The Recording Industry

Second Edition

Geoffrey P. Hull
The Recording Industry
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It is to no one’s surprise that the recording industry has changed substantially in the more than one hundred years it has been in existence. Edison’s “talking machine” was invented in 1877 and first sold to the public in 1889. The Victor Talking Machine Company introduced the world to disc recordings in 1901. In the early days, the record companies made recordings primarily so that people would have a reason to buy the playback machines. As the popularity of the machines and recordings grew into the 1920s, the player manufacturers and others began to sell the recordings as commercial products in and of themselves. The Depression of the 1930s brought about the near collapse of the industry. After World War II those firms that had survived began to experience a new prosperity. Entertainment media in general began to flourish. The marriage of necessity between radio and records of the 1930s became a marriage of convenience in the 1940s and 1950s.

The rock and roll explosion of the mid-1950s energized the industry. Markets expanded. More artists, recordings, and labels appeared overnight. Retail began to grow with distribution through mass merchants at first taking the lead. Then retail chains grew with the growth of shopping malls and the movement toward a service economy in general. FM stereo broadcasting meant more radio stations needed recordings to play, and those recordings being played sounded better than on their AM competitors. The compact disc gave the sound recorded another quantum leap in quality. Sales of recordings continued to reach new heights. Retail stores grew in size and number. More recordings were accessible to more people in more places.

The growth of the industry influenced its structure. Large entertainment conglomerates, operating on an international scale, began to control the bulk of the industry. They acquired different branches of the entertainment industry, including film, television, recordings, consumer electronics, music publishing, and record labels, and in some instances even record
retail chains. Broadcasting also began a consolidation as first the Federal Communications Commission, then Congress, relaxed ownership rules allowing more stations to be owned by one entity. In what was generally known as the music business, the influence of recordings became dominant. The sale and marketing of hit and non-hit recordings dominated the music publishing and live entertainment businesses. By the end of the twentieth century, sheet music sales dwindled to about 15 percent of publishing revenues and royalties from the sale of recordings and airplay of those recordings made up the bulk of music publishing earnings. Large tours of major recording artists contributed the bulk of the live entertainment earnings.

Technology has always played a central role in the development of the industry. Developments since the invention of recording have enlarged and enhanced the market for recordings, making higher-quality recordings more accessible to more people. Technological advances on the production end of the process meant that recordings could sound better. Diffusion of high-quality, low-cost recording technology into the semiprofessional market meant that musicians could create recordings and market them without having to access the capital and facilities of a major record company. More artists could create and market more recordings. With the advent of the Internet it is now possible for those musicians to market those recordings on a worldwide basis without access to the distribution systems of the major labels. Diffusion of high-quality, low-cost, portable playback equipment meant people could enjoy more music in more places.

By the turn of the twenty-first century, the industry again faced a new technological challenge: the control of its recordings and compositions in a digital era. In 1999 Napster woke the industry from its dream about digital distribution of recordings for pay into the nightmare of digital distribution of millions of illegal copies for free. The industry began legal and technological battles to protect its works. Others began to predict the demise of the industry.

Within a year of publication of the first edition of *The Recording Industry*, two significant events altered the landscape of the music business. First, two of the major labels, PolyGram and Universal, merged. That reduced the number of major labels to five and created the largest recording company in the world, Universal Music Group. Second, Congress passed the Digital Millennium Copyright Act and the Copyright Term Extension Act. These two pieces of legislation, prompted by the growth of the Internet and the increasing importance of copyrights in the international marketplace, marked a new era in the way music and recordings are distributed to consumers. Even as the major record companies and most other segments of the recording industry sought to consolidate to increase market share, there was an explosion of distribution of recordings, both
The industry is clearly entering a new phase. This new postindustrial phase is characterized by decentralization of the means of recording, reproduction, and distribution. Yet at the same time, there is increasing consolidation in the recording industry itself and in the other media. This book examines the recording industry on the brink of something; exactly what that something is remains to be seen. The examination is from an economic perspective because the most significant changes have been what would be generally described as economic. With due respect to those who prefer a cultural or social perspective, there are other publications that take that approach, and such a perspective is not particularly helpful in understanding how and why the industry functions the way it does. Economics is the key to the importance of the recording industry as an entertainment medium of mass communication. Economics is the key to understanding how the three income streams in the industry—the sale of recordings, music publishing, and live appearances—have become dominated by the recording interests and how those streams are interrelated.

The book begins with an examination of the industry overall, the copyrights on which it relies, and its three primary parts or income streams. Following that it launches into an in-depth discussion of the industry functions of production, marketing, retail, its relation to other media, and its good news/bad news relationship with the Internet. In summary, there are several themes that wind their way through these pages:

- The recording industry is now the dominant force in the music business.
- Technological advances have enhanced the industry’s ability to make profits from recordings and songs and made those recordings and songs more accessible to more people.
- Although highly concentrated in four large multinational firms, the industry continues to serve the public through the development and dissemination of more recordings by more artists than ever before. The public is the beneficiary of this diversity.
- The industry continues to change, with even the legal underpinnings of copyright being driven by largely economic considerations, now on a global scale.

A final point: the recording industry would be of paltry significance, indeed, were it not for the ability of music to speak to and excite people through recordings. The creative people who combine words and music into songs, create recorded performances, and perform those songs live speak to us in many ways. Our pleasurable task is to listen to, watch, appreciate, and enjoy their creations.
Acknowledgments

A number of people, places, and organizations have provided invaluable support in the preparation of this book. Industry organizations providing a wealth of information include the National Association of Recording Merchandisers (NARM), the Recording Industry Association of America (RIAA), The National Music Publishers Association (NMPA), the American Federation of Musicians (AFM) Local 257, and the National Association of Music Merchandisers (NAMM). The greatest industry source is Billboard. Thanks for reporting over one hundred years of recording and entertainment industry news and events. One must also include more recent publications such as Pollstar, and R&R (Radio & Records) as important sources of information.

I found a great deal of research support and resources on the campus of Middle Tennessee State University (MTSU). Probably the greatest resource was the Center for Popular Music. Thanks especially to director Paul Wells, and Bruce Nemerov, as well as the rest of the staff of the center. How else could I have found a copy of “Payola Blues” or hundreds of other publications about the recording industry without the center’s collection? I don’t want to think about it. The Walker Library’s Billboard and Variety collection and its online databases, especially Infotrac, and Lexis–Nexis Academic Universe proved most helpful. MTSU’s commitment to fiber optics and computers made surfing the World Wide Web a breeze and brought a wealth of information right to my desktop. Administrative thanks to my department chair, Chris Haseleu, for letting me “do my thing,” and to the dean of the College of Mass Communication, Anantha Babbili. Thanks to all my colleagues in the Recording Industry Department for being, well, collegial. My student assistant for the past three years, Lindsay Gum, provided research help, photocopying, a cheerful disposition, and relieved me of some tedious duties so I could focus more on writing. Thanks to Jim Progris, now at the University of Miami, Coral Gables, for deciding that I just might make a college teacher and hiring me as an adjunct faculty
member for the Commercial Music/Recording program at Georgia State University back in 1974. Thanks to Ed Kimbrell at MTSU for deciding I just might be able to build a recording industry program at Middle Tennessee State back in 1977.

Just as most recording artists would not be very successful without record companies, most authors would not be very successful without publishers. Al Greco of Fordham University took a chance on asking a not very well-known writer to tackle the recording industry book for Allyn & Bacon. Thanks to Allyn & Bacon for letting me move the second edition to Routledge. Thanks to the Routledge folks, especially Richard Carlin, Executive Editor, Music, for picking up on what I hope will be a good thing for both of us.

Thanks especially to my wife, Patty, for all her support and for putting up with my long hours.
1

Understanding the Recording Industry

Introduction
This chapter describes the recording industry’s economic and social place in the United States and the world. It explores the nature of the recording industry as it entered the twenty-first century, including its products and markets, relation to the external environment, and place as a medium of mass communication. The industry can best be understood by examining its three primary income streams: the sale and use of recordings; the sale and use of songs (primarily the music publishing industry); and live entertainment.

Change is the law of life. And those who look only to the past or the present are certain to miss the future.

— John F. Kennedy

Ch-Ch-Changes
As the recording industry entered the twenty-first century, it appeared to be undergoing another one of the dramatic changes in direction that occur in the industry about every twenty years. A general downturn in the economy affected the recording industry more than at any time since the Great Depression of the 1930s. Downloading of digital recordings via the Internet, both authorized and unauthorized, clearly curtailed sales of the all-important hit recordings. Record stores, buoyed by the apparently insatiable appetite for recordings that occurred in the 1980s and 1990s, had overbuilt and were closing by the scores. Sales of recordings dropped from a high of $14.6 billion in 1999 back to 1996 levels of $12.6 billion and
The recording industry appeared to be heading even lower. The major labels laid off employees, cut rosters, downsized, and even closed divisions at a frantic pace. By 2003 the labels were trying desperately to come up with a business model for successfully distributing recordings via the Internet.

As difficult as the times appeared to be, change was really nothing new to the recording industry. The initial period of introduction and growth began in 1889 with the first commercial musical recordings. The 1909 Copyright Act ushered in the next era by creating the mechanical right for music publishers, setting a statutory limit to royalties paid by labels to publishers, and not providing a sound recording copyright. By 1929 the industry had evolved to a consumer business with sales of about 100 million units ($75 million) of primarily disks. The next period saw the near demise of the industry in the Great Depression of the 1930s and its rebirth in the 1940s and early 1950s. Pent-up postwar consumer demand spurred the sale of playback equipment and recordings. The LP (long playing) and 45-rpm single were introduced. Sales grew back from a mere $5.5 million in 1933 to $189 million in 1950. The next phase began with the mid-1950s with the birth of rock and roll. Younger consumers had more money to spend on recordings that addressed their lifestyles. New labels and new sounds emerged. Sales tripled to about $600 million by 1960. Stereo recording was introduced and the 78-rpm single finally died in 1957. Stereo and the Beatles convinced young consumers that they should buy albums instead of singles. Profits rose and the major distribution system emerged. This phase, a transition to a mass market with heavy concentration lasted until the early 1980s. The introduction of the compact disc (CD) in 1982 drove the industry to new heights for almost twenty more years. Sales grew to $14.6 billion (1.2 billion units) by the end of the century (1999). Labels consolidated and the major recording and entertainment conglomerates of today emerged. Record retail, especially chains, saw unparalleled growth. But twenty years had come and gone and the industry appeared headed into a new era.

The recording industry had experienced dramatic change through the 1980s and 1990s. Significant changes in technology, markets, and organizations made the industry function in a substantially different way than it had during the 1960s and 1970s. To understand how twenty-first-century changes might affect the industry, we will examine both its internal and external structure and function as it existed at the end of the 1990s, and how it began to change in the early 2000s. This chapter and those that follow gather evidence of the changes, explore the reasons for them, and examine their impact on the recording industry.

Rapid Growth of a Major Media Player
The recording industry primarily serves the market for prerecorded musical performances through the sale of compact discs (CDs) and tapes.
However, it is also a significant force in the broadcasting industry, because the majority of the programming content of commercial radio is playback of those same musical sound recordings. Music videos and performances by popular recording acts provide significant content for cable and broadcast television. Hit motion pictures are often enhanced or even propelled by the presence of recordings by major recording artists. Even in the consumer magazine industry the presence of the recording industry is felt through popular publications such as Rolling Stone, Blender, Spin, and Vibe, which focus on popular music artists and recordings. The music performed by artists made popular through the sales of their recordings is largely responsible for the concert and live music industry. And these are only some of the direct effects. The desire of people to make popular music and become part of the recording industry is the driving force behind the sales of millions of dollars worth of musical instruments every year. The National Association of Music Merchants (NAMM) reports musical products’ sales for 2002 of $6.97 billion, out of which less than $1 billion was the school musical instrument market. A Gallup survey conducted for NAMM found that there are about 62 million amateur musicians in the United States (age 5 or over) and that 81 percent of survey respondents felt that music participation was an important part of life. Fifty-four percent of American households have at least one member who plays a musical instrument. Without the recordings produced by the recording industry, consumers certainly would not have purchased an estimated $12.3 billion worth of audio playback hardware in 2001.

Even considering just the sale of prerecorded tapes and discs, the recording industry is a major player in the entertainment and media industries. From 1985 to 2000, recorded music moved from fifth to fourth place in consumer media expenditures, surpassing consumer magazines and daily newspapers, and extending the margin over theatrical motion pictures to nearly two to one. Americans spend an estimated 15.2 percent of their media dollars on recorded music, up from 10.3 percent in 1985 (see Table 1.1).

Adjusting for increases in the consumer price index, the data is still impressive. Americans have been on an entertainment spending binge, and the recording industry, more than any other consumer media except cable, satellite, and home video, is reaping the rewards. Whether the Internet will drain away consumers’ media dollars from other media or simply increase them, and the extent to which the use of the Internet for unauthorized downloading will impact the other media, remains to be seen.

More significant, for its cultural impact, is the fact that Americans are now spending more time listening to recorded music. Out of the estimated 3,472 hours per year that the average person spends consuming media, 263 hours (7.6 percent) were spent listening to recordings, more time than on any other media except broadcast television (24.8 percent), cable and
The Recording Industry

satellite (22.2 percent), and radio (27.7 percent). And, the content of radio is primarily recorded music.

What Are People Buying?

For the first half of the 1990s the recording industry saw rapid sales growth in terms of number of units shipped and dollar volume of those units. Although the number of units shipped leveled off in the mid-1990s, the dollar volume of those shipments continued to climb, thanks mainly to the continued increase in shipments of the higher-priced compact disc albums and singles relative to the declining shipments of lower-priced cassette albums and singles (see Tables 1.2 and 1.3). The flat sales in total units caused Recording Industry Association of America (RIAA) chairman, Jay Berman, to comment, “It’s safe to say that, with rare exceptions, we’ve pretty much exhausted the catalog-replacement business. What’s selling now is what’s being released now.” (Initially, CD sales were driven by buyers replacing their old LPs with CD reissues; these sales were known as catalog replacement sales, as opposed to sales driven by new material.) In 2001 and 2002 sales took a dramatic downturn. A slow economy, the terrorist attacks on September 11, 2001, war in Afghanistan and Iraq, lack of interesting new recordings or stars, and illegal downloading were all blamed. The RIAA saw the main culprit as illegal downloads. “Computer

### TABLE 1.1 Consumer Spending for Media 1985–2000

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<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cable and Satellite</td>
<td>45.43</td>
<td>192.82</td>
<td>42.22</td>
<td>111.97</td>
<td>327.7</td>
<td>165.2</td>
</tr>
<tr>
<td>Recorded Music Daily</td>
<td>22.39</td>
<td>62.80</td>
<td>21.31</td>
<td>36.47</td>
<td>180.5</td>
<td>71.1</td>
</tr>
<tr>
<td>Consumer Magazines</td>
<td>41.84</td>
<td>53.32</td>
<td>38.88</td>
<td>30.96</td>
<td>27.4</td>
<td>-20.4</td>
</tr>
<tr>
<td>Consumer Books</td>
<td>25.6</td>
<td>39.5</td>
<td>23.79</td>
<td>22.94</td>
<td>54.3</td>
<td>-3.6</td>
</tr>
<tr>
<td>Home Video</td>
<td>43.39</td>
<td>77.64</td>
<td>40.32</td>
<td>45.09</td>
<td>78.9</td>
<td>11.8</td>
</tr>
<tr>
<td>Consumer Internet</td>
<td>20.43</td>
<td>109.22</td>
<td>18.99</td>
<td>63.43</td>
<td>434.6</td>
<td>234.0</td>
</tr>
<tr>
<td>Home Video</td>
<td>—</td>
<td>50.63</td>
<td>—</td>
<td>29.40</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Movies in Theaters</td>
<td>19.13</td>
<td>32.49</td>
<td>17.78</td>
<td>18.87</td>
<td>69.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Total</td>
<td>218.22</td>
<td>412.85</td>
<td>202.80</td>
<td>239.29</td>
<td>89.2</td>
<td>18.0</td>
</tr>
</tbody>
</table>


users illegally download more than 2.6 billion copyrighted files (mostly songs) every month. At any given moment, approximately four to five million users are online offering an estimated 800 million files for copying through various peer-to-peer networks.8 Whatever the cause, the dollar volume of sales dropped back to 1996 levels and the unit volume of sales fell back to 1990 levels.

**Diverse Musical Tastes**

The eclectic nature of the public's taste was reflected in the overall trends in the genres of music purchased. No longer was rock music dominating the sales of recordings as it was in the mid-1980s with nearly 50 percent of all shipments. By 2000 rock had dropped to a share of less than 25 percent, with rap/urban steadily increasing to a close second with just over 21 percent (Figure 1.1). Rap had clearly moved out of urban "hoods" and into American mainstream music.

**TABLE 1.2** Sales of Recordings by Configuration, 1990–2002  
(Unit Shipments in Millions of Units, Net after Returns)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cassette</th>
<th>CD</th>
<th>LP</th>
<th>Cass. Single</th>
<th>Vinyl Single</th>
<th>CD Single</th>
<th>Music Video (incl. DVD)</th>
<th>DVD audio</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>442.2</td>
<td>286.5</td>
<td>11.7</td>
<td>87.4</td>
<td>27.6</td>
<td>1.1</td>
<td>9.2</td>
<td>—</td>
<td>865.7</td>
</tr>
<tr>
<td>1992</td>
<td>366.4</td>
<td>407.5</td>
<td>2.3</td>
<td>84.6</td>
<td>19.8</td>
<td>7.3</td>
<td>7.6</td>
<td>—</td>
<td>895.5</td>
</tr>
<tr>
<td>1994</td>
<td>345.4</td>
<td>662.1</td>
<td>1.9</td>
<td>81.1</td>
<td>11.7</td>
<td>9.3</td>
<td>11.2</td>
<td>—</td>
<td>1122.7</td>
</tr>
<tr>
<td>1996</td>
<td>225.3</td>
<td>778.9</td>
<td>2.9</td>
<td>59.9</td>
<td>10.1</td>
<td>43.2</td>
<td>16.9</td>
<td>—</td>
<td>1137.2</td>
</tr>
<tr>
<td>1998</td>
<td>158.5</td>
<td>847</td>
<td>3.4</td>
<td>26.4</td>
<td>5.4</td>
<td>56</td>
<td>27.2</td>
<td>—</td>
<td>1124.3</td>
</tr>
<tr>
<td>2000</td>
<td>76</td>
<td>942.5</td>
<td>2.2</td>
<td>1.3</td>
<td>4.8</td>
<td>34.2</td>
<td>18.2</td>
<td>—</td>
<td>1079.3</td>
</tr>
<tr>
<td>2002</td>
<td>31.1</td>
<td>803.3</td>
<td>1.7</td>
<td>—0.5</td>
<td>4.4</td>
<td>4.5</td>
<td>14.7</td>
<td>0.4</td>
<td>859.7</td>
</tr>
</tbody>
</table>


**TABLE 1.3** Dollar Volume of Sales by Configuration  
(Based on Manufacturers Suggested List Prices, in $ Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cassette</th>
<th>CD</th>
<th>LP</th>
<th>Cass. Single</th>
<th>Vinyl Single</th>
<th>CD Single</th>
<th>Music Video (incl. DVD)</th>
<th>DVD audio</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>3,472.4</td>
<td>3,451.6</td>
<td>86.5</td>
<td>257.9</td>
<td>94.4</td>
<td>6.0</td>
<td>172.3</td>
<td>—</td>
<td>7,541.1</td>
</tr>
<tr>
<td>1992</td>
<td>3,116.3</td>
<td>5,326.5</td>
<td>13.5</td>
<td>298.8</td>
<td>66.4</td>
<td>45.1</td>
<td>157.4</td>
<td>—</td>
<td>9,024.0</td>
</tr>
<tr>
<td>1994</td>
<td>2,976.4</td>
<td>8,464.5</td>
<td>17.8</td>
<td>274.9</td>
<td>47.2</td>
<td>56.1</td>
<td>231.1</td>
<td>—</td>
<td>12,068.0</td>
</tr>
<tr>
<td>1996</td>
<td>1,905.3</td>
<td>9,934.7</td>
<td>36.8</td>
<td>189.3</td>
<td>47.5</td>
<td>184.1</td>
<td>236.1</td>
<td>—</td>
<td>12,533.8</td>
</tr>
<tr>
<td>1998</td>
<td>1,419.9</td>
<td>11,416.0</td>
<td>34.0</td>
<td>94.4</td>
<td>25.7</td>
<td>213.2</td>
<td>508.0</td>
<td>—</td>
<td>13,723.5</td>
</tr>
<tr>
<td>2000</td>
<td>626.0</td>
<td>13,214.5</td>
<td>27.7</td>
<td>4.6</td>
<td>4.8</td>
<td>142.7</td>
<td>281.9</td>
<td>—</td>
<td>14,323.0</td>
</tr>
<tr>
<td>2002</td>
<td>209.8</td>
<td>12,044.1</td>
<td>20.5</td>
<td>-1.6</td>
<td>24.9</td>
<td>19.6</td>
<td>288.4</td>
<td>—</td>
<td>12,614.2</td>
</tr>
</tbody>
</table>

SoundScan (a service that tracks sales of albums through actual purchases) reported that 88 albums sold more than one million copies each in 2000; eighteen of those artists sold more than three million each. The list revealed a wide spectrum of musical genres and Americans' musical tastes. In some instances the recordings sold strongly in select markets. In others they crossed over into the general mainstream market and were purchased by a truly diverse group of people. The list includes teen pop artists, black and white rappers, rock bands, and country crossover sensations (including an all-female group). Urban, dance, and Latin influences also appeared on the list.

In 2000 SoundScan reported that the top 200 albums sold more than 275 million units; all of those top 200 sold more than 500,000 units, about 27 percent of the total album sales for that year. Whereas the albums that sold more than 3 million each accounted for about 26 percent of SoundScan's top 200 album sales, they only accounted for about 7 percent of total album sales. That might indicate a trend toward a market that still has some blockbuster albums, but where there are also more albums selling solid numbers of copies to a diverse audience.

**Sales by Place of Purchase**

Americans became more eclectic in where they purchased their recordings. In the mid-1980s the record store was by far the dominant place where recordings were purchased. By 1995 alternative places for purchasing recordings accounted for nearly as many sales as record stores. By 2000 the record store share had fallen below 50 percent, and in 2002 was surpassed by the “other” category (Figure 1.2). The "other" category includes
department stores, mass merchant discount stores such as Wal-Mart and Kmart, as well as audio and appliance specialty stores such as Best Buy and Circuit City. Meanwhile, the Internet appeared to be taking part of the share of record club and mail order sales.

Record retailing changed. The big chains did not wipe out the independents as predicted. In the mid-1970s, as much as two-thirds of all record sales were through rack locations. (Metal stands or *racks* were used to display records in small retail stores; the people who supplied the records to fill them were known as *rack jobbers*). The typical rack location would handle 500 to 1,000 titles. No wonder the majority of sales were accounted for by only 200 titles. The rapid growth of record store chains in the late 1970s and 1980s meant more recordings could be available to more consumers. The typical store of the times would stock 8,000 to 10,000 titles. In the 1990s the chains discovered they were overbuilt and some major chains, including Wherehouse and Camelot, went into bankruptcy proceedings. The trend had shifted to even larger *megastores* with Tower, HMV, Virgin, and Media Play opening locations with five to ten times the space and inventory of the typical mall retail chain location. The additional space meant that a wider variety of recordings could be carried. Even the rack jobbers began to put in larger locations. The *big box* electronic stores such as Best Buy and Circuit City heavily discounted prices, but also carried larger inventories than rack locations in mass merchandisers. A greater diversity of recordings was available to more people in more places.

A popular music fan is generally wedded to a specific style current in the idiom in … adolescence.

— R. Serge Denisoff, 1975

A 1977 prediction, based on Denisoff’s observation and other research at the time, was that the popular music of the year 2000 would most likely resemble what could generally be included under the rubric of pop-contemporary music of 1977. That music included all categories of rock, but not middle-of-the-road (MOR), country, or rhythm and blues (R&B). In 1976, 23 percent of adult buyers (ages 25 to 45) preferred country music, which at that time sounded much less like other pop and rock music than it did by 1995. The baby boomers entered the over-50 group in significant numbers in 1996. That group probably grew up liking rock or some music with a similar feel, and they continued to buy rock in large numbers. However, the music of all races of the next generation became urban and rap, which suggests its continued presence until some different sound catches the ear of the next generation. Then we would expect to see urban and rap decline slowly in market share, just as pop/MOR and rock did for the generations before.

Consumers of American popular music and recordings are getting older as a group, and they are still consuming. Figure 1.3 illustrates the dramatic shift in the percentage of recordings purchased by consumers of various age brackets over the years from 1990 to 2002. In 1990, over 42 percent of the consumers were under age 25, and just under 20 percent over the age of 40. By 1995 the under-25 group had dropped to 40 percent and the 40-and-over group had grown to 24.4 percent. By 2002 the change was even more dramatic, with the under-25 group only consuming 33.7 percent of recordings sold while the 40-and-over group had surpassed them with 35.4 percent of sales. The data in Table 1.4 show that this trend, especially in the 45-and-over group, had been consistent for some time. Fortunately for the recording industry, the dire predictions made in 1977 that the baby boomers would quit buying music as they aged proved to be incorrect. As a result, the industry was no longer a youth or teen-dominated market. In order to be effective, the recording companies had to appeal to a wider range of age groups. Even though the groups with the highest per capita expenditures for recordings continued to be the teen (13 to 17) and college (18 to 25) age groups, purchasing an average of 6.6 and 5.6 units per year respectively, the older buyers represented a much larger percentage of the population than the younger buyers. And, the younger buyers were the heaviest downloaders, so they made fewer purchases than in the past. A survey done for NARM in 2002 found that over 70 percent of heavy downloaders were under 25 and that two-thirds of them were male; this had traditionally been the heaviest music buying audience.
Understanding the Recording Industry

International Aspects of the Recording Industry

It’s probably fair to say that music is the most universal means of communication we now have, instantly traversing language and other cultural barriers in a way that academics rarely understand. … [P]opular music is certainly the most global aspect of our “global village.”

— Robert Burnett, The Global Jukebox

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**Fig. 1.3** Shift in age of record buyers, 1990–2002. Data from Recording Industry Association of America.

**TABLE 1.4** Sales by Age of Consumers (Percent of Dollar Volume)

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<td>35–39</td>
<td>10.2</td>
<td>10.9</td>
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<td>23.8</td>
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*Source:* Recording Industry Association of America. There is an inexplicable conflict in the RIAA reported data in consumer profiles 1993 and earlier and 1994 and later. The data in the table are the figures reported in 1994 and 1995.
The recording industry does not exist in isolation in the United States. Of the four major labels/distribution companies, none is based in the United States. Though the United States accounted for almost 40 percent of the dollar volume of worldwide sales in 2001, it accounted for a smaller share, about 30 percent, of the unit sales volume that same year. Sales of the five major companies accounted for about 72 percent of worldwide sales for 1999 through 2001, but that did mean that independent labels accounted for about 28 percent of worldwide sales during that time period. That’s a stronger showing by independents on a worldwide basis than in the United States where independent labels account for only about 15 percent share over the same period.14

The International Federation of Phonographic Industries (IFPI) reported significant worldwide trends that mirrored many of those in the United States. In many music markets, older consumers were accounting for increasingly larger shares of music consumption. This was seen as being due to several factors: (1) replacement of old vinyl and tape collections with CDs, (2) general population demographics in many developed nations have shifted to older age groups, and (3) the fact that downloading and burning are more prevalent in younger demographics.

While the majors accounted for about 70 percent of worldwide sales, significant portions of those sales were domestic products in many countries. That is important because it indicates that the United States is not necessarily engaged in culturally dominating the world’s music industry. The mix of sales varied by region, as indicated in Table 1.5, and even more dramatically by country. India, Pakistan, and the United States all reported sales of domestic products exceeded 90 percent of sales revenues in 2001. Many nations—for example China, France, South Korea, and Argentina—reported strong sales of local repertoire in the neighborhood of 40 to 60 percent of sales revenues.15

Finally, technological developments at the end of the twentieth century had a negative impact on the global market for recordings. The IFPI estimated that worldwide piracy had increased from a dollar value of about $2.1 billion in 1995 to over $4.2 billion in 2000. That meant that more than one-third of all sales of recorded music were pirate copies. That total included an estimated 1.2 billion cassettes, 475 million pressed CDs, and 165 million CD-Rs. As in the United States, the market for pirate cassettes is declining. However, the increased presence of CD-Rs in computers all over the world did not bode well for the efforts of the recording industry to stem the tide of pirate copies. By 2002 the breakdown of pirate sales was roughly 40 percent cassette, 32 percent pressed CD, and 28 percent CD-R.16 The nations with the highest percentage of pirate sales were China and Russia. China’s sales of pirate recordings accounted for 90 percent of all sales ($600 million), while 65 percent of all sales in Russia were pirate recordings ($240 million). The IFPI noted that there were twenty-one nations with piracy rates of over 50 percent in the year 2000.17
In addition to pirate sales, the IFPI reported that downloading of “free” music was having a negative impact on legitimate sales worldwide. A survey in Sweden reported that younger consumers were spending less on CDs, and that downloading, burning, and having less money to spend were the primary reasons. A Canadian survey revealed that those spending less on music most often cited downloading and CD burning (30 percent) or less money to spend (27 percent) as the reasons. The IFPI estimated that there were some 500 million music files available for unauthorized downloading on the three main peer-to-peer networks, KaZaA, iMesh, and Gnutella, in 2002.18

| Domestic Repertoire Sales Percentages (Five-Year Average, 1997–2001) |
|-----------------|-----------------|-----------------|
|         | Domestic | International | Classical |
| North America | 86.9  | 9.7  | 3.4  |
| Western Europe | 40.7  | 51.9 | 7.4  |
| Eastern Europe | 54.8  | 40.8 | 4.4  |
| Asia           | 74.1  | 25   | 0.9  |
| Latin America  | 54.6  | 43.2 | 2.2  |
| Australasia    | 19.7  | 75.4 | 4.9  |
| Africa         | 23.8  | 71.7 | 4.5  |
| Total Worldwide| 66.7  | 29.2 | 4.1  |

Source: International Federation of Phonographic Industries.

Ways of Understanding the Recording Industry

There are several useful models for examining the recording industry. *Systems theory* is useful for exploring the industry on a macro scale, its relations to the business environment, and overall processes. *Cultural theory* is of some use in examining the relationship of the outputs of the industry, recordings and popular music, to society. *Economics*, and the *three-income stream model*, is most useful in examining the inner workings of the industry and its components.

A Systems Approach

Systems theory is a business management tool used to develop an understanding of how an enterprise must function. Systems theory stresses that there are five components of any business system: (1) inputs, (2) some transformation process, (3) outputs (the products which are the results of the transformation process), (4) a feedback process that will influence the selection of inputs into the next round of processing, and (5) an external environment within which the organization carries out its processes.19 Viewing the recording industry in this manner, one would conclude that the inputs are songs, musicians, engineers, producers, studios, plastic, paper, performances, and technology. The transformation processes are
The recording of masters, duplicating of the masters into CDs and tapes, and marketing. Outputs of the recording industry are CDs and other recorded configurations as products and as cultural artifacts, profits and losses for the owners, and employee (including the artists and writers) satisfaction. Feedback occurs primarily through purchases by consumers of recordings and live performances, and listening to or viewing the broadcast media. The external environment contains the social, political, legal, and economic forces that exist outside of the organization (see Figure 1.4).

Another key concept in systems analysis is that of the closed or open system. A closed system does not need to interact with the environment to survive, an open system must. From that perspective, the recording industry is an open system because of its dependence on popular tastes and culture for its market. A final systems concept, entropy, refers to the tendency of any organized system to eventually decay into disorganization. If a business does not receive new energy from its environment and inputs, it will cease to exist. The recording industry must constantly seek new creative inputs from the artists and songwriters or it will stagnate. The entropy concept has been used to explain that more product diversity is associated with more entropy in the music industry. Which is to suggest that a less highly structured industry with more independent labels and alternative distribution means is more likely to be accompanied with a greater diversity of recorded product for consumers. This is not, however, saying that a highly structured industry causes a lack of diversity.

**Fig. 1.4.** A systems view of the recording industry.
The External Environment

The external environment is extremely important to the recording industry. Its products are largely consumed on the basis of taste preferences. As the tastes and desires of the consumers change the record company must be aware and alter its products. The history of the industry is full of examples where a particular label or even the entire industry failed to keep in touch with consumer tastes. Probably the most famous example is the birth and growth of the popularity of rock and roll when the major labels of the day either did not even know it existed, or chose to ignore it. Keeping up with consumer tastes and new trends in music is one job of the artist and repertoire (A&R) department of a label. The A&R department is also charged with finding new creative inputs in terms of songs and performers. If the A&R department has too many failures, the label will be in serious danger of dying. Chapter 7 discusses the A&R function in detail.

Society

Popular music, the mainstay of the recording industry, clearly interfaces with society. It both influences society and is influenced by it. The depth of that influence is highly debatable. Certainly it influences fashion of dress when recording artists appear on stage or in videos in certain attire, such as when pre- and early-teen girls imitated Madonna’s style of dress. Social themes are often mirrored in the music, either because that makes the music more acceptable to people or because the recording artist wants to convey a viewpoint on those themes. Did Ozzy Osbourne’s recording “Suicide Solution” cause some teens to commit suicide or did it reflect the despair that some teens felt drove them to commit suicide? Recording artists attempt to engage in social dialog with consumers through their songs and recordings, and sometimes cause social controversies. However, most researchers have concluded that the relationships between popular music, its performers, and consumers, are complex and not easily reduced to simple statements. For instance, was Madonna in the mid- and late 1980s suggesting that girls should become “Boy Toys” or was she instilling a new sense of liberation for young women? Popular music researcher Simon Frith concludes, “The political meaning of all popular music … is a matter of negotiation.”

Prerecorded music has become a significant component of nearly everyone’s life. Half or more of the adult population purchases recorded music every year; that is a much higher percentage than those who vote in elections. Americans spend more time listening to recordings than they do consuming any other medium except television (broadcast, cable, and home video). Recorded music provides opportunities and frameworks for social interchange and expression through dance and karaoke. Respondents in one national survey rated the importance of music in their lives as
6.96 on a ten-point scale; music buyers rated it a 7.89 and classical music buyers a 10.00.26

International trade agreements such as North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) take into consideration the free exchange of cultural products such as recordings and movies. They cause nations to discuss and debate the cultural impact of outside cultural products on the local culture. They provide protection for the copyrights embodied in these cultural products on a global basis so that the very same nations that complain of cultural imperialism cannot steal the work of artists, writers, and producers and sell it as pirate merchandise around the world.

Political Environment

Usually the political environment is not as important to the recording industry as other external factors. However, every now and then it becomes extremely important. The political/social reactions against rock and roll in the late 1950s brought about the payola scandal and caused serious economic losses for a number of industry figures at the time, most notably Alan Freed and Dick Clark. Many elements of the peace movement during the late 1960s found expression in popular music. The political establishment reacted by attacking popular music that had drug-related lyrics.

In the late 1980s there was a political reaction to violence and profanity in lyrics and music videos. This led to the formation of the Parents Music Resource Center backed by Tipper Gore (the wife of then-Senator Al Gore).27 Congressional hearings ultimately led the industry to self-regulate and begin identifying some recordings with a warning label that said “Parental Advisory Explicit Content.” Prior to the labeling program, some states passed laws forbidding the sale of material “harmful to persons under eighteen” and some sales clerks in retail stores were even arrested.28 Later some states sought to prohibit the sale of recordings with parental advisory labels to minors. Some stores stopped carrying recordings by artists such as rap act 2 Live Crew and others. One retailer said, “We’re not trying to play God, promote censorship, or anything like that. We’re just looking out for our image.”29 As late as 2003 the National Association of Recording Merchandisers (NARM) and the RIAA were still promoting awareness of the parental advisory labeling program.30 At the same time, these two organizations successfully lobbied against passage of some state obscenity laws designed to prohibit sale of “parental advisory” albums to minors.31

Similar concerns were raised about Death Metal acts such as Judas Priest, which successfully fought a lawsuit claiming that a subliminal message of “do it, do it” in one of their songs caused two men (eighteen and twenty years old) to commit suicide after listening to the album.32
overall significance of these attacks on popular music is debatable. Communication researchers DeFleur and Dennis conclude, “A number of popular music forms have been charged with being the cause of moral collapse when they came on the scene, yet our society has somehow held together. Undoubtedly it will survive whatever is in store.”

Legal Environment

The legal environment of the recording industry is similar to that of most businesses in terms of labor laws, environmental regulations, and tax laws. Copyright law, however, is a special legal environment that conveys significant benefits for the industry. It enables the industry to protect its main outputs, songs and recordings, from unauthorized duplication, thereby helping to insure profitability. Copyright (or at least a related right) enables performers to protect their live performances from unauthorized recording, distribution, or unauthorized broadcast. Payola laws limit the extent of control that the labels have over a very important avenue of promotion: radio airplay. Antitrust laws and regulations limit the industry’s attempts to control prices and may limit consolidation. International trade treaties protect audio and video recordings throughout the world. Chapters 2 and 3 discuss the copyright environment of the recording industry in detail.

Economic Environment

The overall economy is also important to the recording industry. It is a leisure-time industry, relying on the use of discretionary income from consumers for the purchases of recordings and live performance tickets. In times of serious economic downturn, when people have less discretionary income, the sale of recordings declines. The National Music Publishers’ Association (NMPA) observed the importance of the overall economy to the recording industry internationally. In the NMPA’s first International Survey of Music Publishing Revenues, a statistical analysis of the data indicated that music publishing revenues were probably more sensitive to per capita GNP than to age or population. During the depression in the 1930s in the United States, the record industry survived, barely, on performance revenues from radio airplay and on the sale of recordings to jukeboxes. At the end of the twentieth century an economic downturn, combined with rampant downloading, spelled hard times for many of the labels and artists.

The world economy is moving in many areas from international to transnational. There is not just a market in France and a market in Brazil and a market in China; there is a global market and individual submarkets. Management guru and futurist Peter Drucker tells us, “[T]he goal of management in a transnational enterprise that operates in one world market is maximization of market share, not the traditional short-term ‘profit
maximization’ of the old-style corporation.”[^35] What we used to call the “majors,” those record labels that owned their own distribution systems, have realized this. Five international entertainment powerhouses are rapidly dividing up the world recording market. The IFPI estimated 2001 market shares as follows: Universal, 23.5 percent; Sony, 14.7 percent; EMI 13 percent; Warner, 11.8 percent; and BMG 8.2 percent.[^36] As noted earlier, independent labels garnered about 29 percent of the world’s market for recordings. However, the big five were buying out independent labels in countries all over the world, and were creating partnerships in manufacturing and distribution on a global basis.

Media economist Harold Vogel attributes this need for large distribution systems to high wastage (many products will not succeed) and short life cycles of hit recordings (usually less than a year). He says, “[B]ecause efficiency in this area requires that retailers located over a wide geographic swath have their inventories quickly replenished, most records are distributed by large organizations with sufficient capital to stock and ship hundreds of thousands of units at a moments notice.”[^37] The major entertainment conglomerates are selling recordings from their different labels and from the local labels all over the world. They were integrating horizontally and vertically, controlling more music publishing, film production, television production, audio and video hardware manufacturing, and radio, television, and cable broadcasting. They had learned that there is money to be made in many small successes, not just blockbuster hits. There is good reason to own a label that sells gospel music or new age music even though those recordings may sell less than 100 thousand units because they can be profitable sales. They were willing to let people who know the markets for that kind of music make the creative and production decisions while they (the big five) handled the distribution.

Even from a micro perspective, examining only recording industry organizations and structures, one cannot help but be struck by the fact that the industry’s functioning is influenced by other industries and society. The most notable such interface is with broadcasting—particularly radio, and to a lesser extent, television. These are the two primary means that the recording industry uses to promote its products to potential consumers. Because the industry produces a cultural product, it is particularly susceptible to influences from the rest of society, and in turn influences the rest of society.

Radio changed. No longer does Top 40 airplay dominate the promotion and sale of all recordings. From 1986 to 1995, the number of radio stations reporting predominantly music formats increased by more than 2,000, and the number of different formats reported nearly doubled, going from 12 to 23.[^38] The two major radio tip sheets, *Radio & Records* (*R&R*) and *Gavin*, more than doubled the number of airplay charts reported over that same period: *Gavin* went from five charts in 1986 to thirteen in 1996, and *R&R* went from six in 1986 to fifteen in 1996.
to twenty by 2003. (Gavin ceased publication in 2002.) Even as concentration of radio station ownership increased in 1990s at a mind-numbing rate after the deregulation of ownership rules with the Communications Act of 1996, broadcasting executives were predicting further diversity in radio formats. (Chapter 10 examines the relationship of the recording and broadcast industries in detail.) There were conflicting studies as to whether all these changes resulted in a greater diversity of music available to be heard by more people.

Technology and the Recording Industry System
The recording industry owes its existence to technology. Refinements and advances in technology have affected all parts of the system. On the input side, it is easier for more musicians and writers to make high-quality recordings. In the transformation process, sophisticated control over recording and advances in reproduction have made more product available at lower production costs and enabled more sophisticated and lower cost distribution of that product. More methods of exposure are available thanks to cable and satellite television, home video, and the Internet. On the output side, the availability of high-quality and lower-cost playback systems has stimulated demand. The feedback loop has improved with more accurate and faster data-gathering mechanisms.

What Thomas Edison did not know is that his “talking machine” invention in 1877 would lay the groundwork for a “music machine.” Emile Berliner’s disc recording system made this even more likely because the original recordings were easier to replicate into copies, thereby opening up much greater possibility for a mass-produced item for the general population. Advances in player and recording technology through the 1940s made the music reproduced even more lifelike. Stereo proved that consumers wanted their music to sound even better and more like a real performance. Cassette tapes made music even more portable so that it could go with Americans in their ubiquitous automobiles, even without playing it on the radio. Smaller amplifiers and players soon meant that prerecorded music could go with the listener to the beach, for a jog, for a walk in the park, or to the gymnasium for a workout. The compact disc and digital recording propelled the quality of sound available and the ease of use and durability to higher levels. Digital transmission and the Internet made new delivery systems possible so that people have an almost bewildering diversity of recordings to choose from. Reductions in the costs of manufacturing recordings and in the playback systems led to further market penetration for the players and the recordings. High-quality, inexpensive recordings and playback systems were within the reach of nearly everybody. The subsequent increase in demand for recordings infused the industry with more revenues and made an even greater diversity of product available. Large labels could afford to take more chances on a wider
variety of artists. Small labels could find new artists with niche or emerging markets, make smaller investments, and still earn a profit on a relatively small sales base.

The same digital technology that created the CD and the Internet delivery systems also proved a curse for the industry. Every hour of every day hundreds of thousands of music fans illegally downloaded copies of their favorite recordings from a variety of peer-to-peer networks. While the labels struggled to make paid downloads a profitable venture, they fought the free, unauthorized downloads with a barrage of lawsuits (see Chapter 11 for details).

The electronic revolution also had a significant impact on the creative inputs for the industry. As the sophistication of home recording equipment improved, it became possible for creative musicians and writers to have more control over the process of recording. Digital quality recordings could be made in small studios. MIDI (Musical Instrument Digital Interface) and synthesis gave musicians and writers nearly total control over the creation of complex musical arrangements and works. Lower production costs meant that more people could make music and market it. With digital delivery, any musician capable of making a recording could at least get that recording out on the World Wide Web for people to hear if they want to. Stand-alone and computer CD burners made the replication of very small numbers of CD copies practical for almost any musician—or pirate.

Electronic data-gathering mechanisms improved market research for record companies, broadcasters, music publishers, record distributors, and retailers. The Universal Product Code led to better inventory management systems for retailers and distributors. Ultimately, the SoundScan system of gathering sales information on a national basis allowed the development of sophisticated marketing plans and test marketing. Broadcast Data Systems’ electronic monitoring of radio and television stations led to more accurate airplay information for labels and performing rights organizations.

**The Recording Industry as a Mass Medium**

Popular music, the primary content of the recording media, can be partially understood as communication and the recording industry as a mass medium. The main activity of the recording industry is the production and distribution of symbolic content to widely dispersed heterogeneous audiences. It uses several technologies to do this, including digital recording and reproduction, analog recording and reproduction, video recording and reproduction, and the Internet. Media theorist Dennis McQuail characterized the recording industry as a medium having:
multiple technologies of recording and dissemination: there are digital and analog recording technologies from home recording to professional recording and dissemination means including mail, record stores, and downloads, with thousands of locations where recordings may be obtained.

- low degree of regulation: the Federal Trade Commission regulates this industry the same as any other industry. There is no licensing like there is for broadcasting.

- high degree of internationalization: the five major recording companies reside in different countries and local companies reside in virtually every nation.

- younger audience: the heaviest consumers have traditionally been fifteen to twenty-four years old.

- subversive potential: the industry and artists are frequent subjects of attack for perceived contribution to delinquency, encouragement of drug use, “un-American” activities, and more.

- organizational fragmentation: although distribution is controlled by five major firms, there are hundreds (if not thousands) of individual labels that appear to function autonomously.

- diversity of reception possibilities: recordings may be heard through radio, broadcast television, cable, the Internet, and satellite.39

This would appear to be a fair characterization except, as noted earlier, the nature of the audience, at least those who purchase recordings, appears to be growing older.

Popular music communicates in many ways—some intended by the artist and songwriter, some not. Consumers form social groups based on their likes and dislikes of certain genres or artists. Some music is consumed privately to soothe ravaged psyches or to excite them. Music may be used for social activities such as dancing. Music communicates through physical activities, cognitive activities, and emotion. Popular culture analysts continue to comment on its power; James Lull writes, “Music promotes experiences of the extreme for its makers and listeners, turning the perilous emotional edges, vulnerabilities, triumphs, celebrations, and antagonisms of life into hypnotic, reflective tempos that can be experienced privately or shared with others.”40 Similarly, Richard Campbell comments, “The music that helps to shape our identities and comfort us during the transition from childhood to adulthood resonates throughout our lives.”41

It is clear that music and recordings fit a model of communication that allows for different meanings to be constructed by the message sender(s) and receiver(s). This model also includes gatekeepers: individuals through whom the intended message must pass on its way to the receiver. The gatekeeper “determines what information is passed and how faithfully it is reproduced.”42 An early application of this model focused on radio
The Recording Industry

programmers as gatekeepers. Some consider gatekeepers to be only those who mediate between the industry and its consumers. From a broader perspective, if the sender is the artist and the receiver is the listener or consumer, then there are other gatekeepers as well. If the artist is not also the songwriter, then the writer must get through the music publisher’s gate; the publisher must get through the producer’s gate; the producer must get through the label A&R department’s gate; and the recording must get through the radio and video gates, unless those gates can be held open with payola or through agreements that the programmer will play certain cuts. The retailer keeps gates as well, deciding what recordings to stock, how many to stock, and whether to feature a particular recording. The rack jobber keeps a relatively small gate, only letting through the hits that could sell in large quantity through fairly small record departments in mass-merchandise chains.

Gatekeeper theory is useful in explaining the desire of the various players to use any device they can to keep the gates open so their communication can pass. The problem with this approach is that it tends to assume that the gatekeepers care which recordings pass through the gates. A given label does not care which of its recordings become hits, unless they have invested substantial amounts in some superstar artist. It takes some hits to sustain a large label, but not usually any particular hit. A small label that has a small roster of artists who make recordings on small budgets may not need hits as much as it needs consistent sales in order to survive. Dedication to the music and sufficient sales may be enough. Radio stations program recordings they think their listeners will like, or at least not dislike, but that is usually without regard to the artist or label. Retailers care that they sell recordings, but as long as the profit on any two given albums is equal, it does not really matter which one a customer purchases. If one considers the artist or songwriter as the communicator, then they are so far removed from most of the gatekeepers that they have little contact or influence.

The Three Income Streams Model

While all of these viewpoints shed some light on the functions of the recording industry, it can best be understood in terms of an economic model. Media economist Alan Albarra n notes that, “[T]he study of media economics is the most important [method], in that the ability to attract revenues (and ultimately profits) enables different producers to continue to operate in media markets.” At the heart of that economic model are three streams of income, generated through the utilization of a song, a particular recorded performance of that song, and live performances of that song (see Figure 1.5). At the head of each income stream is a creative act: a song is written, a recording is produced, a live performance given. These creative acts give rise to legal rights associated with them. The
songwriter’s creative act results in copyright in a musical composition. The record label’s, producer’s, and recording artist’s creative acts result in copyrights in the sound recording. Performers have a right to keep others from recording or broadcasting a performance. Three distinct legal rights, three distinct creative acts, and three distinct treatments of a song produce three distinct income streams. While one might argue that “the song is the thing” because it is included in all three streams, it is really the recording that provides most of the drive for the cash flows in all three streams.

Focusing on these three streams is more inclusive than following three streams of royalties—one from the sale of recordings, one from the sale of music, and one from the performance of music—because it includes the live performance of the artist. That live performance is a revenue-generating act for the artist aside from whether it generates any royalties for the music publisher. Including live performance as an income stream also brings it under the general rubric of the recording industry, which is certainly correct because the existence of popular recording artists and their performances accounts for most of the revenues generated in that stream. Finally, including the live performance stream accounts for more points of interconnection between the various streams and leads to the development of a more complete model. It is the presence of the cash flow that drives the major players in the industry to seek control over and participate in all three income streams: not a conscious or unconscious desire to foist any particular kind or quality of music on the consuming public.

Who’s Who in the Recording Industry

Before making a model, one is always advised by the instructions to check the parts list to be sure that everything is included. Understanding each component is crucial before attempting to assemble the finished product. For that reason, the basic function of all of the players in each of the three income streams is defined below. The order is that in which they appear in the income stream in Figure 1.5. The simplicity of some of these definitions belies the complex relationships often established by some individuals wearing more than one functional hat in the industry.

The Recordings Stream

- **Recording artists**: Sometimes referred to as *royalty artists*, these are the people who perform for recordings by playing instruments and/or singing a particular performance that is recorded. The recording artist may or may not be a live performing artist, and may or may not be a songwriter. Most recording artists make money from the income stream by getting a royalty payment based on the sales of copies of the recordings that they make.
• **Record labels**: These organizations employ artists to make recordings that they hope to market in some way to the public. They usually sign the artist to a recording contract promising to pay the artist a royalty for recordings sold in return for the artist’s promise to record exclusively for that particular label.

• **Record producers**: These individuals are in charge of the process of creating the recording. They assist the artists by helping select material, studios, and assistants, and by helping the artists give their best performance. They assist the labels by taking care of the business aspects of the recording process and by delivering a marketable product.

• **Side musicians/vocalists**: These performers usually work on a per-job basis for the artist or producer to help create the desired recording. They are to be distinguished from the recording artists because side musicians do not generally receive royalties from the sale of recordings.

• **Recording engineers**: These individuals assist the producer and artist by running the equipment necessary first to capture the performance on tape (or some other medium), and then to shape the final sound that the artist and producer ultimately want on the recording.

• **Record manufacturers**: Often (but not necessarily) the same as the label, manufacturers make copies of the recordings suitable for sale in some manner to the ultimate consumers.

• **Distributors**: This segment of the industry handles copies of the recordings so that they can be conveyed to the end-user for purchase. For the most part, distributors wholesale the copies of the recordings made by the manufacturers to the retailers.

• **Merchandisers**: Retailers that sell copies of the recordings to the consuming public.

• **The public**: In this income stream, this is the record-buying public. This may be a different segment of the public than those who buy tickets to live performances or listen to broadcasts.

### The Songwriting Stream

• **Songwriters** (including composers and lyricists): These people write songs.

• **Music publishers**: Publishers acquire rights to songs from songwriters and then license the uses of those songs. Most music publishers sign songwriters to contracts agreeing to pay the writer a share of the royalties that the publisher makes from licensing the uses of the song.

• **Performing rights organizations**: Such organizations license broadcasters and others to perform songs, either live or from recordings.

• **Broadcasters**: These media play recordings of the songs or broadcast live performances of the songs. This term includes regular television
and radio broadcasters as well as cable, satellite, and Internet transmitters.

- **The public (for the broadcasters):** People listen and watch, usually with no charge other than serving as an audience for the broadcaster’s advertising messages.

- **Other media:** They create movies, print sheet music and song books, make recordings, and utilize the songs in other ways that create royalties for the publisher and songwriter.

- **The public (for the other media):** People watch and buy these other uses of the songs.

**The Live Appearances Stream**

- **Musicians and singers:** These artists perform live primarily in concerts, in nightclubs, on television, and on radio. Not all live performers are recording artists, though most aspire to be, and not all recording artists are live performers, though most need to be.

- **Personal managers:** These people assist artists in the development and coordination of their careers as performing artists and as recording artists. They are located in this income stream because most of their day-to-day functions revolve around live appearances, not around recordings.

- **Talent agents (also known as booking agents):** Agents book live appearances for performers.

- **Promoters:** They put on live appearances by performers by arranging for the performer, the venue, the date, the production, and the marketing of the performance.

- **Venues:** These are the places for live appearances by artists, including clubs, concert halls, arenas, and stadiums.

- **The public:** These consumers purchase tickets to, or otherwise attend, live artist performances.

The existence of the music publishing and live performance streams is important to the recording industry because the labels often have an economic stake in these other two streams. All of the major record industry conglomerates, and many individual labels, producers, and artists, have publishing interests. Live performance is the crucible in which many new acts are formed. It may be an important medium to expose the public to the artists and their sound in order to promote the sale of recordings. Live performance may keep an artist’s catalog of recordings selling long after the artist’s recording career has peaked.

Figure 1.5 illustrates the most simplistic depiction of these three income streams. Each stream has its own creative input from an initial source: a recording artist, a songwriter, or a performing artist. Each stream ultimately ends up with the public consuming the output of the stream:
The recording, the song, or the live appearance. Each stream has a primary control point through which the creative input is channeled; the record label, the music publisher, and the personal manager. Each stream has a place (a record store, a favorite broadcast station, or a concert hall) where the public has the opportunity to interface with the stream and cast an economic vote for their favorite music with their purchases or attention. Each stream has other parties between the creative person and the public who seek to profit from the income generated in the particular stream by performing some function useful to completion of the flow of that stream.

Perhaps most significantly, it is the public participation in each stream that generates the income. Unless the public buys concert tickets or attends clubs and purchases food and drink, there is no source of revenue for the live appearance stream. Unless the public buys copies of recordings
there is little revenue generated in the recordings stream. Unless the public either consumes the actual products (such as sheet music or recordings), or attends movies, or provides an audience for the advertisers on radio or television, there is little or no money in the songwriting stream. It is also the public that is the target in the communications model discussed earlier. Figure 1.6 illustrates the income flow down in each stream.

**Three Income Streams the Hard Way**

In order for a player in any stream to maximize security and profitability, participation in the other two streams is necessary. Figure 1.7 illustrates some of the many additional monetary and legal connections that exist between the various streams. The relationships between the three streams are examined in detail in Chapters 4, 5, and 6.
The recording industry has become an important player in the mass media in the United States and around the world. It creates and markets recordings that become significant parts of popular culture and that form important parts of the content of radio, television, motion pictures, and live entertainment, as well as being cultural artifacts of their own. Considered from an economic standpoint, the industry consists of three main revenue streams generated by the recordings and those who perform them: music publishing, live entertainment, and the record companies themselves. Each of these components and its relationships to the other components is best understood when examined from an economic and historical context. How each stream operates and why are the questions examined in the next five chapters: one for each stream, and two to lay the groundwork in copyright law, without which the publishing and recording streams—and arguably the live entertainment stream—would be in jeopardy.

**Summary**

The recording industry has become an important player in the mass media in the United States and around the world. It creates and markets recordings that become significant parts of popular culture and that form important parts of the content of radio, television, motion pictures, and live entertainment, as well as being cultural artifacts of their own. Considered from an economic standpoint, the industry consists of three main revenue streams generated by the recordings and those who perform them: music publishing, live entertainment, and the record companies themselves. Each of these components and its relationships to the other components is best understood when examined from an economic and historical context. How each stream operates and why are the questions examined in the next five chapters: one for each stream, and two to lay the groundwork in copyright law, without which the publishing and recording streams—and arguably the live entertainment stream—would be in jeopardy.
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