

Under the proposal, Napster offered $150 million annually for five years to Sony, Warner, BMG, EMI and Universal. An additional $50 million would go to independent labels in each of those five years. The money would come from a fee-based service that Napster would like to launch if given approval from the record companies to use their songs.

Record industry executives called Napster’s offer inadequate for an industry with annual revenues of $40 billion.
Some experts trace the drop in the sale of singles back to the record companies themselves. Industry watchers say that record companies have cut production of an unprofitable product that no longer serves the needs of the industry.

Singles, a mainstay of the industry in the 1950s and 60s, have fallen out of favor as a tool to inflate sales figures and influence radio programming, said Roy Lott, president of EMI Group’s Capitol label. Even so, Napster is the “prime culprit” for the drop in sales, he said.

Industry analysts said the drop in sales can be attributed to a number of factors, including economic factors and a weak year for music releases.

“Napster alone doesn’t seem like a fair alibi,” said Michael Nathanson, a Wall Street analyst with Sanford C. Bernstein & Co. “It’s a combination of things. Softness in consumer spending. The hit titles were for such a narrow (audience) that it was a very thin year, and lastly, the Napster factor. You can’t put your finger on it.”

“To be honest, it wasn’t a great music year,” said Andreas Schmidt, chief of the e-commerce group at Bertelsmann, which has a financial stake in Napster. “There were some isolated events, but we didn’t put that much good stuff out.”

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