

Is the CD Dead?

Making Choices in the Music Business

By Moses Avalon

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Okay, show of hands: who in the past year or so has had a friend or relative come to them with an article claiming the death of the music business? It's usually followed by comments like, "I think you should really reconsider this music thing. Take that job with my uncle doing carpet installations. People always need carpet."

Does this sound familiar? Hands high. I'm counting. Yes. I see there are many of you.

And I'm sure you've also felt somewhat handicapped for a snappy response. In your heart you love what you do and you know that you should pursue it, but where are the words and facts you need to tell them to step auff [sic]?!

I have grown ill listening to pessimists blabber on about the "dying industry." What sales reports are they reading? The business has earned more new revenue between 2004 and 2006 than ever before. The RIAA has called the file-sharing of music, "a public raping." They claim that piracy has cut sales by almost 30% over the last few years, and yes, any fool can see that file-sharing has affected the business. But has it been in a negative way? Has it really cost the labels "big money" and is the business really suffering because of it?

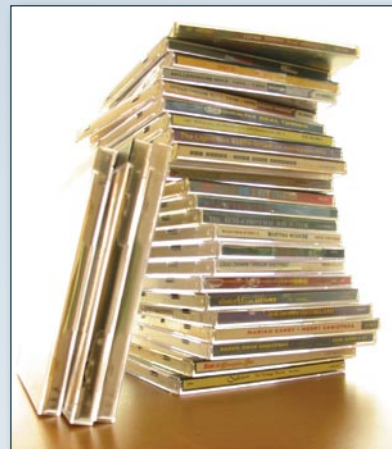
No. Quite the opposite. I'll tell you a secret. Revenue is not really down at all.

In 2005, album sales were 618 million units. In 2006 they dropped to 588 million. A 5% drop. Not 30%. Not even 10%. Extremely negligible and better than other industries like computer and automobiles that have experienced bigger reductions in gross revenue. Okay, I hear you out there reading this. You're saying, "But Mo-

ses, 5% a year adds up. Doesn't that mean they've lost money and isn't that a bad thing?" No because that 5% is more than made up for. The Warner Music Group said in their annual report that recorded music sales for the fiscal year 2006 rose almost 3% to \$3 billion, and that digital revenue had more than offset the drop from [reduced CD sales].

Let me tell you a few more secrets: what the RIAA doesn't include in "lost sales."

- They don't include CD sales of independent artists, only a decline in sales of titles on major labels. Indie sales make up about as much market share as all of Warner Music Group, which is about 20%. So they are not including album sales equivalent to all of WMG in their calculations of "lost sales."
- They don't include the approximately two billion legally paid-for downloads from iTunes, Yahoo e-Music, and many others. These are not CDs, technically, so they don't count them in "reduced album sales" even though record companies are getting tens of millions in new revenue from these sales. Also worth noting is that there has been a 71% increase in these types of sales. (2005: 353 million units, 2006: 582 million units.)
- They don't include the fact that the licensing fees for getting a hit song in a soundtrack has increased 1000% since 1995 (climbing from about \$80,000 to about \$1,000,000) with no additional hard costs to the label.
- They ignore the tens of millions of ringtones that have generated about \$0.30 each in new revenue (about \$90,000,000) for labels in the past three years and, due to a new ruling in the copyright office, will increase to about \$0.50 each in coming years.
- They omit the fact that downloaded music doesn't require manufactur-



ing costs, nor is there any returned or damaged merchandise (with rare exception). So, in essence, record companies make substantially higher profit margins on newer sales.

So, when record executives give interviews that bemoan the pending death of the music business, to me they just sound like old school farts, trying to crawl back into some decomposing chrysalis.

Look carefully at their credentials. Most of them were recently fired from their cushy, six-figure label jobs. Labels are not into wholesale nepotism anymore. They are hiring from without, not within. They are streamlining their staff because you no longer need a team of A&R executives making an average salary of \$175,000 a year, with expense accounts for travel to hear a new act. Why bother when you can have three 20-year olds for \$30,000 a piece doing the same job by searching MySpace.

Mass firings does not equal a dying business. It equals a changing business.

We don't have cobblers anymore either, but we still have a shoe industry.



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