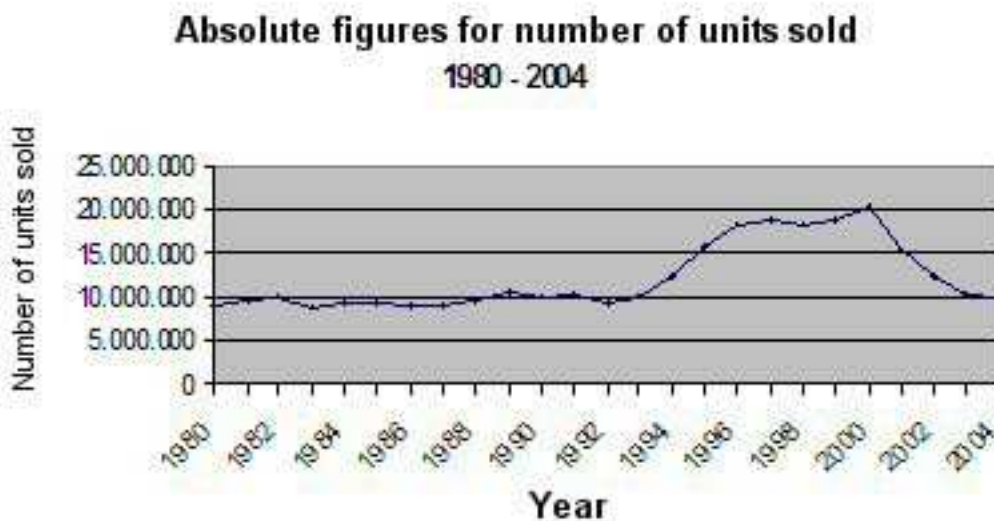


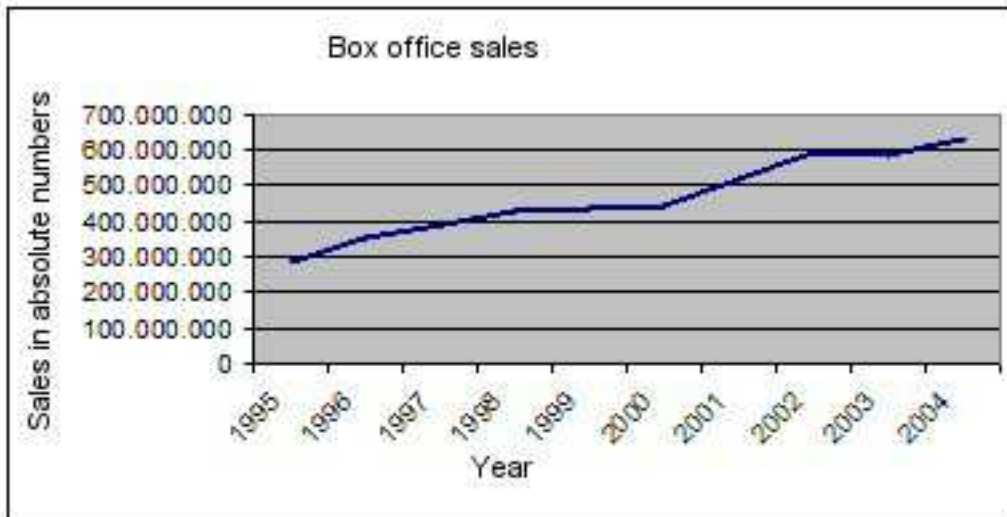
As it has been publicized in the Danish media, the Danish recording industry has seen a massive decline in sales since 2000. The underlying causes for this decline have been debated and depending on the views of the debater, various factors ranging from economic crisis to piracy have been held accountable. Now, for the first time ever in Denmark a number of these factors and the consequences of the decline in sales have been systematically examined and the results are surprising.

Let it be clear that the recording industry has indeed seen a massive decline in sales since 2000. In the period 1995-2000, record sales increased from approx. 16 million physical units (primarily CDs but also vinyl LPs and singles) to approx. 20 million units per year. Since 2000, physical unit sales have dropped to 9.8 million in 2004, a decline of more than 50% compared with top levels in 2000 and 30% compared with 1995. The year 1995 has been chosen as the recording industry does not disclose its figures for the previous years, and they have a good reason not to. It turns out that record sales for the period 1980-1993 were consistent at 10 million units per year. In fact, the period 1995-2000 represents a truly unique situation in the modern history of Danish record sales and 10 million units sold in 2004 is more likely a return to regular conditions than a sign of crisis.



No matter what their motives might have been Danish consumers bought 20 million units in 2000 and it is fascinating to contemplate why sales have declined so heavily. I have examined a number of factors mentioned in the public debate and I have had to reconsider my own views on the issue in the process. For instance, it has not been possible to prove that the economic crisis or the increased popularity of computer games played a role in the decline of sales.

It is however possible to identify and document a number of alternative explanations for the sales decline other than piracy. In this regard, the increased DVD sales and cinema visits are important factors. Both products saw highly increased sales after 2000.

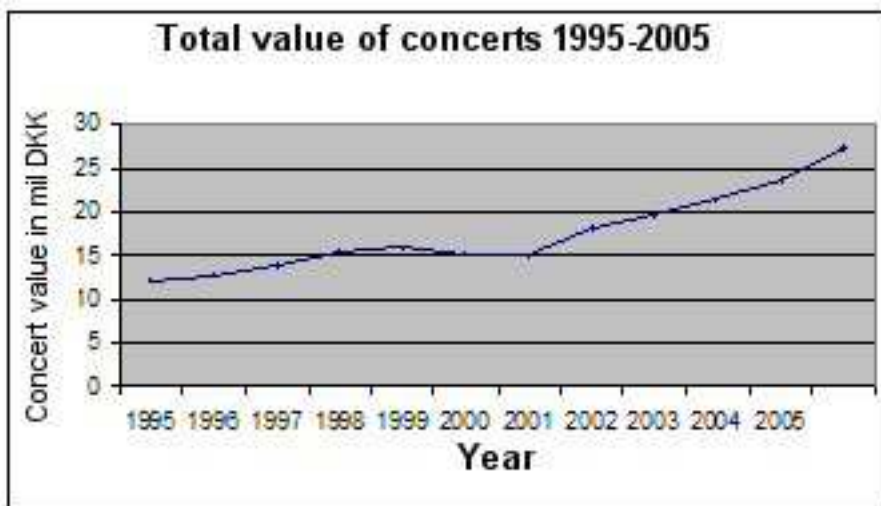
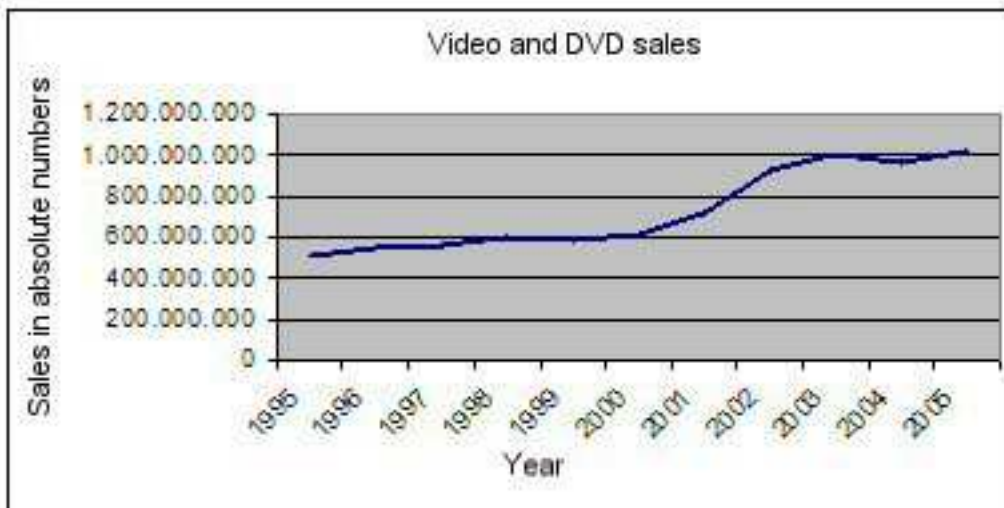


The link between VHS/DVD sales and declining CD sales is truly remarkable, in fact, the increase in VHS/DVD sales fully compensates for the decline in CD sales. Using the word “compensate” seems appropriate since the major companies concerned are involved in both the music and the movie industry. This goes for Universal, SonyBMG and Warner for instance. Of course, it is not possible to estimate whether piracy has released money for other entertainment products than music after 2000 or if music has in fact really lost market shares to competing products.

It is, however, easily documented that the recording industry has given up as is evident from major cost cutting in marketing budgets. The relevant marketing figures are not available from the record companies but the media analysis agency OMD has carried out a survey on the use of TV ads by the recording industry, which demonstrates a decline of more than 25% from 2001 to 2002 alone. In 1999, the danish chapter of “The International Federation for the Phonographic Industry” (IFPI) estimated that marketing expenses constituted up to 20% of the sales and fear of having to spend up to 80 % on promotion as in Denmark’s neighboring country Norway arose.

In recent years sales have been further reduced by the recording industry’s own initiatives of online music distribution. If we assume that the sale of 3 single tracks replaces the purchase of an entire (physical) CD, the online sales then explain the declining sales from 2004 onwards and in 2005, the online sales almost fully compensated for the decline in CD sales.

The same pattern can be seen in the field of live music in the shape of massive growth in sales after 2000. KODA, the Danish society that administers Danish and international copyrights for composers, songwriters and music publishers, annually calculates the total value of all concerts held, that is all concerts that have been reported to KODA. These figures show that the total value of all concerts held has almost doubled from 2000 (15 million) to 2005 (27.3 million), the period in which record sales were down by nearly 50 %.



At the same time digitalization has entailed easier access to radio and TV stations whose primary product is music. In Denmark, we now have Skyradio and Radio100fm and national television stations DR and TV2 have both launched music radio stations aimed at highly specific target groups. The same applies for TV and the Internet offers free access to music online.

Therefore, it is doubtful rather than certain that piracy is to be blamed for the normalization of the recording industry. However, naturally, the massive decline in sales of the recording industry has consequences.

Copyright holders are well aware of the consequences that affect them and they state that decreased sales equals less money for investments in the music business. That is; less money for production, distribution and marketing resulting in lay-offs and record stores shutting down. Some of these consequences do not affect the consumers or the society as a whole. That the recording industry now offers fewer jobs to lawyers, communications advisers and lay-outers is a logical consequence of declining sales and digitalization in the shape of mobile and Internet sales entails a decline in sales of physical units as CDs etc. The shutting down of record stores is an inevitable consequence of this development actively promoted by the recording industry via online sales.

The case gets much more serious when the artists suffer the consequences. Nordisk Copyright Bureau (NCB) administers the royalties of authors concerning records and CDs. “Author” is the blanket term for songwriters and composers, and the record companies pay the authors via NCB when they release a CD. By analyzing these payments, we get a very clear picture of the impact that the declining sales have had on the artists.

The authors were divided into four groups in the analysis: Group 1, which receives DKK 1-10,000 from NCB annually, Group 2, which receives DKK 10,001-50,000, Group 3, which receives DKK 50,001-150,000, and finally Group 4, which receives more than DKK 150,000. These four groups share the total payments made by NCB, and since 2001, there has been less money to share.

First and foremost, it turns out that the number of NCB recipients in the period after 2000 is consistently higher than at any point in time during the heydays of the recording industry from 1995-2000. Thus more authors were successful in releasing text and music in the period of declining sales than in the period of massive increase in sales. Furthermore, we may also conclude that the number of NCB recipients increases slightly in the three “poorest” groups. The number of authors who receive more than 150,000 is decreasing.

Less money shared by more people necessarily entails that someone is getting poorer. Since the number of NCB recipients in the high end (more than DKK 150,000) has declined and the other groups have more members now, a loss of income for the poorest artists would be expected. However, this is not the case.

NCB’s own figures show that the average payment for Group 1 (less than DKK 10,000) has increased by 16.7% from 2001–2005. The income of Group 2 has decreased by 2.2%, the income of Group 3 has increased by 2.9, and the average income of Group 4 has decreased by 18.2%.

So, there are fewer artists in the high income Group 4 and they make less money than they used to. The low income Group 1 now contains more artists and they make more money than before.

Thus the conclusion is that more authors have their works published, more authors receive a share of the NCB funds, and the richest artists are paying for it. IF file sharing is to be blamed for the income loss of the recording industry, it also entails a redistribution of resources from the richest to the poorest artists. The file sharers, by the way, frequently present this argument.

The advertising pressure to produce the number one summer hit is translated into music downloads and instead, money are invested in lesser-known artists. The difference is that your friends expect you to be able to present the popular music and that is why the money ends up in the pockets of the artists with the largest promotion budgets. File sharing may potentially break this vicious cycle and at the very least the NCB figures document that lesser-known artists have loyal fans and have no real reason to worry about lost income due to file sharing.