

THE ALBUM BUYING NICHE: THE FUTURE
OF RECORDED MUSIC ON
TRADITIONAL MEDIA

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ABSTRACT

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This study hypothesizes that there are at least two distinct groups of music consumers, those that prefer traditional media and those that prefer to download music. The author conducted an online survey with 257 respondents and analyzed the data. Using niche theory and long tail economics, the research demonstrates the continued importance of traditional sound recording media such as the compact disc. Also included are a brief history of the recording industry and a discussion of traditional sound recording media's competition in the market place today.

CHAPTER I

INTRODUCTION

Since becoming widely available in the mid-nineties, the effects of the Internet upon traditional media have been startling. The last decade bared witness to a virtual revolution in the way media is consumed by the public, shaking the very foundations of some of the world's largest multinational conglomerates and introducing the phrase *new media* to the everyday lexicon. The recording industry has seen its market radically change since peaking in 2000 (RIAA, 2007). Once the virtual sole controllers of national (and worldwide) distribution channels for recorded music, the major record labels have watched their stranglehold loosen over the last decade due in very large part to the availability of music online. Industry observers have prophesized that the end is nigh for the compact disc and the record store, perhaps even the idea of an album of songs in any format (Kusek & Leonhard, 2006). This analysis demonstrates that not only are these predictions premature, but that there remains a distinct market for music consumers who prefer hard copy formats like compact disc within the larger group of persons who purchase music.

The author will demonstrate that the album buying market is no longer one group, but smaller niche markets. By determining the motivations of these groups and catering

to them, the recording industry would find itself on much firmer soil from which to go into the future. Media scholars have long acknowledged the importance of niche theory in mass media (Dimmick, 2003), and research into long tail theory (Anderson, 2006) has revealed the power of harnessing various niches in a new media environment. Where the stratification of markets due to the Internet may have ended the days of the mega-hit album, it offers new and unique opportunities to generate profit from less popular material for those willing to embrace the potential of the niches. The current distribution models for the recording industry do not exploit these opportunities by and large. The author feels that by understanding and defining the boundaries and motivations of the current traditional format, album buying niche, the continuing viability of the album itself will be demonstrated as well.

This study first examines the history of the recording industry, the current marketplace, and the competition the compact disc faces as a recording medium. It is important to understand from where the industry emerged, how it has grown, and where it is today to fully understand the challenges faced by today's record labels. The heart of the recording industry has always been publishing and distribution, and any threats to its control in those areas cut straight to the essence of what makes the recording industry work. However, this study explains that there is still a place for tangible albums in today's market as well and in so doing, demonstrates a place for the continued existence of major record labels. New media threatens the oligopoly that is the modern recording industry; it also offers opportunity for those labels willing to embrace it.

CHAPTER II

BACKGROUND

A Brief History of the Recording Industry

Today's recording industry is dominated by four multinational corporations that account for roughly 80 percent of the industry (Rothenbuhler & McCourt, 2004). Sony/BMG, Warner, Universal, and EMI are the end result of a consolidation process that began in its modern form in the late 1960s. Known as the Big Four in the industry (Burkart & McCourt, 2006), even the present number of companies is relatively new. In the late 1990s there were still six major record labels, Polygram being bought by Universal only a decade ago and BMG merging with Sony in 2004. However, the recording industry itself is a relatively young business, only assuming its place as the most lucrative part of the music business in the 1920s. Today, for many, the phrases "music business" and "recording industry" are used almost synonymously due to 80 years of fixed recordings being the most dominant and visible part of the music business, but it is a new comer in the nearly half millennium of music business that preceded it. Recognizing where the recording industry grew from is absolutely necessary when looking at its future.

The history of the music business falls into three phases: the development of music publishing houses, record companies, and then the dominance of the transnational corporations that currently control the industry (Garofalo, 1999). The development of publishing, the part of the industry that deals with the actual printing of music and copyright ownership, spans the largest amount of time and continues to have a legacy in the modern industry. The evolution of publishing partly introduced the concept of intellectual property that led to early copyright law. Publishing houses also first realized, within the music business, how lucrative the exploitation of copyrights could be as well as the power of a consolidated industry, both of which are extremely important even today.

Before the 1920s, publishing generated the vast majority of profits for the music industry, with musical instrument sales and live performances also playing important roles (Rothenbuhler & McCourt, 2004). Not surprisingly, publishing music began with the invention of moveable type and the expansion of printing presses in fifteenth century Europe (Garofalo, 1999). The introduction of copyright laws across Europe and the United States edified the industry in the nineteenth century by helping to guarantee income streams from sheet music as well as control of copyrighted material by the copyright holder. By the beginning of the twentieth century, music publishing was undergoing heavy consolidation in the United States. The preeminent writers and publishing houses of the day were all located in a part of New York City named Tin Pan Alley. From this small strip on Manhattan Island, almost all of the popular music of the time was composed (Burkart & McCourt, 2006).

In consolidation, Tin Pan Alley also found power, using their collective bargaining power to secure their copyright incomes from the new technology of sound recording (Burkart & McCourt, 2006; Garofalo, 1998). In 1909, publishing firms struck a deal with the young, new technology of fixed sound recordings to guarantee royalties from the sale of such recordings, marking the moment when copyright law and the recording industry began their extremely lucrative relationship.

Thomas Edison invented the first means to fix sound to a medium in 1877 by etching grooves into a soft medium on the surface of a cylinder with a stylus attached to a diaphragm that vibrated as it was struck by sound. Several other inventors of the period set out to improve on the technology, leading to years of patent lawsuits. In the end, Emile Berliner's process of recording to a disc rather than a cylinder became the dominant model that the recording industry adopted. Berliner also founded the Victor Talking Machine Company. Around this same time, the Columbia Phonograph Company came into existence and began to release albums.

The invention of radio forced the publishing houses into action collectively only a decade after reaching an agreement with the burgeoning recording industry. In order to guarantee observance of their copyrights, publishing interests pushed for radio to answer to performance rights organizations such as ASCAP and BMI, groups who were largely a product of publishing company consolidation themselves. Radio's acquiescence to publishing demands set the stage not only for radio's growth, but for the growth of the recording industry as well (Rothenbuhler & McCourt, 2004). Fixed recordings fit radio perfectly, and the two grew enormously popular together.

Reinforced by radio, as well as simply having existed long enough to widely diffuse among the public, in the 1920s the recording industry passed publishing as the most lucrative portion of the recording industry (Garofalo, 1999). At this point, the music industry entered its second phase of being dominated by record labels. The recording industry saw its golden age bloom during the 20s, but the industry had not yet eclipsed the rest of the industry despite becoming preeminent. The Great Depression also caused a temporary set back as the industry shrunk under the shadow of misfortune that so permeated the 1930s. As World War II came to an end, the industry began to expand once again, and radio again provided the muscle.

Although recorded music was played on radio, no radio station had totally embraced a format that solely played music. Protests from the American Federation of Musicians, the trade union for musicians, helped to keep the format off airwaves stretching back to the introduction of radio, but in 1950, WINS in New York announced it would exclusively play recorded music despite earlier adherence to AFM wishes. Arguably, this was the most important moment for the recording industry since the initial patent fights that formed the industry 50 years earlier. Because of the introduction of the recorded music broadcast format “records became not only the staple of all radio programming, but also the dominant product of the music industry as a whole, eclipsing sheet music as the dominant medium for music” (Garofalo, 1999, p.336).

With the recording industry’s rise to prominence, record labels replaced publishing houses as the focus of music business. However, this switch would not lead to a less centralized recording industry. Even as Tin Pan Alley consolidated at the turn of the century, the recording industry was controlled predominately by a few companies

from its inception because of early legal battles. “The recording industry was founded on patents and their litigation, in which diverse patent holders sought to stake their claims on the nascent gramophone industry in the 1890s and early 1900s” (Burkhart & McCourt, 2006, p. 24). Essentially, the stewardship of the music business moved from one small group to another. Since that time, the industry has never ceased to be dominated by a very small number of companies.

The recording industry that grew from the 1940s through the 1960s laid the ground work for much of the industry’s current business model. The vertical and horizontal integration of the industry, as well as its symbiotic relationship with broadcast media, either started or developed during this time period. Lathrop (2003) explained

The basic infrastructure of today’s marketing and promotion system was in place: a set of formats for the commercial sale of music (at that time phonograph records and sheet music) accompanied by communication methods (radio, music, jukeboxes, and live performances) that exposed people to a range of performers and sounds and helped convince these people to purchase the records and sheet music (p. 3).

Selling albums became the centerpiece for a giant and ever growing business model that crossed over into all sections of the entertainment industry. Albums also established the interdependence of recorded media and broadcast media (Rothenbuhler & McCourt, 2004). Record labels needed the exposure radio provided; radio needed popular music to attract listeners.

The recording industry saw the first real challenge to its oligopoly in the 1950s (Burkart & McCourt, 2006). Rock n’ roll music may have entered the popular consciousness as rebellious music that challenged the conservative mores of 1950s

America, but the business of rock music profoundly affected the recording industry as well. The major record labels did not immediately embrace rock n' roll even though America's youth flocked to it. As a result, hundreds of independent music labels sprung onto the scene to feed the market for the genre. Though major labels continued to dominate, these independent labels cut into their bottom line (Garofalo, 1999). What followed the independent record label explosion and the growing popularity of rock n' roll became a familiar pattern for major labels – to consume that which it could not push out of the market.

In the late 1950s, Elvis Presley – the face of rock n'roll to most Americans, left the small Memphis based label that started his career for the roster of a major label. This began a period where major labels bought independent labels, signed independent artists, or offered their own versions of the two if they could not have them on the label. The effect on what would become the record industry in the 1960s was enormous and ironic. The very genre that had chipped away major label control in the 1950s, now bought out by those labels, would grow the recording industry to ever greater size (Garofalo, 1999). The buyout of rock n' roll provides an example of the way the recording industry would continue to deal with upstarts. Though often slow to embrace new music at first, once the major labels did take notice, they consumed the smaller labels and their artists, signed new artists that sounded similar, and exploited the genre until what was once a reaction to the mainstream became part of it.

“The 1960s may have been experienced by artists and audiences as a period of political awakening and cultural development, but for the music industry it was a period of commercial expansion and corporate consolidation” (Garofalo, 1999, p.338). Aside

from the commercialization of rock music in the 1960s, the recording industry began to see even brighter horizons in the expansion of their business model. At this point, major labels began to realize the potential in not simply producing music and controlling copyrights but also the manufacturing and distribution chains. The end result of this observation was the total vertical integration of the industry. Record companies could find talent, record it, press the albums, market them, make sure they were sold nationwide, and ensure the maximum exploitation of the copyrights they controlled.

Under this model, every stage of the recording industry fell under label control, and it became easier to lock independents out of any sort of national presence. The shift towards a ground up model from merely the business of recording artists and copyright ownership also set the stage for the industry's evolution from being dominated by recording labels to transnational media conglomerates. As Garofalo (1999) said in his excellent brief history of the music business, "Far from disappearing, as the activists of the 1960s would have had it, capitalism simply became hipper" (p. 337).

Currently, the recording industry is still a transnational, big business affair, with 80 percent of the market being controlled by only four companies: Sony-BMG, EMI-Capitol, Warner, and Universal (Burkhart & McCourt, 2006). This massive level of consolidation came very rapidly. The number of labels in existence shrunk rapidly during the 1970s as record labels devoured each other to swell rosters and increase catalogues. By 1980, all vestiges of 1950s record label boom mostly vanished, and only six companies remained. Warner, RCA, Polygram, CBS, MCA, and Capitol – EMI controlled virtually the entire industry. These companies also controlled production, manufacture, and distribution - if the recording industry comprised almost the entirety of

the music business, then these six companies were music. The 1980s also brought deregulation to the industry, allowing these companies to buy into industries once off limits (Burkart & McCourt, 2006). Media companies (they were much too big by this point to be referred to solely as record labels) now looked to control the medium which contained sound recordings, how these media were distributed, and the technology that supported the media. This allowed media companies to ensure complete control of the exploitation of music across all media and lay to rest the notion of only being the producers of records (Garofalo, 1999).

The recording industry's evolution from record labels to media companies changed everything. As exploiters of rights instead of simple record producers, and with their complete control of almost all elements of recorded music, money started pouring in to industry bank accounts (Garofalo, 1999). Indeed, the record labels made money from exploiting the copyrights of recordings, but only in so far as profit directly generated by the sell of albums. The transnational media companies used the same rights to generate profit from movies, television, commercials, scores, etc. Any area that could benefit from the addition of a recorded composition was assiduously hunted down and exploited. The entrance of MTV and format changes from record to tape (and ultimately compact disc) only served to help the industry grow more than to change it (Lathrop & Pettigrew, 2003).

What made rights exploitation so lucrative was the profit that could be generated from a single recording without having to produce additional product. Michael Jackson's 1983 album *Thriller* ushered in the era of the mega hit album and demonstrated the value of horizontal exploitation (Garofalo, 1999). Massive radio play and music television

pushed the album's sales to unheard of highs. The record companies also made money from licensing of songs from the album to movies, commercials, and television shows. Not only did this generate money on its own accord, but also served to sell more albums. Advertising deals with other industries also generated profits, and the title track of the album was used as the impetus for a music video.

Jackson's record label managed all this saturation with very little production of anything new. Labels simply became experts at repackaging the same product to serve a variety of needs. Marketing budgets exploded to push these mega-hits, but marketing budgets in reality had been creeping higher for sometime. "Since the mid-1960's, promotion (had) been the single largest expense in the music industry" (Rothenbuhler & McCourt, 2004, 228). The transnational-media conglomerates expanded into hugely powerful, hugely lucrative businesses able to harness popular culture and make massive fortunes from its exploitation.

Despite their growth independently, the media companies had not yet finished their mergers. Technology companies entered the scene in the 1980s. These companies saw the acquisition of media industries as a kind of insurance for the introduction of new technologies. Sony, in particular, blamed the failure of its Beta Max format, which competed with VHS to be the first way to record and watch movies at home, on a lack of movies to offer on Beta Max. Sony felt they had the superior product but lost the war because of catalogue. Other companies saw the same wisdom and began purchasing movie and music companies. Sony purchased CBS in 1988, followed by the merger of Time Inc. and Warner Communications in 1990. Thorn EMI (renamed EMI Inc. in 1996), originally a technology firm, culminated 40 years of label buyouts with the

purchase of Chrysalis in 1991. Bertelsman AG purchased RCA in 1986 after a series of mergers and sell offs with RCA and General Electric, moving it firmly away from being only a book publisher to a major music group. MCA purchased several popular labels in the 70s and 80s including ABC, Motown, and Geffen.

By the end of the 1990s, the Big Six of 1980 became the Big Four after Seagram Company purchased MCA and Polygram and merged them into one label named Universal. In 2000, Time Warner was bought by America Online and renamed AOL Time Warner. This left EMI, Sony, and Bertelsman Music Group (BMG) as the other three major players. In 2004, BMG and Sony formed a joint partnership, further reducing the number of companies to four. EMI and Warner (Time Warner sold Warner Music Group in 2003 to Edgar Bronfman Jr.) continue merger talks, although so far they remain independent companies.

As the recording industry entered the millennium, it was bigger than it had ever been and controlled by fewer hands than ever before. In 2000 the industry had its most lucrative year to date (RIAA, 2007), but storm clouds were on the horizon. The introduction of the compact disc boosted sales and gave back catalog albums new life (Garofalo, 1999), but the medium had a dark side that was ignored in the hustle and bustle of ever growing contracts and companies. When the industry switched to a digital format for selling albums, it had no idea it released the proverbial genie or any guess that a world wide web of interconnected computers was about to exploit this digitalization and invent a whole new, nearly uncontrollable distribution model in the process.

Technology, Synergy, and Unintended Consequences

The compact disc emerged as a music medium for consumers in the 1980s. Aside from offering a final transition away from vinyl records (and cassette tapes), the compact disc also solidified the future of the recording industry as a digital one (Kusek & Leonhard, 2005). Digital storage media differ from analog media in that the music is stored as code that is then read back and deciphered by the player rather than physically altering material to recreate the sound as with tape. For music to be played from an analog source (or fixed there in the first place), a player must physically contact the media. The signal from the media also loses strength from generation to generation. Because of these factors, analog music gradually loses clarity and fidelity as it is played over and over. The same goes for making copies – each is a bit less accurate than the last. However, digital music is read by light sensors, so there is little if any friction from playback. Also, because the music is not stored physically on the media but as data to be encoded and decoded, compact discs (and all other digital mediums) are not subject to a degradation in quality from generation to generation. In effect, a digitalized song can be copied endlessly without quality loss, as can any of the copies made (Kusek & Leonhard, 2005). Before digital media, recording from one medium to another was simply copying; digital media made true duplication possible at home.

Compact discs presented no real revolution in music distribution despite revolutionizing playback media. Compact discs made already released material very lucrative again as audiophiles and album collectors rushed to purchase albums they already owned on the new format (Garofalo, 1999), but several other technologies still

needed time to diffuse before the foundation of the industry would be threatened. Compact discs entered the marketplace with no method of preventing their duplication. In the 1980s the issue of duplication was largely irrelevant because there was no easy way for the general public to record compact discs to anything other than a cassette tape, an action that would return sound to an analog format complete with the restraints inherent in the format. This barrier began to fall in the late 1980s with the introduction of the waveform audio format (wav) file by IBM and Microsoft (Kusek & Leonhard, 2005). The wav file allowed personal computers to play, save, and record uncompressed audio and could be sent over modems. The introduction of CD-ROMs, compact discs that held data instead of music, and the inclusion of drives in home computers to read them, for the first time provided a quick, easy way for consumers to record from digital to digital at home. As home computers became increasingly popular in homes, digital duplication became wider spread, even though the bulky wav files quickly filled the fledgling hard drives of the day and were not particularly portable.

In 1988 the International Organization for Standardization (ISO) began the Motion Picture Experts Group (MPEG) in an effort to approach a number of file issues that were growing with the popularity of computers. MPEG sought to resolve the issue of audio and video files sizes (Burkart & McCourt, 2006). Both wavs and formats for video were so large that they were rendered largely unusable for many applications, especially file transfer online. Especially savvy computer users had begun to use the Internet by this time, but connection speeds of the era made the exchange of media like music between computers time consuming. MPEG approached the issue by searching for a way to compress media files into a smaller package. File truncation meant a reduction

in aural and visual quality due to the loss of data, a factor that made it unattractive as a means of media exchange. MPEG had to strike a balance between size and quality. In 1992 MPEG found their solution. The Fraunhofer IIS developed the MPEG 1 file type to fulfill the specifications of MPEG's requirements.* The MPEG 1 had a few subtypes, one of which, the MPEG 1 layer 3, is today known as the mp3.

The mp3 provided an extremely effective solution to the problems associated with wav files (Burkart & McCourt, 2006). Audio compressed into an mp3 did suffer quality degradation, the extent of which depended on the bit depth selected, but not enough to make it unpopular. The files were small, easy to make, and easy to exchange, even over dial up modems. Peer-to-peer exchange of these files grew in popularity as the World Wide Web finally made the Internet more user friendly in the mid 90s. The Internet had finally arrived in the mainstream, but the mp3 revolution was still only a smattering of dark clouds on the RIAA's horizon.

Two more pieces were still left to be placed to truly unleash online music distribution. Though much smaller than a wav file, at dial up speeds, even mp3s still took quite a long time to download. In the late 1990s, broadband Internet service became increasingly common, especially at colleges around the nation (Burkart & McCourt, 2006). An mp3 could be downloaded over broadband in minutes, sometimes even seconds, an exponential improvement over dial up times. Mp3s poured onto the Internet, so much so that finding a specific song became complicated and time consuming.

Shawn Fanning, a college student at Northeastern University, provided the final spark to the Internet music movement. Frustrated by the difficulties of sorting through all

* Fraunhofer continues to hold the patent for the technology. In 2005, Fraunhofer made almost the equivalent of \$150 million and just over the equivalent of \$100 million in 2006, making the MPEG 1 layer 3 still its largest profit generator (Kistenfeger, 2006).

the mp3s online, Fanning invented a program that allowed users to directly connect to one another's hard drives and made also made it possible to search for files on any hard drive connected to the service. Fanning streamlined connectivity and made mp3s searchable. He named the service Napster, and in less than a year saw his model become the first real threat to the recording industry's distribution model since came to prominence in the 1920s.

The story of peer-to-peer file sharing is perhaps one of the more interesting stories of convergence and synergy to come out of the Internet revolution. Had the inventors of the compact disc made duplication impossible in the beginning, perhaps the problems today would be more manageable (Kusek & Leonhard, 2005). Internet distribution was probably inevitable, but the way it evolved left the recording industry today scrambling to find control – something their current distribution model depends upon. Peer-to-peer distribution became popular so quickly through the combination of so many seemingly unrelated factors that the industry was simply blindsided. In the late 90s, the RIAA was much more concerned with CD piracy in Asia than peer to peer file sharing (Burkart & McCourt, 2006). On the periphery was the single biggest threat to their dominance. This is not to say that piracy is the main or even most important factor in the decrease of album sales (Gordon, 2005), but peer-to-peer sharing showed the possible plausibility of online music stores that sold single songs or albums for download as well. However, the recording industry is still a well funded juggernaut in the music business, albeit one that is reeling. Before arguing how the industry might be able to effectively still sell compact discs though, it is important to peer into the industry today.

The Recording Industry Today

The recording industry today looks much the same as it did in 1999 on the surface, though as mentioned earlier, The Big Five became the Big Four in 2003 when Sony and BMG entered into a partnership. The most important feature is that it is a truly huge, worldwide body, one that was powerful dating all the way back to the 50s and 60s and has only grown larger with the passing of the year, and therein lies the Achilles' heel in its current form. Its product, recorded music, caters to a highly subjective and ever changing popular taste that is hard for even the artists themselves to understand. As the industry became increasingly more consolidated and moved from the hands of people with an ear for music to MBAs, CPAs, and lawyers, the ability of the recording industry to gauge this taste suffered. The industry has long depended on the hit album, the one or two albums for each company that would cover the cost of the scores of other albums released that lost money. Hit albums have not only cover the label's operating expense but to actually push the ledgers into the black. As goes the hit album, so goes the current industry model, but as Chris Anderson points out in *The Long Tail* (2006), the hit seems to be dying. Examining the industry's current way of producing and marketing an album reveals why the hit is so important.

“The recording industry revolves around the manufacture and distribution of products such as records, tapes, and CDs” (Rothenbuhler & McCourt, 2004, p. 224). The major recording companies control every level and assume the entire expenses for each portion the entire production, supply, and marketing change involved. Burkart and McCourt (2006) point out that “the recording industry assumes all financial risk and loses money on most of its products. Only about one recording in ten breaks even” (p. 21)

Even of the ten percent of albums that break even, only half of those will go on to make money, and a fraction of those will be huge hits. The funding of the whole enterprise depends on each label correctly picking which handful of albums released each year to put the weight of the label's marketing and promotion machine behind.

Promoting an album has remained the most expensive phase of creating and releasing a new album since the 1960s (Rothenbuhler & McCourt, 2004). By the early 2000s, promotion budgets became so bloated that even albums sales that previously would have turned a profit failed to cover their expenses. Mariah Carey's experience with EMI between 2001 and 2002 provides an excellent example. Carey sold a huge number of albums while a member of Sony record's artist roster, making her an extremely important commodity when she signed with EMI in 2001 (Harding, 2002). Carey released the album *Glitter* in 2001, her first with EMI. The album was released in conjunction with a movie of the same name in which Carey starred.

The movie fared poorly in theaters, and sales of *Glitter* were not as brisk as Carey albums had traditionally been. In the end, the industry press deemed the album an utter failure, and Carey became the butt of a bad industry joke, EMI eventually buying out her contract for nearly \$70 million (Hilton, 2002). However, the actual sales figures provide a somewhat different picture. Neil McCormick (2002, p.23), a writer for *The Daily Telegraph*, explained that "(Glitter) actually sold more than two million copies and gave (Carey) a sixth American number one single with Loverboy (the best-selling single in the US last year)." The cost of marketing a pop star like Carey made it imperative that *Glitter* not be a modest hit, but a runaway success to breakeven. Even after doubling the industry's platinum mark, a certification identifying an album as having shipped one

million units, the industries second highest sales standard, the industry still viewed *Glitter* as a failure – something it indeed was from a financial perspective. Marketing and promotion remain a massive burden.

The vertical integration of the Big Four record labels includes music publishing, artist and repertoire (A&R), manufacturing plants, distribution and promotion, operation, marketing, record clubs, record store chains, and digital internet retailers (Burkhart, 2006). This level of integration ensures maximized profits from album sales and any copyright exploitation in addition and allows for payroll reductions through centralization. It also allows these companies to lock out any competition smaller labels may offer from almost any area of the recording industry. The model has served very well for allowing maximum exploitation of the sound recording copyrights which the labels own and protecting the oligarchy of the Big Four. The downside, according to Burkart (2006), is that “an oligopolistic media industry, with a non-competitive marketplace and a business model based on royalty payments, tends to produce goods of low quality and little diversity.” Research by Peterson and Berger (1996), Lopes (1992), and Rothenbuhler and Dimmick (1982) supports this assertion.

Popular music continues to be where the recording industry makes the majority of its money (Rothenbuhler & McCourt, 2004). The current industry model depends little on niche material, but this is as much because of a dependence on hits as it is the difficulties inherent in finding a niche’s audience. The industry currently cannot afford to address smaller markets. Labels produce more albums than they can promote by traditional marketing means, but only a small minority turns a profit. “In 1999, only 88 recordings – three tenths of 1 percent of all CDs issued – accounted for 25 percent of all

record sales” (Rothenbuhler & McCourt, 2004, p. 236). Labels really are left with only a well educated guess as to which sliver of the albums they release will be hits and in response developed rigid contracts and increasingly rely on past success to help predict what may become a hit. Coupled with the deleterious effects oligarchy has on diversity as mentioned above, this dependence on broad appeal and using the past as a guide has led to an increasingly homogenized industry. It is little surprise that Anderson (2006) discovered in researching *Long Tail Theory* that when consumers have the tools, they will readily purchase niche material in place of more popular artists.

An economy of scale is what made and continues to make music so incredibly lucrative for the media companies. As stated, controlling every way a recording can be exploited is incredibly valuable, but the expenses involved with producing an album make an album that sells millions of copies very cost efficient once it makes its money back. Fixed costs comprise nearly 93 percent of an album's wholesale rate, leaving very little marginal cost to consider throughout an album's production (Rothenbuhler & McCourt, 2004). Once the sales cover the fixed costs of compact disc, almost all money made from a compact disc from that point on is pure profit. The money made from the sale of a compact disc on average are as follows. Of the MSRP of \$18.99, the label makes 49 percent. Of the nearly half left, the retailer will keep 30 percent and the artist or artists performing on the compact disc see eight percent. Shipping accounts for five percent and manufacturing the last eight percent (Kusek, 2005). The profit model reveals why an album, once paid for, becomes so lucrative. For every \$1.50 the label spends manufacturing a compact disc, the label makes \$9.30, a profit margin of just over 6: 1. If an album can pay back its promotion and recording costs, it becomes

extremely profitable. However, the initial expense makes entering the market incredibly expensive, so even as recording has become cheaper in recent years, the traditional distribution system for compact discs has been hard for smaller labels to enter (Rothenbuhler & McCourt, 2004).

“Part of the reason the music industry is in such sorry shape these days is that the people who control the ‘old’ industry have convinced themselves that they *are* the music industry” (Kusek, 2005, p. 36,). More than anything else, the major media companies almost total control of the distribution of music helped the industry protect itself from upstart labels who might have otherwise challenged the labels. Also the ever expanding cost of marketing recordings as music became more and more valuable in the 80s and 90s made it difficult for niche material to enter the popular consciousness. The Internet has radically changed the landscape in relation to those two issues. According to Kusek (2006) the major labels have lost the ability to create megahits because there is too much new music today and too many ways to access it, adding that digital niche marketing is cheaper and more effective than mass marketing. Kusek goes as far as to predict the compact disc is obsolete. As will be discussed later, research (Dimmick, 2003) indicates that media are almost never rendered totally obsolete, however, and if niche marketing on the Internet is indeed more economical the major labels could find some of their own issues with producing niche material alleviated if they correctly recognized the market. However, before exploring those issues the competition for the market must be considered.

CHAPTER III

COMPETITION FOR THE ALBUM MARKET

Piracy

Piracy presents one of many distribution methods the recording industry faces today. Consumers can download at their whim with no concern as to how much they can afford to spend. Consumers committing piracy are only limited by either their respect for copyright law, their fear of being caught, the ability of organizations like the RIAA to catch them, and the bandwidth of their internet connection. Though no definitive evidence exists to directly blame all of the recording industry's woes on Internet piracy, there is little doubt that online piracy has had an effect on the Industry.

The Recording Industry Association of America (RIAA) at first seemed slow to realize the revolution in music distribution. The lackadaisical attitude did not exist for long. Napster was launched in 1999; in 2000 the RIAA sued. In the end, Napster was not shut down but devoured by BMG, one of the five major media companies involved with the music industry at the time (Alleman, 2000). The RIAA misunderstood the problem, however; the idea of Napster presented the danger, not the network itself. By the end of the court cases against Napster and its buyout by BMG, the brilliance of the idea was already too widespread (Opderbeck, 2005). Other file sharing services came to life seemingly overnight. Kazaa, Kazaa Lite, Morpheus, Grokster, Limewire, and others

entered the market even in the face of litigation. With each new service, the techniques of piracy improved as well (Bhattacharjee, 2003). Today the old peer-to-peer networks are steadily being replaced by newer bittorrent based networks (Biddle et al., 2002).

These torrent clients provide even faster downloads from even more sources. With these services, the ease of anonymity is increasing as well. While it remains true that, for the most part, any computer connected to the Internet can be traced, the difficulty of doing that tracing is increasing. Complicating things further, pirates of copyrighted material on the Internet, by and large, seek no financial benefit. Many illegally distribute material simply for the thrill of being the first to have it on the Internet. These pirates see their work not as a way to make money, but as a game and a way to garner respect within the piracy/hacker networks (Biddle et al., 2002).

If history is a guide, the availability of illegal downloads is not going to disappear anytime soon, but industry observers are not all convinced that piracy is the issue it has been made to be. Gordon (2005) explains:

My opinion is that file sharing is a contributing factor to the music industry's decline, but that it has been exacerbated by artificially high prices for CDs and the record companies' slowness in embracing new business models made possible by the new technologies (90).

Burkart (2006) adds, "The recording industry's lawsuits against some of its best customers illustrate the confusion and suspicion surrounding its most serious crisis in decades" (p.127) and "a more innovative and imaginative industry might find ways to benefit from these Darknet practices" (p. 77). Burkart also notes that studies made during Napster's initial rise to popularity showed that Napster clients bought more music and

that during the same period, CD sales went up four percent. Kusek (2006) mentions that many top downloaded songs are also best sellers, showing a possible correlation between sales and piracy.

Online Music Sales and Services

Another major competitor for album sales is, interestingly, legitimate music resellers online. These companies adopt one of two business models or a combination of both. The first allows consumers to subscribe to an online music library. Subscribers may then select which songs to include on personal play lists which they have unlimited access to as long as they continue a subscription fee. The second model allows users to specifically pay for songs or albums and download them to his or her computer and/or mobile music playing device. In this model, two issues restrict how customers use their purchases. Digital Rights Management (DRM) presents the largest restriction to the free flow of this downloaded music. DRM software restricts how many times and to how many media a consumer may copy a song. The second restriction is hardware/software compatibility issues between services. Some companies use compatibility as way to ensure their music libraries are proprietary. For instance, Apple's iPod will only work with Apple's iTunes software.

The most popular source of purchased online music is Apple's iTunes online music store (Apple now third-largest U.S. music retailer, 2007). Apple introduced the iTunes Music Store in April 2003. The store functions in conjunction with Apple's iTunes digital media player application, which was introduced two years earlier. Users of the iTunes media player may access the iTunes Music Store from inside the application,

much like a link in a traditional browser. From there, users can read reviews, browse by any number of categories from genre to popularity, and purchase both individual songs or entire albums. Selected songs or albums can then be purchased without leaving the application by credit card, and the purchases are quickly downloaded into the iTunes digital media player and added to the user personal library.

iTunes was not the first online music store (Borland, 2003). Prior to the iTunes Music Store's introduction, several subscription based services existed such as Listen.com's Rhapsody. These services with their early restrictions on the ability to burn compact discs as well as the recording industries initial reluctance to broadly open their catalogs to access by such services hampered early growth (Borland, 2003). There were also a handful of avenues to purchase and download music such as Liquid Audio and the record labels themselves. None captured the market like Apple ultimately did - a lead Apple hasn't lost since (Robertson, 2006; Apple now third-largest U.S. music retailer, 2007). With iTunes, Apple succeeded in a large way with a business model that was received with skepticism by the recording industry. The integration and ease of use between the music store and the digital media portions of the iTunes application helped propel sales, as well as the brand value of the Apple name itself, but the most important part of the equation was Apple's portable audio player, the iPod.

Apple's in a pretty interesting position. Because, as you may know, almost every song and CD is made on a Mac -- it's recorded on a Mac; it's mixed on a Mac. The artwork's done on a Mac. Almost every artist I've met has an iPod, and most of the music execs now have iPods. And one of the reasons Apple was able to do what we did was because we are perceived by the music industry as the most creative technology company. And now we've created this music store, which I think is nontrivial to copy (Goodell, 2003, p. 32).

Steve Jobs' 2003 statement above from a *Rolling Stone* interview proved itself to be true in the intervening four years. Apple has maintained a huge lead in the digital music world, and the iPod has become the industry standard for personal digital audio players (DAPs). The iPod was not the first DAP though. Digital audio players were a natural evolution from the compact and mini disc players from that appeared in the late 1980s and 1990s. The DAP removed the need to insert a medium containing music such as a compact disc or mini disc because it simply played music directly from a hard disc or flash drive contained within the device. Memory space limited the earliest DAPs, but the players were widely available by 2000. Apple designers found these initial devices hard to use from both a hardware and software perspective and saw the opportunities for a more user friendly product in the fast-growing world of digital audio (Kahney, 2006). Apple's solution was the iPod, a DAP that worked nearly seamlessly with their iTunes software. Apple unveiled the iPod in 2001. The portable music device has continued to sell well over the next six years (Graham, 2006), establishing itself as the industry standard for DAPs.

Vertical integration between the iTunes music store, the iTunes software itself, and Apple's iPod laid the ground work for the success of each. The iPod easily

communicates with a computer through the iTunes software. Simply plugging an iPod in to its home computer easily allows it to update its onboard software and download any new music to the iPod's internal library. The user can decide how involved he or she wants to be in the process, or they can simply plug the device into the computer and walk away. Any new music will be automatically added to the iPod. The iPod only works with Apple's iTunes software. Music may be recorded into the library from the user's own compact disc collection, purchased from the iTunes Music Store, or imported from a growing number of third party stores. Still, the ease with which iTunes communicates between its music player and the iTunes Music Store gives the music store a distinct advantage. All a user has to do is purchase a song or album, wait for it to download, then plug the iPod into the computer. With no other action needed, the song will be copied onto the iPod's hard drive. Apple's success owes much to this seamless operation.

Apple's dominance in the online music market may be huge, but other companies compete successfully as well. Some companies found success with a completely different model from Apple's. In the late 1990s, the idea of a *celestial jukebox*, a place where users could remotely browse for music and purchase it, began to creep into the consciousness of software designers as the ramifications of music online began to become apparent (Eisenburg, 1999). The celestial jukebox brought the bustle of start up companies which intended to ride the wave of what looked to be a revolution in the way music was distributed, particularly in the San Francisco area (Evangelista, 1999). Dreams of revolution quickly foundered, however, and many of the companies disappeared by the turn of the millennium. One company, Listen.com, managed to survive the first round of collapses. In 2001 Listen.com began acquiring other listing

online music start ups, one of which was Tuneto.com. Listen.com hoped to change its business model away from downloadable music sales, and Tuneto.com offered an intriguing alternative (Evangelista, 2001). The founders of Tuneto.com created a way to “stream” music at very high quality. Streaming plays music from a remote source without actually downloading the file to the user’s computer. As long as the user’s computer is connected to the source of the stream, the user can listen to music on their computer with many of the same interface options of music saved on their computer. Low audio quality early in the development of streaming prevented broader commercial applications, but Tuneto.com’s software provided a solution.

Listen.com made the ability to stream high quality music the backbone of its new music service called Rhapsody. Listen.com’s plan for Rhapsody combined high quality streaming with a vast digital library. Users downloaded Rhapsody’s software, and for a monthly subscription fee, had unlimited access to this digital library as long as they continued to pay the subscription. Listen.com lacked only one part of this model, songs to fill their hypothetical library. Music licenses from the five major record labels at the time (EMI, BMG, Time-Warner, Universal, and Sony) were the Holy Grail for new media companies trying to provide legal, online music to consumers. Record labels hesitated to provide companies like Listen.com with any rights to the digital distribution of their catalogs from the time such distribution looked possible. When Rhapsody went online in April of 2001, Listen.com entered a race with other companies like Musicnet and Pressplay to be the first to acquire the licensing rights from all five major labels. In a little over a year, Listen.com successfully became the first online distributor able to lay claim to that prize (Oppelaar, 2002).

Over the next four years, Rhapsody continued to mature and grow. Listen.com began to offer users the option to burn their music to compact disc for an increased monthly subscription fee. In May 2003, Real Networks, the owner of a popular media player named Realplayer, purchased Listen.com in order to take advantage Rhapsody's catalog and subscriber base (Bloom, 2003). Now in control of Rhapsody, Real Networks saw Apple's coming iTunes store as a major competitor. Real Networks Chairman Bob Glaser said in the spring of 2003, "We've got a product for 95 percent of the market; he's got a product for 5 percent of the market," (Ahrens, 2003) referring to Steve Job of Apple. Glaser planned to continue Rhapsody's original subscription model, but with the additional option to purchase songs for download. Real Networks also introduced its own online music store supported by its in-house software to directly challenge iTunes (Tadeschi, 2003).

Rhapsody and iTunes are only two of the most prominent online music providers. Others include Yahoo's own popular subscription/download hybrid that operates much like Rhapsody, the reintroduction of a legitimate Napster, Music Match, and even traditional brick and mortar retailers like Wal-Mart. The legal online music world has continued to grow in size and revenue (Weinberger, 2007), but it still has not provided a perfect alternative for the compact disc sales it has displaced. To some extent, online music has cannibalized traditional sales much as outright piracy has, still leaving a financial shortfall which the RIAAs own data reveals.

CHAPTER IV

APPLICABLE THEORY

Niche Theory and Uses and Gratification Theory

There are three theories that deal substantially with the future of the album format, niche theory being the most important to the evolution of the marketplace for the medium. The other two are uses and gratification theory and long tail theory. Niche theory's roots reach back into ecology and evolution (Dimmick, 2003). Economists in the first half of the Twentieth Century began to see parallels between the theory of natural selection and economic theory (Hardin, 1960). One of Niche theories underlying principals, competitive exclusion, became essential in predicting why one population would evolve and take the place of another population in nature. Competitive exclusion contends, "complete competitors cannot co-exist... ecological differentiation is the necessary condition for coexistence" (Hardin, 1960, p. 35). Though an ecological description, this statement holds true in economics as well. In parallel to animal populations in nature, if any one business or industry becomes completely dominant in a market, or niche, all other competitors will suffer extinction.

"A niche is the position of a medium within the space defined by several resource dimensions including the content of the medium or the amount of time consumers spend using a medium" (Dimmick, 2003, p. 28). In order to explain the way consumers react

with these dimensions and why they choose a specific medium based on these criteria, niche theory relies on uses and gratification theory. Uses and gratification research into psychological motives has shown that media serves the needs of consumers in helping to define experiences, define a consumers identity, help to develop external relationships with others, and to simply relax and relieve mental stress (McGuire, 1974). The ability of a medium to meet these needs explains much of the displacement that happens in niche theory when discussing media.

The need to satisfy the time-space dimension in niche theory grows as a motivation for markets as well. “The gratification opportunities that a medium affords its users result from the interaction of individual household budgets and the characteristics of the medium” (Dimmick, 2003, p. 32). New media that offer faster access to desired content and the most user friendly interfaces stand to benefit as a result of this growing trend.

Psychological research into uses and gratification theory also explains that the development of competition between media is a logical outcome of needs. Research by Katz, Blumler, and Gureritch (1974) found that “psychological and conceptual similar needs will be equally served by the same media” (p. 25). Since several media may serve the same needs of a niche, the opportunity for competition between these media increases. Niche overlap results when multiple media serve the same niche group. In this study, the broadest niche includes everyone that listens to recorded music for any reason for any amount of time. Traditionally, radio and records served this niche but also served different enough needs that coexistence remained possible. However, as Internet distribution of music became more wide spread, the competition for the niche has

become greater. The greater the competition between media, the larger the niche overlap becomes (Pianka, 1973).

Despite the growing popularity of Internet music, compact discs still continue to sell. Even among the heavily single song oriented online market, complete albums still continue to sell as well. Because of this, competitive exclusion of the compact disc as well as the album format has yet to take place. “When a new population – an invader – arises in a community, one possibility, as outlined earlier is competitive exclusion” (Dimmick, 2003). The other possibility is displacement. The market for the compact disc has suffered the displacement phenomena by newer media but not exclusion. New resources offer the only way for a medium to avoid displacement or exclusion, resources that have not yet been found in the case of recorded music, so the displacement of the compact disc was inevitable to a degree. As this displacement becomes more wide spread the risk of total exclusion rises, but curiously, despite the technological leaps of the last century, vaudeville is the only medium of expression to suffer the fate of complete exclusion in modern times (Dimmick, 2003). Media that grow to distinguish more subtle differences within a niche, in effect breaking a large niche into smaller niches, and then exclusively cater to those differences, will survive, though their market will certainly be smaller.

Long Tail Theory

The 80/20 rule has long ruled the market place (Anderson, 2006). The rule dictates a simple maxim: approximately 80 percent of sales will come from 20 percent of

products.[†] Plainly said, the most popular products have, in the past, accounted for the vast majority of sales. Chris Anderson, editor in chief of *Wired Magazine*, noticed the conventional wisdom of the 80/20 rule seemed to break down on the Internet, inspiring him to investigate the phenomena (Anderson, 2006). After being shown sales figures for a quarter by the CEO of an Internet music distributor named Ecast, Anderson began to looking deeper into the bottom line of Internet retailers and services ranging from Google to Rhapsody. What Anderson discovered after comparing the sales of these companies strongly argued against a traditional 80/20 model on for Internet sales. Across the board, no matter how deep and varied the inventory, 98 percent of products at an online retailer sold at least once a quarter (Anderson, 2006). Even more surprisingly, the sales weren't just change when compared to the popular items. Amazon made 25 percent of its profit for a month from these less popular products. For Rhapsody, this extended line accounted for 40 percent of profit.

Consumers themselves largely drive the sale of less popular items in the tail. The term long tail is derived from the shape of traditional sales graphs, which look much like a hockey stick laying on its side with the head on the left facing up (fig.1). The head of the stick is where the most popular, high selling items are. As popularity decreases, the items move further down the head until they are on the stick, or tail portion. Traditional retailers have always had warehousing to consider, limiting the depth of product lines. Space comes at a lower price for Internet retailers, or is simply not even a part of

[†] The fact these two numbers add up to 100 is purely coincidental as they are a fraction of two different things, profit and products. It would be mathematically feasible for 30 percent of products to account for 90 percent of sales, etc.

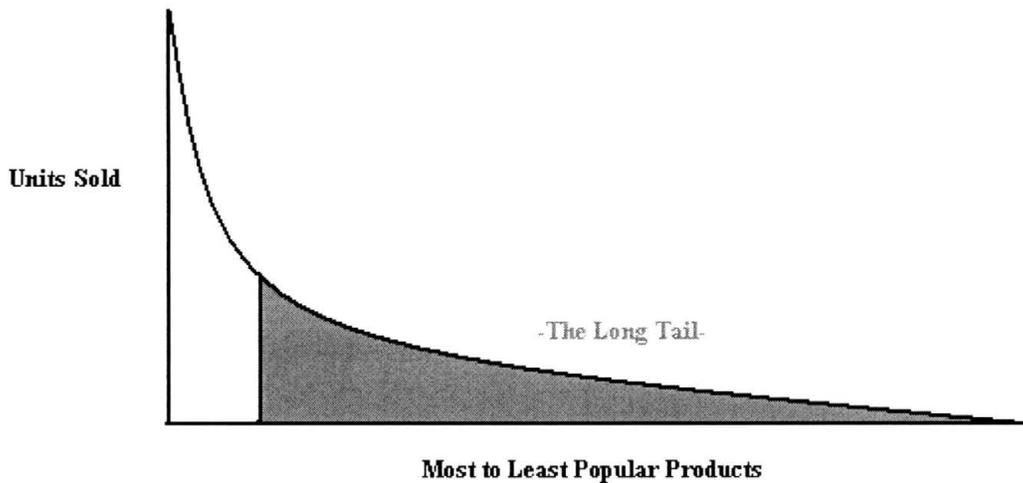


Figure 1. Example Long Tail Chart. This is a basic, example sales chart that demonstrates the long tail phenomenon.

the equation in the case of a purely digital product such as a song on iTunes. Anderson explained:

Thanks to a combination of forces including digital distribution, powerful search technologies, and a critical mass of broadband penetration, online markets are resetting the economics of retail. Thus in many markets it is now possible to offer a massively expanded variety of products (Anderson, 2006, p. 53).

This emancipation from the tyranny of the shelf space cost has allowed for Internet retailers to offer very diverse and extensive product lines. Consumers have taken advantage of this and actually push one another down the tail (Anderson, 2006). In general, Internet shoppers spend time reading reviews, investigating products, and researching items that suit their interests. In so doing, they also stratify into smaller and smaller niches because niche items are available and they have the tools necessary to conveniently find them.

Anderson also notes that “the costs of reaching ... niches is now falling dramatically” (Anderson, 2006, p.53). The long tail offers a new opportunity for the currently beleaguered recording industry struggling to wrap its arms around the current market for recorded music. In the past the largest hurdle for major labels to overcome in marketing niche material was the expense of marketing the recordings. As was demonstrated early, major labels depend on massive hits and play the odds on which albums released each year have the best chance of becoming a hit to put the bulk of its marketing muscle behind. It is a bit like the proverbial dog chasing its tail; the more the labels spend, the more they have to sell. But the more they have to sell, the more they have to spend to do it. The beauty of long tail economics is that the consumers themselves push the products, removing much of the pressure to market niche items. Oftentimes they simply need to be made available.

Dimmick’s (2003) research into the market place has shown that the concept of niches plays a huge role in the media world. Dimmick also observed that niches rarely ever vanish, they simply shrink. Anderson’s (2006) work elucidating the long tail phenomenon in the internet market place takes these niches and shows how much they can be worth. Anderson also shows how proactive the niches are in finding content that suits their taste and how cheap it can be to market to them.

One glance at current CD sales figures shows a continuing decline in popularity for the medium. Conversely, these same figures demonstrate that there are still tens of millions of people who purchase CDs for one reason or another (RIAA, 2007). By accepting that the traditional album market has fractured into a number of groups instead of one giant group that goes to the local record store for its music, and looking at CD

consumers as their own particular, smaller market, the industry would be able to streamline and better face an uncertain future. However, to do this, understanding the current group or groups that comprise the album buying niche and the motivations of these groups is essential. By reexamining who these people are and what drives them, the recording industry might go a long way in stabilizing its market without the need for endless litigation and trying to stuff the Internet distribution genie back in the bottle.

CHAPTER V

RESEARCH

Previous Research

The evolution of the recording industry since its inception reveals both why the industry operates as it does and why losing control of distribution has thrown the industry into tumult. Almost total control of production and distribution allowed the multinational media companies to exploit the copyrights they controlled with incredible efficiency. Over time, The profit model grew more top heavy, and success brought ever increasing budgets. However, these expenses were made economical by an economy of scale. Distribution dominance also helped fuel the mega-hit and massively popular music stars, two more factors that made the industries model so lucrative. The oligopoly that formed the recording industry focused on products with mass appeal, and distribution both ensured that niche music would be left off shelves as well as increasingly made mass appeal products an industry necessity. Internet connectivity changed everything and challenged the recording industry where it was most susceptible – distribution.

While it is true that the days of the pop star may have been drawing to a close, the Internet allowed niche music to begin trickling into the music collections of people who would have otherwise never been exposed. This led to even more stratification within

the market. The age of albums that move 10 million copies may be far behind, but people do still buy CDs. Curiously though, recent studies examine music consumers as a whole without exploring different motivations based on the medium consumers choose. The purpose of this research is to show that music consumers are not one group with the same set of motivations, but that there is a clearly defined niche of consumers who still prefer CDs with their own set of motivations. Such a niche would not need the traditionally expensive marketing edifice on which the recording industry currently relies on and allows for a less expensive, streamlined alternative for selling albums.

A recent study by researchers in the UK (Leyshon et al., 2005) examined what they called “a crisis of reproduction” (p. 177) in regard to the Internet’s assault on the album market by investigating the buying habits of music consumers overall. The study is limited in regard to the issues at hand in this study though. It notes that music consumers buy fewer compact discs and explores the reasons why, but fails to seriously explore why consumers that buy compact discs continue to do so. Conversely, industry publications have noted that people do continue to buy CDs (Mayfield, 2008; Christman, 2006), but have only observation anecdotal evidence as to why.

There seems to be a disconnect between industry insiders and the research community, where insiders note sales continue while researchers continue to look over the horizon to possible futures. As mentioned previously, Kusek (2006) predicted the demise of the CD. Two years after Kusek’s statement, the British rock group Radiohead released an album on the Internet months ahead of the compact disc release and, in an interesting twist, left the price paid for the album to be determined by the consumer. Consumers were even allowed to download the new album for free. Mayfield (2008)

noted, “what is clear is that millions of consumers had access to *In Rainbows* in the two-and-a-half months between its Internet launch and its CD release, yet 122,000 U.S. fans still opted to buy it during its first full week of sales” (p. 37).

Using Radiohead’s *In Rainbows* as an example, the industry noted that over 100,000 consumers still purchased the compact disc in the first week it was offered alone, but most of the discussion surrounded the album being offered online first (Bruno, 2008; Leeds, 54176, 2008; Vozick-Levinson, 2007; Baker, 2007). While some like Mayfield (2008) and even Leeds (2008, 54185) noted the success of the album release on CD, most of the excitement around the album still centered on its Internet release, and understandably so. Internet distribution offers a new and unpredictable way to distribute music. Still, hard media sales make millions for the industry as *In Rainbows* demonstrates. Even the lowly cassette remained an important income stream through 2000, more than 15 years after the introduction of the compact disc (Christman, 2006). The fact remains that the compact disc is still an important player in the new media world. The question that needs to be asked is if consumers who still purchase CDs share a great deal of overlap with consumers who prefer digital downloads. This study proposes,

Hypothesis 1: There is a definable niche of music consumers who specifically prefer hard media such as compact discs to digital downloads.

In addition to finding evidence that supports the hypothesis, the author will investigate the following two research questions:

Research Question 1: What are the boundaries of the hard copy album buying niche?

Research Question 2: What are the motivations of the hard copy album buying niche?

Methodology

An online survey was conducted by the author in order to gather original data about music consumers. The survey contained 25 questions with two sections of Likert-scale questions to measure degrees of motivation and frequency. The survey was posted online through Survey Monkey, an Internet survey service. Participants were found through posting on social networking sites like MySpace and Facebook. Links to the survey were also posted on various forums and disseminated through email. This convenience sample yielded 257 respondents and is not completely random. Any study investigating new media verses traditional media conducted by online survey will be skewed because the sample is filtered by Internet access. Also, the sample may be limited because of the method of dissemination. Using forum posts and emails to ask respondents to first participate and then pass the survey on to others can lead to a less diverse, self-selected sample than the general population. The author attempted to post on diverse websites as well as avoid sites such as music fan forums in order to increase diversity and ensure serious music fans did not make up a disproportionate percentage of the sample. Finally, some questions, such as number of hours spent on the Internet and number of hours spent listening to music, had to be regrouped due to errors in the possible answers for the questions.

Males and females made up 51 and 49 percent of the sample group respectively. Twenty-six to 35 year olds made up the largest age group at 38.1 percent, followed by 36 to 45 year olds and 22-35 year olds with 22.2 and 21.4 percent. Ethnicity skewed toward Caucasians at 83.3 percent with Hispanics comprising the next largest group at 7.8 percent. Almost 46 percent of respondents indicated having some college education, and 30.7 indicated they were college graduates. The largest income level group was \$40,000 to \$59,999 at 22.6 percent followed. \$20,000 to \$39,999 earners comprised 26.1 percent of respondents, but this range comprised two groups within the income variable.

In addition to the demographic information listed above, respondents were asked a series of questions about where they purchased music, preferred playback method, how frequently they made music purchases, and Internet use habits. Respondents were also asked a series of Likert-scale questions to measure the degree their music habits were motivated by recording format, how they engaged music, music's role as entertainment, if they viewed the music they owned as part of a collection, and their level engagement with a genre or artist. A similar set of questions was used to measure how often respondents attended music functions and downloaded free music from the internet. The data were downloaded from Survey Monkey and imported into the statistical software platform SPSS for analysis.

Results

Respondents were asked how strongly they preferred listening to music recorded to compact disc as well as music recorded in the mp3 or other similar computer format. Testing for correlation between the two groups using a Pearson Coefficient revealed a

strong negative relationship between the two groups [$r=-.60$, $n=257$, $p<.001$], as shown in Table 1 on the next page. The more a respondent preferred to listen to music from a traditional media source like a compact disc, the less they enjoyed computer-based file types such as mp3s.

When the two variables, those who prefer CDs and those who prefer mp3 or similar file types, are compared to other Likert questions asked on the survey, more inverse correlations become apparent, also in Table 1. It is not surprising, given the first comparison, that respondents who preferred listening to music on compact discs also preferred that format most for purchase, the same being true for those preferring mp3s and purchase preference. However, the more someone preferred to listen to compact discs, the more they also preferred to buy entire albums [$r=.38$, $n=257$, $p<.001$] and perceived albums as complete works rather than a collection of individual songs [$r=.25$, $n=257$, $p<.01$]. As for respondents who preferred the .mp3 format, not only did they not share the increase in correlation, but actually were less likely to purchase albums, instead preferring specific song purchases [$r=.30$, $n=257$, $p<.01$] and looking at albums less as a complete work of its own [$r=-.15$, $n=257$, $p<.02$].

The results listed in Table 1 demonstrate that there seem to be different relationships between buying habits and media preference, and purchasing habits trended in opposite directions based on preference. The stronger someone preferred compact discs the more they preferred albums; conversely the less they enjoyed purchasing single songs. In contrast, respondents who preferred computer based formats prefer to purchase single songs, and were less likely to view albums as a stand alone work. The results

Table 1. Correlations of Preference and Purchasing.

	Prefer CD	Prefer .MP3.	CD purchase Preference.	Download Purchase Preference	Prefer Albums to Song.	Prefer Specific Songs	View Albums as Complete Works.	Purchase if Genre Fan
Prefer CD	_____	_____	_____	_____	_____	_____	_____	_____
Prefer .MP3.	-.60**	_____	_____	_____	_____	_____	_____	_____
CD purchase Preference.	.60**	-.44**	_____	_____	_____	_____	_____	_____
Download Purch. Preference	-.48**	.47**	-.69**	_____	_____	_____	_____	_____
Prefer Albums to Song.	.38**	-.25**	.50**	-.46**	_____	_____	_____	_____
Prefer Specific Songs	-.35**	.30**	-.47**	.59**	-.72**	_____	_____	_____
View Albums as Complete Works.	.25**	-.15*	.35**	-.27**	.52**	-.40**	_____	_____
Likely to Buy if Genre Fan	.21**	-.13*	.29**	-.13*	.33**	-.19**	.26**	_____

** $p < 0.01$

* $p < 0.05$

support the hypothesis that there are at least two distinct groups of consumers that purchase music.

A Pearson correlation between how many albums a person bought over the course of a year echoed the initial results. Table 2 shows the results of the Pearson test. As the

Table 2. Correlations – Albums Purchased and CD Preference.

	Number of CDs Etc. Purchased Last Year	CD Purchase Preference.	Prefer Albums to Song.	View Albums as Complete Works.
Number of CDs Etc. Purchased Last Year	_____	_____	_____	_____
CD purchase Preference.	.42**	_____	_____	_____
Prefer Albums to Songs	.45**	.50**	_____	_____
View Albums as Complete Works.	.37**	.35**	.52**	_____

** $p < 0.01$

number of albums purchased increase the more strongly respondents agreed that compact discs were their favorite way to purchase music [$r = .42$, $n = 257$, $p < .01$]. The more respondents also preferred to purchase entire albums [$r = .45$, $n = 257$, $p < .01$] and agreed that albums were a complete work instead of a collection of songs [$r = .37$, $n = 257$, $p < .01$].

Table 3 (next page) illustrates the results when using a Pearson correlation test comparing the number of compact discs purchased in a year with how strongly

respondents preferred downloading music, preference for buying entire albums to single songs, and how strongly they viewed an album as a complete work. The results revealed an inverse correlation between the number of albums purchased and strength of preference for downloading music from online [$r=-.30$, $n=257$, $p<.01$], demonstrating

Table 3. Correlations – Downloading, Album Purchases, and CD Preference.

	Number of CDs, etc. Purchased Last Year	Prefer Albums to Song	View Albums as Complete Works	Prefer to Purchase Downloads
Number of CDs etc. Purchased Last Year	_____	_____	_____	_____
Prefer Albums to Song	.45**	_____	_____	_____
View Albums as Complete Works	.37**	.52**	_____	_____
Prefer to Purchase Downloads	-.11	-.25**	-.15*	_____

** $p<0.01$

* $p<0.05$

that the more someone preferred to download music the fewer albums they purchased. These results demonstrate that music consumers in this survey who preferred online downloading bought fewer albums, allowing for the comparison of the same variables to persons who preferred traditional media. Exploring the remaining two variables,

preference for purchasing albums over single songs and viewing albums as complete works, further inverse relationships were observed. Respondents who preferred online music were less like to prefer albums [$r=-.46$, $n=257$, $p<.01$] and less likely to view albums as complete works [$r=-.27$, $n=257$, $p<.03$]. Once again, there was not only a correlation but a statically significant one in the opposite direction to consumers who preferred compact discs in the surveys.

A multiple regression analysis was conducted on the variables age, income level, and education to determine the how well these factors predicted the likelihood of someone purchasing an album, the results of which are demonstrated by Tables 4 and 5.

Table 4. Model Summary - Demographics and Purchases.

<i>R</i>	<i>R</i> ²	<i>Adjusted R</i> ²	<i>SEE</i>
.09 ^a	.01	-.004	1.33

a. Predictors: (Constant), Income Level, Education, Age.

Table 5. ANOVA^b - Demographics and Purchases.

	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>p</i>
Regression	3.40	3	1.13	.64	.590 ^a
Residual	448.62	253	1.77		
Total	452.02	256			

a. Predictors: (Constant), Income Level, Education, Age

b. Dependent Variable: Number of CDs, tapes, etc. purchased in last year.

The test demonstrates that these three factors had no statistically significant ability to predict persons in the survey who bought more albums than others. In addition to the multiple regression analysis, an ANOVA test was run to determine the significance of ethnicity and gender on the same variable. The ANOVA test demonstrated that these

groups were not significantly different in their purchasing habits, as shown in Tables 6 and 7. Basic demographic categories were of little for predicting who purchased any greater number of albums than any one else, however, in the case of ethnicity, the variable was skewed.

Table 6. ANOVA – Gender and Number of Albums Purchased.

How many hard copy (CDs, tapes, etc) albums have you purchased in the last year?

	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>p</i>
Between Groups	.21	1	.21	.12	.73
Within Groups	451.80	255	1.77		
Total	452.02	256			

Table 7. ANOVA – Ethnicity and Number of Albums Purchased.

How many hard copy (CDs, tapes, etc) albums have you purchased in the last year?

	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>p</i>
Between Groups	9.55	5	1.91	1.08	.37
Within Groups	442.47	251	1.76		
Total	452.02	256			

An independent-samples t-test was conducted to compare first membership to an online community for an artist or group and, second, membership to an online community for a specific genre to the number of hard copy albums bought with in the last year. There was a significant difference between groups who answered yes and no in

both tests. In the first comparison, for a genre community, the mean score was 3.57 for the yes and 2.61 for the no [MD = .96, $p < .01$]. For communities based on an artist or group community, the mean score for yes was 3.83 and 2.72 for no [MD=1.11, $p < .01$]. Given the statistical significance and higher median scores, the tests demonstrate that respondents who belong to such communities do purchase more hard copy albums than persons who answered no.

Taking the above into consideration, a standard multiple regression was performed (Tables 8, 9, and 10) to see the degree of overall variance membership in an

Table 8. Model Summary – Internet Communities and Album Purchases.

<i>R</i>	<i>R</i> ²	<i>Adjusted R</i> ²	<i>SEE</i>
.38 ^a	.14	.14	1.24

a. Predictors: (Constant), membership to one or more internet communities dedicated to a specific particular genre, membership to one or more internet communities dedicated to a specific artist or group.

Table 9. ANOVA^b – Internet Communities and Album Purchases.

	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>p</i>
Regression	63.95	2	31.98	20.93	.000 ^a
Residual	388.07	254	1.53		
Total	452.02	256			

a. Predictors: (Constant), membership to one or more internet communities dedicated to a specific particular genre, membership to one or more internet communities dedicated to a specific artist or group.

b. Dependent Variable: Number of CDs, tapes, etc. purchased last year.

Table 10. Coefficients^a – Internet Communities and Album Purchases.

Variable	<i>B</i>	<i>SE B</i>	β
Membership to one or more internet communities dedicated to a specific particular genre	-.75	.18	-.25
Membership to one or more internet communities dedicated to a specific artist or group	-.79	.24	-.21

a. Dependent Variable: Number of CDs, tapes, etc. purchased last year.

online community for either a specific act or genre would explain in the dependant variable (number of albums purchased in the course of the year). The model explained over 14 percent ($R^2=.14$) of the variance in the dependant variable. A significant percentage of respondents who answered yes to these questions also purchased albums. To explore the link between genre and record buying, a Pearson correlation test (Table 11) was performed by comparing whether a respondent had a favorite genre and whether they purchased albums. While there was no statistically significant link between having a favorite genre and preferring CDs, preferring a genre did correlate to preferring to purchase albums rather than singles [$r=.15$, $n=257$, $p<.02$] and increased album purchases overall [$r=.17$, $n=257$, $p<.01$], further establishing a link between purchasing albums and preferring a genre.

Table 11. Correlations – Genre and Album Purchases.

	Has Favorite Genre	Number of CDs, etc. Purchased Last Year	Prefer to listen to CDs	View Albums as Complete Works
Has Favorite Genre	_____	_____	_____	_____
Number of CDs, etc. Purchased Last Year	-.15*	_____	_____	_____
Prefer to listen to CDs	-.07	.26**	_____	_____
View Albums as Complete Works	-.16*	.37**	.25**	_____

* $p < 0.05$ ** $p < 0.01$

When asked why they purchased compact discs if they still do, roughly 36 percent of respondents answered they are motivated by the genre of music the compact disc is or the artist that composed the music on the disc. Slightly more than 20 percent claimed that building a collection was a main motivation, making that the second largest group. Only 12.5 percent claimed to not buy albums at all. Sound quality played a small motivational factor, but issues with new technology and artwork played almost no role at all. When asked why respondents purchased fewer CDs, 22.6 percent answered because of the lack of good songs on an album, the largest group. Just over 17 percent answered price. Interestingly, 13.2 percent answered the reduction in purchases was due

to the availability of legal downloads while only 3.2 percent claimed illegal downloads were the sole reason. The availability of legal and illegal downloads was the motivation given by 13.6 percent of respondents. Almost 15 percent responded they do not purchase fewer CDs.

To further analyze why respondents continued to purchase CDs, a standard multiple regression test was conducted (Table 14) to determine which variables played the largest role in the variance of the number of albums purchased variable including how strong respondents agreed that listening to music everyday was important, they enjoyed music, music was an important form of entertainment, music was preferred entertainment, compact discs were the preferred way to purchase music, they preferred to purchase whole albums, viewed albums as complete works of art, they were likely to buy an album if a genre or artist fan, and if albums form part of a collection. This test explained over 35 percent of the variance ($R=.59$, $R^2=.35$, Adjusted $R^2=.32$), but with several insignificant variables. By examining the results of the coefficients for the first test, a second multiple regression test was conducted (Tables 12, 13, and 14) with

Table 12. Model Summary – Select Variables and Album Purchases.

<i>R</i>	<i>R</i> ²	<i>Adjusted R</i> ²	<i>SEE</i>
.57 ^a	.33	.32	1.10

a. Predictors: (Constant), prefer to purchase whole albums, music is preferred entertainment, CDs are favorite way to purchase music.

Table 13. ANOVA^b – Select Variables and Album Purchases.

	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>p</i>
Regression	147.05	3	49.02	40.66	.000 ^a
Residual	304.97	253	1.21		
Total	452.02	256			

a. Predictors: (Constant), prefer to purchase whole albums, music is preferred entertainment, CDs are favorite way to purchase music.

b. Dependent Variable: Number of albums purchased last year.

fewer variables in the model. With only three variables: prefer to buy albums more than single songs, music is my preferred form of entertainment, and compact discs are my favorite way to purchase music, over 32 ($R^2 = .33$) percent of the variance in the dependant variable is still explained.

Table 14. Coefficients^a – Select Variables and Album Purchases.

	<i>B</i>	<i>SE B</i>	<i>β</i>
Music preferred form of entertainment.	.33	.06	.28
CDs are favorite way to purchase music.	.24	.06	.23
Prefer to purchase whole albums.	.29	.06	.29

a. Dependent Variable: Number of albums purchased last year.

A one-way between-groups analysis of variance conducted on these variables as part of the multiple regression revealed a significant difference between the different

groups within each variable ($p < .01$). A measure of coefficients showed that persons who preferred to purchase whole albums to specific songs comprised the variable that played the largest role in predicting the variance in who purchased more albums ($B = .29$, $\beta = .29$). All of the variables in the model were statistically significant at the $p < .01$ level.

Discussion

The results in the research section support the hypothesis. The hypothesis stated that there are definable niches within the larger group of music consumers. Dimmick (2003) described niches as essentially different groups separated by different uses and needs that are served, in this case, by the same medium. The term medium was used in the research section more in reference to the type of technology containing a sound recording, but in the larger sense of the study, music is the communication medium. The research demonstrated that there are definitely at least two groups of music consumers, those who still prefer compact discs and other hard media, and those who prefer to purchase their music online. The differences did not end with preferred purchasing habits though. Respondents in this study who preferred compact discs also viewed albums differently as art, and were more involved with music communities. The differences were not simply limited to only a correlation among one group. Those who preferred newer forms of music distribution demonstrated inverse correlations when tested against many of the same variables as those who preferred more traditional formats. These inverse relationships demonstrate that there are very different groups among people who purchase music.

The first research question asked the boundaries of the niche that preferred albums. According to the results, traditional demographic categories played very little role as there was no statistically significant difference in sex, income, education, and age. Ethnicity showed no difference, but the sample was too heavily skewed. However, it was clear that persons who were most likely to purchase albums were also most likely to choose CDs as the format. These consumers also engage with artists or music genres beyond simply listening to music. Respondents who belonged to an Internet community for specific artists or genres also purchased more albums and preferred albums more. At least in part, the study shows that album buyers are more likely to be consumers that engage with music beyond simply listening. The fact that respondents to this survey who preferred a specific genre and interacted with that genre's community beyond purchasing albums showed a stronger correlation with album buying behavior than being a fan of a group or artist is perhaps the most interesting discovery in the survey.

As stated in chapter four, uses and gratification theory plays a significant role in niche theory because the needs of a group are a major factor in defining a niche. Research question 2 asked what the motivations of traditional album consumers were. Clearly being a fan of a genre or artist not only describes who purchases albums but also a motivation. The respondents enjoy the work of an artist or the sound a genre of music has, so they purchase it. Beyond those factors, three variables played a huge role in predicting the number of albums a respondent purchased in a given year – preferring entire albums to single songs, preferring to buy those albums on the compact disc format, a music being their favorite form of entertainment. The more someone enjoys listening to music and enjoys it above other forms of entertainment, the more CDs they purchase,

and the more they enjoy entire albums. Most respondents picked genre as the main reason they purchased compact discs with building a collection being the next largest motivation.

Limitations and Call for More Research

Though this study did support the hypothesis, the boundaries and motivations of the niche that prefers to purchase albums remains somewhat hazy. The research makes clear that there are a different set of motivations and those respondents who prefer traditional formats are a different group than other music consumers. However, the study only points to the existence of such groups without drawing many conclusions. For instance, it is clear that persons who prefer to purchase albums prefer to purchase those albums on compact disc. However, what motivated them to purchase music on this medium remains unclear beyond speculation. Analysis of the response also revealed that building a collection or specific genre were main motivations respondents chose for purchasing compact discs, but, in the case of building a collection, did not translate to actual purchases.

Beyond the depth of questioning, the method of collection was a limitation for the survey. By conducting an online survey the results were clearly going to be skewed towards Internet users. Also, collecting data by the “snowball” method, where the survey is disseminated from one online user to the next, can limit diversity in the sampling population. This was most evident in the ethnicity variable where Caucasians made up nearly 90 percent of respondents. In the end, the survey cannot be called completely random. It should be noted though that despite collecting responses through the Internet,

people who still preferred to purchase music on traditional formats made a strong showing, leading to speculation that familiarity with newer technology doesn't necessarily translate to moving away from older technologies, again echoing Dimmick (2003). Finally, three survey variables had validity problems however, none of these questions were used in data analysis. Correlations using both hours spent on the Internet and listening to music and album buying behavior would no doubt be useful, whether they were significant or not.

Further research should be conducted into the motivations and boundaries of the album buying niche. As far as the music industry is concerned, the more that is known about this group, the easier it is to speculate over possible futures for the recording industry. In a broader sense, however, music distribution is one of many fronts in the new media revolution that. Why people choose to consume older formats for a given medium verses newer formats raises interesting questions for print, broadcast, and film media. The survey demonstrates, at least for music, that people with access (the very nature of the survey itself demonstrates Internet accessibility) and the means do not always want the new media version for a variety of reasons. Whether or not these interests can be quantified, further studied, and served raises a variety of questions about how and why the public uses media differently. Further research should also be specifically conducted to examine why music genres influence purchases as they do, even more that being a fan of a group or artist, and the role genres play in reinforcing or developing a niche.

The limited research available in peer-edited journals examining music consumers as more than one block of consumers leaves many interesting questions yet to

be answered. Dimmick (2003) explained that the content of a medium is rarely examined when it comes to defining niches. In the case of today's music research, few have proceeded beyond looking at music consumers as one large group with the same motivations and interests.

CHAPTER VI

CONCLUSIONS

Chapter Two outlines the nearly 100 year process of the evolution of today's modern music company giants. The music industry did not become what it is today overnight, but the music industry has also not always been the recording companies. The recording companies were born from technology and litigation; total control of distribution became their lifeblood. Controlling distribution and access is what changed the disparate scattering of small record producers around the United States into the record labels of the early 70s. Honing that distribution and making it a necessity for success made these companies the multinational corporations that have existed from the 1980s until today. As their oligopoly grew beyond the boundaries of simply recording music and producing albums, the recording industry's ability to exploit copyrights both in publishing they had a stake in as well as their own master recording they owned, allowed them to make billions. In 2000 this well oiled machine peaked, making nearly \$13 billion (RIAA, 2007) in record sales, then the Internet caught up.

The great scapegoat, explained in Chapter 3, for the industry since the late 90s has been music piracy, despite research showing piracy to be at best an annoyance but never the great evil it has portrayed to be. If anything, other, legal, music distribution

methods and greater access to technology have provided as much competition for the traditional album format as piracy if not more. Despite the RIAA's continued persistence (RIAA, Jan. 16, 2008; RIAA, Jan 10, 2008) to drive all consumers back to the stores, their own sales figures (RIAA, 2007) reveal the growth in Internet sales. Furthermore, the bulk of those Internet sales are single song downloads. This burgeoning online distribution market provides a great challenge for the traditional recorded media like the compact discs, and there is little reason to assume it will slow down. Once given an option besides purchasing a complete album of songs on compact disc, millions of consumers happily took advantage of it. As the research in this study demonstrates, the more they enjoy online music, the less interested they are in purchasing an album.

Most of the recent talk in trade publications and academic journals addresses the excitement surrounding online distribution of music, and rightly so. Legal and illegal Internet distribution has really posed the greatest challenge to the major media corporation's hegemony over the music industry since rock n' roll burst on to the scene in the 1950s, and even that explosion looks like a mere hiccup compared to what new media is doing in today industry. Records shipped to retail dropped by 50 percent from 2000 to 2006, and sales dropped by more than \$5 billion during that period, with losses of more than \$700 million last year alone (RIAA, 2007). There is little argument that those numbers don't present almost irrefutable evidence of a shrinking industry. Still, sometimes observing what is not there any longer leads to ignoring what remains. In this case, in 2006, more than 600 million units shipped with a value of \$9 billion dollars (RIAA, 2007). The market may be contracting for traditional albums, but it is still extremely lucrative.

Chris Anderson's *Long Tail* (2006) makes a strong case for the value of niche oriented material in a new media economy. The research conducted in this study reveals that there is a niche of music consumers that prefer to purchase traditional albums on traditional formats, and the RIAA's numbers speak to how large that market may be. The record industry seems to be slow in addressing the possibilities, despite the fact that mainstream publications have taken note and write about the topic (Freeman, 2008; Kinsella, 2007). What the Long Tail could offer the recording industry is freedom – freedom from massive marketing budgets, freedom from the necessity of the hit album, freedom to produce more eclectic artists. Anderson (2006) documents how diligent the people that comprise a niche are when it comes to finding new material themselves through the power of the Internet. It's not just ordering online. Niche fans become members of communities, interact, and assiduously seek out material to cater to their tastes. They are their own marketing departments. Given this, it should come as no surprise that when researched, fans of specific genres and artists are also the most likely to purchase the most albums.

A more streamlined market does come with a price. Gone are the days of the 10 million selling album for the most part, as well as musical titans like Madonna and Michael Jackson. The market for albums will likely never be what it was. However, the market's shrinking will not be affected simply based on whether or not the recording industry decides to modernize. It is happening right now, year after year, and the RIAA figures are a glaring testament to that fact. The recording industry doesn't have a choice between the present and its halcyon days; it only has the choice to accept change and become a part of it.

The purpose of this study was to demonstrate that there is still market for albums on traditional formats, namely compact discs, and that it is a definite niche with its own motivations. The study did not clarify all of those motivations, but it did demonstrate the existence of such a niche. By doing so, this study identifies the two markets involved in selling music, which don't necessarily boil down to demographics or technological dissemination. The media of the compact disc and the digital download serve different needs and motivations. Trying to force them into the same model really only leads to the recording industry not properly exploiting either, a great irony given that exploitation is what made these companies the titans they are today. The industry might not reach its 2000 peak again, but it might be able to stabilize itself by reinventing itself as a leaner, meaner industry that seeks to understand and exploit its markets to the best of its ability. Long tail theory is one way the recording industry might accomplish this. The niche and the opportunity exist. What no longer exists or is likely to return is the mega-hit album.

APPENDIX

RESEARCH SURVEY

1. How many hours per week do you listen to music?

- a. Less than 1
- b. 1-5
- c. 6-10
- d. 10-15
- e. 15-20
- f. more than 20

2. Do you use the Internet?

- a. Yes
- b. No

3. How many hours a week do you spend on the Internet?

- a. Less than 1
- b. 1-5
- c. 6-10
- d. 10-15
- e. 15-20
- f. more than 20
- g. I do not use the Internet.

4. How many hard copy (CDs, tapes, etc) albums have you purchased in the last year?

- a. None
- b. 2 or less
- c. 3-5
- d. 6-9
- e. 10 or more

5. If you buy a hard copy album, which format do you prefer?

- a. CD
- b. Cassette Tape
- c. Vinyl
- d. Other

6. Do you download music from sources like limewire, kazaa, BitTorrent clients, and/or other peer to peer software where it is possible to download copied music for free?

- a. Yes
- b. No

7. Do you own a portable digital audio player (besides a cd player) like an Apple iPod, a Microsoft Zune, or a Creative Zen?

- a. Yes
- b. No

8. Are you member of one or more internet communities (excluding myspace), forums, or message boards dedicated to a specific artist or group?

- a. Yes
- b. No

9. Are you a member of one or more internet communities (excluding myspace), forums, or message boards that are specific to a particular genre of music such texas country or classical?

- a. Yes
- b. No

10. What is your favorite genre of music (please pick one)?

- a. Pop
- b. Country
- c. Jazz
- d. Classical
- e. Musical Theater
- f. Rock
- g. Metal
- h. Alternative Rock
- i. None of the Above
- j. I don't have a favorite genre in particular

11. How many purchases have you made based on free or unpaid downloads you made in the last year?

- a. none
- b. 1-3
- c. 4-6
- d. 6-8
- e. 9-12
- f. More than 12
- g. I do not download music without paying.

12. Do you purchase fewer CDs, tapes, or records than you did five years ago?

- a. Yes
- b. No

13. Do you have a favorite genre (style) of music?

- a. Yes
- b. Somewhat
- c. No

14. If you hear a song that you enjoy and decide you want to own it, you are most likely to:

- a. download it from a free source
- b. purchase the single song from iTunes or other online source
- c. purchase the entire album from iTunes or other online source
- d. purchase the CD, tape, or record from an online store
- e. purchase the CD, tape, or record from a local store

15. If you purchase music online, what is your main motivation?

- a. ease of use
- b. the ability to pick specific songs
- c. price
- d. selection
- e. other
- f. I do not purchase music online

16. If you purchase CDs, tapes, or records still, what is your main motivation?

- a. to build a collection
- b. not comfortable with downloading technology
- c. sound quality
- d. artwork
- e. the artist or genre
- f. other
- g. I do not purchase CDs, etc.

17. If you do download music without paying, do you purchase it later if you enjoy it?

- a. never
- b. almost never
- c. sometimes
- d. often
- e. regularly
- f. I do not download music from illegitimate sources.

18. What is the main reason you purchase fewer CDs, tapes, or records if any at all.

- a. price
- b. the number of enjoyable songs on an album vs. less enjoyable songs
- c. availability of legal digital downloads
- d. availability of illegal digital downloads
- e. both c and d
- f. other
- g. I don't purchase fewer

19. Please answer the questions below by indicating how strongly you agree or disagree with each statement.

Strongly Agree Agree Neutral Disagree Strongly Disagree

- I prefer listening to music on compact disc, vinyl, tape, or other hard media.
- I prefer listening to music on computer related formats such as Mp3s for my music.
- Listening to music every day is important to me.
- I prefer to listen to music while doing work.
- Listening to music while commuting is important.

- The music I own I feel is a collection or personal library.
- I enjoy music.
- Music is as important a form of entertainment as books, movies, television, etc.
- Music is my preferred form of entertainment.
- Compact discs are my favorite way to purchase music.
- Downloading music from online sources is my favorite way to purchase music.
- I like to purchase whole albums more than single songs.
- I prefer to only buy specific songs.
- I look at albums as a complete work themselves more than just a collection of songs.
- I am more likely to buy an entire album if I am a fan of the particular artist/s.
- I am more likely to buy an entire album if I am a fan of the particular genre (i.e. Texas country, indie rock, hard rock, jazz, blues, etc).
- If I am buying an album I consider important to my music collection, it affects my decision of which media to purchase it on.

20. Please respond to each statement by selecting how often it applies to you.

Never Rarely Sometimes Regularly Always

- I download music without paying from sources like Kazaa, limewire, or through torrent clients.
- If I enjoy music I download for free, I will purchase it later.
- I attend live music performances
- I purchase other goods and services through online retailers.

21. What is your age?

- a. 17 or under
- b. 18 -21
- c. 22-25
- d. 26-35
- e. 36-45
- f. over 45

22. Gender?

- a. Male
- b. Female

23. Ethnicity?

- a. Caucasian (white, non-hispanic)
- b. Hispanic
- c. African Am. or Black
- d. Asian
- e. Native American
- f. Other

24. What is the highest level of education you have completed?

- a. 9 – 12 grade
- b. High school graduate
- c. Some college
- d. College graduate
- e. Post graduate

25. Income level?

- a. Less than \$15,000
- b. \$15,000 to \$19,999
- c. \$20,000 to \$29,999
- d. \$30,000 to \$39,999
- e. \$40,000 to \$59,999
- f. \$60,000 to \$74,999
- g. \$75,000 to \$100,000
- h. More than \$100,000

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