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Simple downloads, complex change

Online music transforms experience for fans, industry

By Michael Coren
CNN

(CNN) -- For tens of millions of people listening to digital music, there is no going back.

David Hollevoet drifted away from new music after college, but he logged into the file-sharing program Napster in the late 1990s. From there, it was not long before he became a fan again and, eventually, broadcaster of his own award-winning Internet radio station -- 80's Obsession -- from his kitchen.

"The whole digital music thing just clicked for me," said Hollevoet, a web designer from Palo Alto, California. "I loved having as much music as my hard drive can hold."

As music transforms to ones and zeros from physical albums, the way in which it is produced, sold and heard is changing forever. The consequences for musicians, fans and businesses are profound.

Millions of songs are now available -- for free or for sale, legally and illegally -- over the Internet. The emergence of this audio landscape has delighted music fans but undermined the business model of the music industry. Major record labels are squeezing less profit out of fewer bands and attempting to ward off losses by a frenzy of mergers.

Four corporations -- EMI Records, Vivendi Universal, Warner and Sony BMG -- control about 80 percent of the shrinking \$32 billion global music market, according to the International Federation of the Phonographic Industry. That is down from five since Sony Music and Bertelsmann AG's BMG merged on August 5.

"There is a major disconnect between the music industry and the reality of the way most Americans relate to music," said Michael Bracy, lobbyist for the Future of Music Coalition, a nonprofit group advocating political and technological reform for digital technology. "There is an effort to commodify music which is fundamentally impossible to do."

CD sales have steadily declined, as consumers like Hollevoet have been reluctant to pay up to \$17.99 per CD, often only to get one or two songs.

"One thing that really angers you is the way you feel really stifled. They don't sell the things you want to buy," said Hollevoet. "I do respect the artists. I do think they should be paid, but at the same time, I want to know who they are."

But musicians and distributors are tapping into the consumer anger to rewrite the rules of the business amid financial turmoil.

GarageBand.com is one of them. Once just an online community of musicians, it is now becoming the Internet's answer to a record label as well, one that leaves much of the power -- and the selection process -- in the hands of musicians.

"We think a big part of what's wrong with the music industry is while the trends over the last 10 years have reduced the cost of music production, the music industry has not figured out how to change their model," said Ali Partovi, CEO of

GarageBand.com, who describes the formula as, "Invest first, test later."

The Recording Industry Association of America (RIAA) acknowledges that most of its new releases -- about nine in 10 -- fail. That means much of the cost of a new CD covers albums that never took off. (An example in the Wall Street Journal described a \$2.2 million marketing campaign for an Irish singer whose album sold 378 copies in its first few months).

Global industry numbers are also dire.

Recorded music sales dipped 7.6 percent world wide in 2003 following three consecutive years of worldwide declines in music sales, according to the IFPA. At the same time, pirated music boomed. Global sales of illegal music discs rose to its highest level at 35 percent in 2003. According to the IFPI, one in three CDs sold is an illegal copy.

Artists' double-edged sword

But the digital format allows Internet labels like GarageBand.com to reverse record companies' losing formula. GarageBand.com uses its community to review each other's songs in exchange for posting their music in the hopes that the best music rises to the top.

Eventually, the company hopes to claim an economic stake in musicians. Fifteen bands from the site have already been signed by major labels and one -- Drowning Pool -- has gone double platinum, Partovi said.

But, so far, the digital music movement has been a double-edged sword for artists. Struggling musicians find the Internet a revolutionary way to produce and distribute their own music, bypassing major record labels.

But some artists reacted negatively to online music, especially at Napster. Napster's popularity exploded in 1999 after founder Shawn Fanning released software that made it easy for Internet users to find and download songs.

At its peak in 2000, Napster had more than 50 million registered users. The music industry, including some established artists, such as Metallica and rapper Dr. Dre, objected vehemently, saying Napster was allowing users to steal copyrighted music.

"If (file-sharers) want to steal Metallica's music, instead of hiding behind their computers in their bedrooms and dorm rooms, then just go down to Tower Records and grab them off the shelves," said Lars Ulrich, the drummer for Metallica, in 2000.

Napster was shut down after the five largest record companies successfully sued the company for copyright infringement. Its Web site is now a legitimate subscription-based music service.

However, other, less centralized file-sharing programs have sprung up in Napster's wake. Even a battery of lawsuits by the RIAA has not stemmed the flow of illegal downloads.

So if production and distribution is increasingly in the hands of artists, what role do record labels serve?

The answer, ironically, is increasingly important: marketing. Attracting attention has become even more difficult in the digital age. Major record labels are well positioned to exert their ability to secure extremely expensive radio airtime and concert venues.

"The marketing muscle that the big labels have can't be underestimated," said Jim Donio, president of the National Association of Recording Merchandisers, a industry group representing retailers, distributors and record labels. "The power of the Internet can't be underestimated. If you put the two together, they can't be underestimated."

Partovi agrees. However, he says the days of monopolies between multimillion-dollar radio broadcasters and record labels are numbered.

"The primary role of the music industry is to have artists be heard above the rest," Partovi said. "It's a big needle in a haystack problem. The Internet has the service and tools to find the needle in a haystack."

While the major legitimate online music services like the iTunes Music Store and Napster 2.0, with deals from major record

labels, carry between 700,000 and 1 million songs, Internet upstarts like GarageBand.com already claim a rapidly expanding archive of 1.8 million songs available for free.

"Over the last five years, musicians outside the major label system have created three times as much music (as held by the major record companies)," said Partovi. "And I think that's just the start."

The availability of that music -- though the Internet or at brick-and-mortar stores -- promises to explode and it is going to be delivered in new ways, say industry representatives.

"Consumer retailing is moving from primarily physical product to a combination of physical and digital," said Donio of the industry association. "It's really not just limited to the changeover from physical to digital. It's the full breadth of products."

Despite the ease of the Internet, customers continue to visit physical stores despite forecasts about the demise of record shops. As a result, music stores are expanding beyond traditional genres of music into movies and games.

The racks of plastic wrapped albums, or the stores that have traditionally stocked them, will not disappear. But customers are expected to buy as much of their entertainment -- from music to video games -- from computer kiosks as from a cashier.

"It's a really creative way to capture consumer fancy," said Donio. "It's all about choice."

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