Digital Music Sales Soar; Industry Hopes Downloads Eventually Offset CDs' Decline

By Charles Duhigg, Times Staff Writer

Could digital music sales be the recording industry's salvation? Not yet, not by a longshot. But legal downloads are way up, according to domestic and international numbers released Monday.

Over the last six months, sales of music over the Internet and via mobile phone downloads have tripled internationally and grown by 169% in the United States compared with the same period a year earlier, the Recording Industry Assn. of America and the International Federation of the Phonographic Industry reported.

But those sales were not enough to offset a declining music market. The value of music shipped or downloaded in the U.S. in the first half of 2005 fell by 2.7% to $4.98 billion from $5.12 billion in the previous year, according to the recording industry association. Internationally, phonographic federation tallies show that sales of recorded music fell 1.9% to a retail value of $13.2 billion.

Legal music downloads still account for only a tiny fraction of music sales. In the first half of 2005, legal digital sales constituted 3.9% of the U.S. music market and 6% of the international market.

Still, some music executives and analysts are bullish on digital downloads, which they predict will eventually offset declines in CD and cassette sales.

Record company executives point to Japan, where mobile phone users spent $128 million on music-related downloads during the last six months, according to the federation. Representatives of the four major music companies have all said they expect mobile downloads of songs and videos to increase in the U.S. and Europe.

"Music is becoming more and more important worldwide," said Larry Haverty, who oversees a media portfolio at Gabelli Asset Management Inc. "Sales of physical formats are still falling, but within the next two to three years I think you'll see downloads push the market to new heights."

Others agree that the digital boom will continue to be pushed by increasing awareness of legal download services, innovative online search tools that let users find new music and, in some markets, greater demand for mobile phone downloads and ring tones, which allow consumers to change their ring to a song.

But even increased legal downloads may not be enough to buoy the industry. Some music companies have bickered with Apple Computer Inc. over the company's rigid iTunes pricing policy: 99 cents a song. In the United States, iTunes accounts for 82% of legal downloads.

"Record companies were built by charging $12 for a CD," said Mike McGuire, a researcher with Gartner Media Industries. "Now people can just buy one track for 99 cents. Even if you sell more songs, the revenues are smaller. Music labels will need to become smaller and flatter to survive."

Music executives also have pointed to the upsurge in legal downloads as evidence that anti-piracy efforts are working. The recording association and record companies have sued more than 14,800 computer users in the United States since 2003.

Eric Garland, chief executive of BigChampagne Online Media Measurement, isn't so sure.

The major record companies "want anti-piracy efforts to be like speed traps: You might not get caught, but they'll slow you down," Garland said. "But most people don't know anyone who has been sued. People are illegally downloading as much music as before."
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