Money News: Sales of music, long in decline, plunge sharply - A...

http://money.aol.com/news/articles/_a/sales-of-music-long-in-decline...
Sales of music long in decline, plunge sharply
By ETHAN SMITH
AP

The Wall Street Journal

In a dramatic acceleration of the seven-year sales decline that has battered the music industry, compact-disc sales for the first three months of this year plunged 20 percent from a year earlier, the latest sign of the seismic shift in the way consumers acquire music.

The sharp slide in sales of CDs, which still account for more than 85 percent of music sold, has far eclipsed the growth in sales of digital downloads, which were supposed to have been the industry's salvation.

The slide stems from the confluence of long-simmering factors that are now feeding off each other, including the demise of specialty music retailers like longtime music mecca Tower Records. About 800 music stores, including Tower's 89 locations, closed in 2006 alone.

Apple Inc.'s sale of around 100 million iPods shows that music remains a powerful force in the lives of consumers. But because of the Internet, those consumers have more ways to obtain music now than they did a decade ago, when walking into a store and buying it was the only option.

Today, popular songs and albums - and countless lesser-known works - can be easily found online, in either legal or pirated forms. While the music industry hopes that those songs will be purchased through legal services like Apple's iTunes Store, consumers can often listen to them on MySpace pages or download them free from other sources, such as so-called MP3 blogs.

Jeff Rabhan, who manages artists and music producers including Jermaine Dupri, Kelis and Elliott Yamin, says CDs have become little more than advertisements for more-lucrative goods like concert tickets and T-shirts. "Sales are so down and so off that, as a manager, I look at a CD as part of the marketing of an artist, more than as an income stream," says Mr. Rabhan. "It's the vehicle that drives the tour, the merchandise, building the brand, and that's it. There's no money."

The music industry has found itself almost powerless in the face of this shift. Its struggles are hardly unique in the media world. The film, TV and publishing industries are also finding it hard to adapt to the digital age. Though consumers are exposed to more media in more ways than ever before, the challenge for media companies is finding a way to make money from all that exposure. Newspaper publishers, for example, are finding that their Internet advertising isn't growing fast enough to replace the loss of traditional print ads.

In recent weeks, the music industry has posted some of the weakest sales it has ever recorded. This year has already seen the two lowest-selling No. 1 albums since Nielsen SoundScan, which tracks music sales, was launched in 1991.

One week, "American Idol" runner-up Chris Daughtry's rock band sold just 65,000 copies of its chart-topping album; another week, the "Dreamgirls" movie soundtrack sold a mere 60,000. As recently as 2005, there were many weeks when such tallies wouldn't have been enough to crack the top 30 sellers. In prior years, it wasn't uncommon for a No. 1 record to sell 500,000 or 600,000 copies a week.

In general, even today's big titles are selling out far earlier than they did a few years ago.

The music industry has been banking on the rise of digital music to compensate for inevitable drops in sales of CDs. Apple's 2003 launch of its iTunes Store was greeted as a new day in music retailing, one that would allow fans to conveniently and quickly snap up large amounts of music from limitless virtual shelves.

It hasn't worked out that way - at least so far. Digital sales of individual songs this year have risen 34 percent from a year earlier to 173.4 million, according to Nielsen SoundScan. But that's nowhere near enough to offset the 20 percent decline from a year ago in CD sales to 81.5 million units. Overall, sales of all music - digital and physical - are down 10 percent this year. And even including sales of ringtones, subscription services and other "ancillary" goods, sales are still down 9 percent, according to one estimate; some recording executives have privately questioned that figure, which was included in a recent report by Pali Research.

Meanwhile, one billion songs a month are traded on illegal file-sharing networks, according to BigChampagne LLC.

Adding to the music industry's misery, CD prices have fallen amid pressure for cheaper prices from big-box retailers like Wal-Mart and others. That pressure is feeding through to record labels' bottom lines. As the market has deteriorated, Warner Music Group Corp., which reported a 74 percent drop in profits for the fourth quarter of 2006, is expected to report little relief in the first quarter of this year.

Looking at unit sales alone "flatters the situation," says Simon Wright, chief executive of Virgin Entertainment Group International, which runs 14 Virgin Megastores locations in North America and 250 world-wide. "In value terms, the market's down 25 percent, probably." Virgin's music sales have increased slightly this year, he says, thanks to the demise of chief competitor Tower, and to a mix of fashion and "lifestyle" products designed to attract customers.

Perhaps the biggest factor in the latest chapter of the music industry's struggle is the shakeout among music retailers. As recently as a decade ago, specialty stores like Tower Records were must-shop destinations for fans looking for both big hits and older catalog titles. But retailers like Wal-Mart Stores Inc. and Best Buy Co. took away the hits business by undercutting the chains on price. Today such megaretailers represent about 65 percent of the retail market, up from 20 percent a decade ago, music-distribution executives estimate. And digital-music piracy, which has been rife since the rise of the original Napster file-sharing service, has allowed many would-be music buyers to fill their CD racks or digital-music players without ever venturing into a store.
Money News: Sales of music, long in decline, plunge sharply - A...

Money & Finance Headlines

- Morgan Stanley Earnings Jump 60 Percent
- Oracle Tops Estimates, Profit Up 35 Percent
- Palm Shareholder Said Expecting Motorola Deal

- More Headlines
Money News: Sales of music, long in decline, plunge sharply - A...

http://money.aol.com/news/articles/_a/sales-of-music-long-in-decline...
Sales of music, long in decline, plunge sharply - A...

AP
A court says a bank didn't get a fair trial against this financier. Details

AP
Prosecutors say this ex-Qwest CEO's trial is all "about cheating." Details

Getty
Sam Zell says his offer to buy Tribune is still on the table. Details

Lionsgate
A public outcry prompts gruesome horror movie ads to be pulled. Details

Getty
This exec is leaving Blockbuster after a salary dispute is settled. Details

Getty
A U.S. senator is skeptical about claims made by XM and Sirius. Details

AP
President Bush visits GM and Ford hybrid car plants in the Midwest. Details

AP
Delta's CEO declines extra pay when it exits from bankruptcy. Details
Money News: Sales of music, long in decline, plunge sharply - A... http://money.aol.com/news/articles/_a/sales-of-music-long-in-decline...