Life in the Pop Lane

Lower CD prices may not be music to downloaders' ears

By Renee Graham, Globe Staff, 9/9/2003

Life in the Pop Lane If the price of a CD falls but no one really cares, does it still make a sound?

You don't need to be a business major to figure out why Universal Music Group, the world's largest record company, has decided, beginning Oct. 1, to slash its CD prices from $18.98 to $12.98. That's a 30 percent drop, and it's the first time since the introduction of the CD two decades ago that a major label has so drastically cut prices. UMG's artist roster includes U2, Eminem, 50 Cent, Sheryl Crow, Mary J. Blige, Mariah Carey, No Doubt, and Sting.

"Our new pricing policy will allow us to take the initiative in making music the best entertainment value and most compelling option for consumers," Doug Morris, UMG chairman and CEO, said in a statement. "We strongly believe that when the prices are dramatically reduced on so many titles, we will drive consumers back to stores and significantly bolster music sales."

In other words, after years of gouging customers, the recording industry is desperate. Sparked by Napster, and continued through such file-swapping services as Kazaa, Morpheus, and Grokster, the free-music revolution has left the major labels reeling and hemorrhaging. And CD prices, which despite promises to the contrary have steadily increased through the years, turned off even those who weren't inclined to sit at their computers downloading their favorite tracks.

Now, with CD sales already down almost 16 percent this year -- after a 9 percent decline in 2002 -- the industry is so rattled it has had to resort to something it has arrogantly avoided for years: a move that will benefit, instead of undermine, music consumers. With the holiday shopping season fast approaching, the other major labels -- Warner Music Group, BMG Entertainment, Sony Music Entertainment, and EMI Group -- are expected to follow UMG's lead.

Of these companies, only BMG responded to questions about whether they also plan to slash CD prices. And spokesman Nathaniel Brown said, "We're not commenting." As recently as last year, the Recording Industry Association of America was defending CD prices. In a May 2002 study, the RIAA maintained that "relative to competing sources of entertainment, CDs have become an even better value." But customers weren't buying that line any more than they were buying CDs. The drop-off has been so severe that even once-mighty music chains have been closing stores, including Tower Records in Boston and HMV in Harvard Square.

Earlier this year, for a story about the future of music, I spoke with Paul Fischer, an associate professor in the recording-industry department of Middle Tennessee State University. He said that in order for the major labels to compete with peer-to-peer file swapping, "their prices have got to come down, way down."

The record labels should have gotten the hint sooner. When they lowered prices for debut albums by Avril Lavigne, Norah Jones, and Ashanti -- all widely priced under $10, sometimes as low as $7.98 -- the CDs were among 2002's best sellers. Consumers were willing to try a CD from an unestablished artist because $10 didn't feel like a big risk. Of course, once the CDs began selling, the prices were increased.
Meanwhile, the industry clung to a business model built on bottomless greed and behaved like a monopoly. With no other ways of getting music, fans had no choice but to pay whatever the sticker price demanded. Looking for a break, some people began to frequent used-CD shops, but mostly they found themselves shelling out more and more money for a CD. (One CD now costs what a double CD went for in the early 1990s.) And it's not just new CDs; inexplicably, older albums were just as expensive.

Now the record industry, which has spent recent years threatening downloaders with lawsuits, wants to make nice. Jim Urie, president of UMG's music and video distribution unit, said his company "is confident this pricing approach will drive music fans back into retail stores." It remains to be seen whether Urie's confidence will translate into dollars. Just this month, Cambridge-based Forrester Research released a study titled "From Discs to Downloads," which concludes that 20 percent of Americans already download music and predicted that within five years 33 percent of music sales will come from downloads.

"Piracy has trained people to believe they can have anything they want when they want it," said Josh Bernoff, Forrester's principal analyst. "Once you've given people a bite of forbidden fruit, it's hard for people to go back. Universal's price cut will make people who already buy CDs buy more. But people who have slackened or eliminated their CD purchases aren't likely to come back because of the price cut." Perhaps if the industry had lowered or at least capped CD prices years ago, if it had found a way to work with those embracing new technologies instead of branding them as criminals, the story would have been different. Instead, the once-omnipotent record labels are fighting a futile battle for survival in a rapidly evolving climate in which their extinction seems inevitable. Renee Graham's Life in the Pop Lane column runs on Tuesdays. She can be reached at Rgraham@globe.com.