

Music downloads from the internet



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A big question in the music industry has arisen. It is the one about music downloads, whether free or paid for or illegally downloaded (piracy). People were and are still keen to know whether these downloads have an effect on the price of CDs and the sales of CDs. Many studies have been done in this regard as will be shown below. Some of the studies concluded that the downloads did not affect the Music CD industry negatively, but rather helped it to achieve higher sales. Others report that the industry has suffered. This paper will look at the different studies undertaken.

It is a general trend and decision of music-lovers worldwide, to download music instead of buying CDs. Downloads are seen to be more convenient. Music CDs appeared in 1982 and became the medium for commercial music. The Internet and technology gives music lovers the ability to download music. It is this new technology and convenience that threatened and threatens the music CD sales. Consumers now have the luxury to handpick the songs and music that they prefer and like. The supply and demand of CD sales are influenced by the downloads. When a CD comes out, there are between 11 and 15 or more songs on the album. However, not all the songs

are liked by music lovers. This is one of the main reasons for music downloading (Harrell 2007).

Price, Demand and Elasticity

Price elasticity is the reference to price change in connection to demand. Demand can also change in relationship to price. Price elasticity also refers to the amount of money a single consumer wants to pay for something. Consumers with lower incomes have lower price elasticity for they have less disposable income. This means that higher income consumers have higher price elasticity because they can pay more. Depending on the product and the value of it, even low income or low spenders with low price elasticity, will want to pay more. In the case of the music CD sales, both low and high income spenders, like to download music which is cheaper than a CD and they also have the luxury of choosing what they want (Ellis-Christensen 2011). Downloaded music and CDs are substitutes for each other. The downloaded music is on the rise. Downloaded music prices went down as a result if access to the internet on a worldwide scale as more music sites became available. Because of the fall in the price of the substitute (downloaded music) decreases the demand for Music CDs. Thus the price drop in downloaded music is resultant of the decrease in demand for CDs (Lee & Gosain 2002; Leung 2009; Liebowitz 2005).

Studies done in Music downloads and the effects on CD sales:

The first such study was done in the US. It was undertaken by researchers of Harvard University and the University of the North Carolina. They kept track of music downloads over 17 weeks in 2002. These were then compared to

the markets sales of CDs against the ones downloaded. The conclusion reached was that the multiple and numerous downloads had limited effect on record sales

A study of file-sharing's effects on music sales says online music trading appears to have had little part in the recent slide in CD sales. Furthermore, the authors of the report related that they think that those who downloaded music would not have bought the CD. The big culprits of downloads were identified as Kazaa and Morpheus who offered a link for people to use in downloads.

Music producers and CD companies reported lower sales and blamed the loss on downloads where some music offers are for free. Besides the downloads lower incomes and the recession were also blamed. Then there is also the possible impact of other forms of entertainment such as DVD movies, video games for TVs and computers.

The study has aroused interest to the effect that some people felt that the music industry should make music available on a peer-to-peer basis on networks to distribute the music. The feeling is that the download companies such as Kazaa and others should negotiate and cooperate instead of fighting and opposing each other.

This study was done by professors Oberholzer (Harvard) and Strumpf (Univ. North Carolina). They used logs amounting to 1.75 million downloads over a period of 17 weeks. This research showed that some people only did a logon twice and downloaded about 17 songs, while others logged on much more and downloaded more. In one case, one person downloaded 5,000. The

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next step was to choose songs and then made a comparison of the albums with that of the downloads of the same songs. The researchers concluded that it would take about 5, 000 downloads to upset and displace the sale of one CD. Even if millions of downloads were done worldwide, it would only affect the sales minimally. They even felt that the downloads could even push sales up a little.

People who read and studied the report were critical of its findings. They feel that other studies showed both positive and negative effects. The Recording Industry Association of America was dismissed the results as inconsistent with earlier findings. This body referred to a study by the University of Texas who concluded that the downloads did affect the music industry (Borland 2004).

The above report attracted many online comments. One highlighted the fact that CDs were too expensive compared to the records sold in the late 60's and 70's and teenagers then could buy one easily by just doing household chores such as lawn mowing or babysitting. In the present time, the costs of CDs are high and will require many lawn mowing and sessions of babysittings. Thus, teens are not to blame if they rather download music. These teens are afraid to buy a CD incase the rest of the music on it is not too good. Another person complained that modern technology makes the production costs of CDs, and questions the high cost in the shops. Therefore, people rather download (Oberholzer & Strumpf 2004).

Fisher (2007) reported that the music industry suffered a decline in sales of CDs. The drop is reported as high as 20%. Answers were sought for the drop

in sales. According to the Wall Street Journal, the closure of more than 800 stores in 2006, is one of the reasons for the decline. Legal downloads are growing, but the money paid via the internet is not closing the gap in revenue. One argument is that legal downloads (paid downloads) decrease the money of CD sales. In the first quarter (2007) 81.5 million CDs were sold. It was 20% down on the previous sales figures (2006). In contrast, Apple iTunes sales grew 54%, accounting for 175 million songs sold and paid for. It is clear to see that the volume of downloaded songs were more than the actual CDs sold. It is estimated that the songs are mostly 'singles' instead of whole albums. Figures quoted are: \$2 billion from online music sales; of this \$800 million were single-track sales. The argument still stands that people buy downloaded tracks instead of buying the album unless it is a 'hit album'. In the past consumers were prepared to pay for an album even if they did not like all the songs on it. Now they have the opportunity to just buy what they liked. This translates to CD sales going down and digital downloads are on the increase. Fisher argues that, "Generally speaking, it takes 10 songs to reach the cost of an "album" (if generalized to \$10), so even someone buying a handful of songs off an album leaves a "revenue gap" compared to a whole album sale". He also cites the competition of other forms of entertainment such as DVD or CD movies.

Moya (2007) reported about a study done in Canada. This was a research study done by university professors. It was to make a comparison between CDs bought and the music downloaded. This study was conducted by Birgitte Andersen and Marion Frenz of the Department of Management at the University of London in England. It concludes that illegal file-sharing does not

cause a decrease in music sales as the music industry has insisted. They argue that the opposite is true. According to them, downloads cause an INCREASE in music purchasing. These researchers argue that whereas earlier studies show a decline in CD sales due to P2P file-sharing, they find that P2P file-sharing actually increase rather than decrease music purchasing in Canada. The research delivered the following key findings:

That for every 12 P2P downloaded songs, music purchases increased by 0.44 CDs. This means that downloading about 1 CD increases the buying of half a CD approximately.

There was no relationship between P2P file-sharing and digital purchase via for example iTunes.

About half of P2P tracks were downloaded because people wanted listen to songs first, before buying. They did not want to buy an album, but rather what they wanted.

Illegal downloads had an effect, but minimally; a 1% increase in such downloads, is linked to a 4% increase in CD sales.

Owners of MP3 players were less keen to buy CD albums.

The study further found that other forms of entertainment that was cited in other research as a reason for the decline in sales of CDs, actually did not stand up to their results. Andersen and Frenz (2008) argue that an interest in music translates to music purchases on CDs. The overall conclusion of this study is that there is a strong link between file-sharing and CD purchasing. For Canadians, it means that P2P file-sharing increase the sales of CDs. This

comes about through the opportunity of people to listen to music and then decide to buy it (Andersen & Frenz 2007).

A study conducted in Japan (Tanaka 2004) also tested the notion that downloaded music hurt the sales of CDs. Tanaka (2004) researched the topic and looked at music downloads in Japan. In Japan the downloads are being done over anonymous file servers, so people who download are less concerned with copyright laws. He looked at many variables of sales and downloads. His final conclusion was that there is no evidence to suggest and show that downloaded music affected a drop in sales of CD sales.

Another study conducted by Liebowitz (2005) returned some results. One main conclusion was that more research was needed to test the thesis that file-sharing and downloading hurts the music and CD industry. It is clear that academics do not agree with research findings to this effect. Liebowitz contends that his research shows that sales have been affected, however, it is not a cut and dried decision. He recommends that more economists should be engaged in the study of the effect of downloads and file-sharing of music on the music CD industry. His argument is that economists will draw more on sales figures and profits and losses and present a clearer picture of the thesis of the effects of music downloads on CD sales.

Leung (2009) conducted research to test two beliefs of music piracy. The first one is whether music piracy hurts CD sales and the second about the idea that copyright laws might stop music piracy. His research reveals that the music industry is hurt by music piracy, however, he disagrees with the results of Oberholzer and Strumpf (2007). Furthermore, he links music piracy

to sales of Apple iPods and argues the case that more piracy will prevail and that in turn will enhance the sales of iPods. This stands to reason, as iPods are favored to listen to music and the music for the iPod is downloaded, either legally (paid) or pirated.

CONCLUSION:

An ongoing debate prevails about whether music downloads affects price and demand as well as the sales of music CDs. From the various researches that had been conducted, different researchers delivered different results. Oberholzer and Strumpf (2002) contend that the CD sales did not suffer much. According to them, sales could increase slightly as people are exposed to more songs and go and buy the album. Tanaka (2004) asserted that the downloads of music in Japan did not affect the sales of CDs there. Andersen and Frenz (2007) found that sales increase in Canada as a result of downloading. They argue that music lovers could be exposed to certain music songs and then decide to go and buy the album. Leung (2009) argues that the music industry suffers due to pirated music downloads as a result of the popularity of the iPod listening device.