



**MASTER OF BUSINESS ADMINISTRATION**

**Factors Contributing to the Decline in Compact disc Sales in the Malaysian and Nigerian Markets for Music**

**Author: Ajayi Oluwasegun**

**Student No: 104001057**

**Supervisor: Prof. Dato. Dr. Ibrahim Bajunid**

**Submission Date: 17<sup>TH</sup> November 2009**

**Ethics Number: IN 1231**

**Final Word Count: 15036**

**Faculty of Business and Accounting**

### Abstract

This research investigates the demand side of original music CDs sales. The study use a survey of 75 respondents consisting of Malaysian and Nigerian consumers, the study measures consumers original CDs purchase behavior in the last one year with a number of related variables. A number of Non-parametric test e.g. Spearman rho test were carried out to accomplish the states objectives. It concludes that free downloads had no influence in the decline in record sales in many developing countries markets. Physical piracy on the other hand, which involves the sale of pirate Copies contributed to decline sales. It concludes that the major factor influencing a switch from legitimate CD purchase was consumer perception of high prices charged by record labels. It is recommended that record companies focus on music as a service. Using the

Keywords: Declining sales, Piracy, Consumer purchase behavior

## Acknowledgement

I would like to use this opportunity to all of those that have been helpful with the completion of this project paper. It would have been a myth to complete if not for your continued motivation and encouragement. Firstly I would like to extend my full appreciation to Prof. Dr. Dato. Ibrahim Bajunid. His thoughtfulness, generosity and foresight have been most encouraging all through the course of writing this research. With this I say that I am forever grateful. More thanks to Mr. Anthony Vas whose advice was helpful towards the end of the study. I would also like to extend my appreciation to Ms Yalini, my SPSS lecture. Although there have been ups and downs, my experience has taught me that nothing good comes off easy. I would also like to thank everyone that took out time to fill up my questionnaire especially those that were responsive in filling up again after they were notified that their first attempt was for a pilot test. Your patience was a blessing.

Furthermore, my sincere appreciation goes to every other person that contributed to make all of this happen, my mother, Mrs Margaret Ajayi who never lost faith in me, my brother Mr Babs Ajayi; your support has been priceless, my sister Mrs Isuma, your words of encouragement can not be forgotten. Sandra Kambo, Tolu Aje, Shamimi Mhod, Michael Udo, Norfarahin Abu Bakar, who worked with me closely during the course of this project, Tega Sowho, and a host other people too numerous to mention that supported the course, God bless you all.

Application goes to the International Federation of phonographic Industry, Recording Industry of Malaysia, The Nigerian Copyrights Commission, The World Intellectual Property Organization, Neilson SoundScan and musformation. I would also like to dedicate this to my brother from another mother Kunal Sowho, whose has been missing for more than a year now, I pray you come back home. To my father, Late Chief John Femi Ajayi, the will to surpass your achievements keeps

me going strong. Above all, I would like to thank the almighty God for bringing me through to be strong enough to accomplish this fit.

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## **Chapter 1**

### **Introduction**

#### **1.1 Introduction**

More people listen to music more than ever before whether local or international but the percentage of consumers purchasing music in the physical compact disc format has been on a continued decline for several years.

#### **1.2 Background of Study**

The global music industry grew in the 1980s fueled by the success of the compact disc format which was invented in 1983. First movers of the technology like Sony and Philips had competitive advantage in that they were the innovators of the format. The format was a hit for the global music industry as it rejuvenated the interest of consumers in music and allowed companies to resell their back catalogues, and enabled them to increase the price of their records generating huge sums in profit. (Burnett, 1990a, cited in Burnett, 1996)

The sector had enjoyed double-digit sales growth for almost a decade, until 1997 when global music sales fell to \$38.1 billion, down from \$39.8 billion the year before. Digital audio sales have continuously increased since their advent, while singles and album sales have constantly decreased since their peak.

#### **1.3 Overview on the Music Industry**

The global music industry is dominated by four large worldwide conglomerates resulting in an oligopoly. These four which are Sony BMG, Universal Music, EMI and Warner Music control more than 80 percent of the United States market and 70 percent of the world market for music. Music companies, producers and artist that are not affiliated with the so called "Big Four" are known as independents. The

industry is highly dependent on sales of music in the compact disc format as CD sales still make up a greater percentage of total sales revenue for the industry. Their presence has been one of importance in some developing countries e.g. in Nigeria where direct competition from pirates is said to have resulted in the pulling out of all the multinational recording corporations like, PolyGram, and EMI etc.

In 2002 Music sales were US\$32.2 billion of which 18.6% of sales originated from Asia, 2.7% distributed among the Middle East and Africa and the remainder from the rest of the world (IFPI Music Piracy report, 2002). Record contracts between labels and artists are usually long term in nature. Artists receive payment upfront and payment calculated in terms of expected record sales around 5% to 13% of the retail price of the album (S&P, 2002 as cited in Koster, 2007)

According to IFPI 2002, the compact disc is the most popular music format, representing 72% of total international units sales. As at 2002 the compact disc accounted for 72% in unit sales on an international scale. In a more recent report, Graham (2009), quotes that the compact disc still comprise of about 65 percent of all music sold in the first half of 2009 compared to paid digital downloads, which only makes up 35 percent of music sales.

#### **1.4 Problem Statement**

Today, the sector is facing more than eight years of sales decline with compact-disc sales plummeting. According to The NPD Group, a leading market research company, CDs still comprise of about 65 percent of all music sold in the first half of 2009 compared to paid digital downloads, which made up 35 percent of music sales (Business Wire, 2009).

According to Sandall (2007) the compact disc market is at a brick of collapse despite increase in sales of legally downloaded music in recent years. The

industry has long blamed the decline in compact disc sales on widespread piracy on the internet and the illegal copying and distribution of music, arguing that sales of physical records began to dwindle as file share began (Borland, 2001; and Jöckel, Will, & Nawrath, 2007). In 2005, the international Federation of the Phonographic Industry, a body representing the music industry globally, comprising of about 1400 record labels in 72 regional markets with affiliation in another 44 countries, estimated that one of every four music compact disc around the globe is a pirate copy. IFPI digital Music Report (2006) point out that file sharing remain a disturbing issue as approximately 20 billion tracks were downloaded illegally in 2005 alone feeding into industry revenue.

In Malaysia, physical music sales have dropped 80 per cent since the mid-1990s, diving from RM315 million in 1996 to RM56 million in 2008 according the RIM (Patrick, 2009). The Nigerian music industry has not been able to record sales statistics over the years due to the lack of a proper distribution system that would allow for counting. Malaysia on the other hand, is currently on the Watch list of the United States as piracy level exceeded 60 percent by 2008 (Patrick, 2008). According to Okoye, (2009) the Nigerian market for CDs even portrays more of the fears of the IFIP with piracy levels of 95 percent, it is estimated that the pirate market has successfully outnumbered legitimate sales in both regions

### **1.5 Research Gap**

There has been much research looking into factors that contributed to the decline in Compact discs sales. Over the years, a lot of research has been carried out on online and offline piracy as contributors to sales decline e.g. Liebowitz (2004) suggests that music downloading acts as a free substitute for CDs purchase as potential consumers result to downloading. A study by Hui and Png (2003) investigated the influence of physical piracy on original records sales. Since then,



there has been increased interest to this regard on piracy and how it affects CD sales.

Studies conducted by the American Recording Association places Malaysia amongst one of the countries in the Southeast Asian region with very high piracy rates of more than 60%. In the same vein, Nigeria is said to attribute very high piracy rates of up to 90%. It will consequently be essential to determine the impact of piracy on CD sales in both respective markets. So far research has been carried out covering American and European consumers with little or no investigation into the two consumer markets in this study. This investigative research attempts to fill this gap.

### **1.6 Research Aim/Objectives of the Study**

The primary objective of this study is to identify major factors that contribute to the decline in Compact discs purchase. Is the pattern the same in both regions? In the course of gathering secondary data it is observed that piracy is the major issue facing the music industry. IFPI, (2006) noted that pirated recording outnumbered legitimate record sales in both Malaysia and Nigeria with piracy rates higher than 50%. Past researches have laid emphasis on piracy but little research exists on how it relates to the Malaysian and Nigerian consumer markets for music. Therefore, this paper aims to:

- I. To determine consumers original CDs purchase behavior.
- II. To determine the relationship between pirate CD purchase and original CD purchase behavior.
- III. To determine the relationship between consumer perception of original CD prices and CD purchase behavior.
- IV. To determine the relationship between download rate and original CD purchase behavior
- V. To determine the relationship between consumer age and original CD purchase behavior

- VI. To investigate the relationship between consumer income and original CD purchase behavior
- VII. To determine the influence of country of origin on original CD purchase behavior

### **1.7 Research Questions**

- I. To what extent are Compact discs sales declining?
- II. Does consumer perception of price of legitimate CDs influence legitimate CDs purchase?
- III. Are consumers in the study buying more or less Legitimate CDs in the presence of file sharing and free downloads?
- IV. Does pirated CDs purchase influence legitimate purchase?
- V. How do the socio-demographic factors, age, income levels and country of origin influence legitimate compact disc purchase?

### **1.8 Assumption**

This research is based on the assumption that music sales are in decline in the respective regional markets in the study. People are buying less legitimate CDs because they can download music on the internet or purchase pirated copies. It is also assumed that consumers in both markets in the research are downloading and purchasing pirate copies of music rather than original CDs contributing to a decline in sales as claimed by the recording industry. It is also assumed that men and women are generally not purchasing CDs as much as they did so this paper does not test the gender variable.

### **1.9 Limitations of the Study**

One area whereby this report might differentiate from a large scale one is the limitations, of which I have accepted and learnt from for future research.

The first limitation of this research is in the area of the questionnaire survey, people younger than 18 years of age can be influential in contributing to record sales. But this research focuses on music consumers who are 18 and above.

Another limitation is that there is lack of real time sales data available from the music markets in the study. Furthermore, due to little available published data on legitimate sales in respect to the countries in the study, the author had to utilize the number of Legitimate CDs bought by respondents in the last one year as a measure of declining sales. Although using consumer survey may not be without its problems, it noticeably has its merits as it would be most suitable for our study. This will allow for a better understanding of the behavior and attitude of people on whom the music markets depend on.

Finally, the results of this research might not be fully representative of the entire music population outside the survey, but can explain to a proportion the consumer behavior of a reasonable lot.

The questionnaire was only sent out to people who can be considered internet literate and linked to a number of social networking sites. This limited the response to a large majority of the respondents between the age ranges of 18 to 31.

Further a pretest carried was carried out on about 25 people who might be seen as a huge number for a pretest. This might have resulted in lesser potential respondents filling up the second time.

### **1.10 Significance of the Study**

Although researchers like (Liebowitz 2005), Zentner (2004), Oberholzer-Gee and Strumpf (2005) and more, have examined factors contributing to the decline in CD sales their investigations have been limited to some certain regions and portray conflicting results. Furthermore, it is reasonable to note that their data samples might be obsolete considering the rapidly changing consumer market. This makes

a research of this nature reasonable as it would create a fresh new perspective to the subject matter. This research will benefit stakeholders and potential investors in the respective music industries in identifying possible ways in which the changing consumer market situations can be addressed to allow for long term growth and sustainability.

out that regardless of the growth in digital sales, just 19 million songs were purchased as downloads making revenue generated online far fetched in recouping for the losses in physical sales.

The Recording Industry of Malaysia according to Patrick (2008) states that physical music sales have dropped in Malaysia by 80 per cent since the mid-1990s, diving from RM315 million in 1996 to RM56 million in 2008.

### 2.3 The Old Business model

Critics of the music industry argue that the old business model where music labels sign artist and bid to generate large amounts of revenue through sales of CD records is no longer relevant. Record companies have been selling millions and millions of music, without any serious means of protecting the compact discs for the past decade, even though they must have assumed that people will make copies of such CDs for keeps on their computers, to share with a friend or otherwise. According to Neilson SoundScan, about 81.87% the global music industry as at 2005 was controlled by four record labels, Sony BMG Entertainment, EMI Group, Warner Music Group and Universal Music Group as portrayed in the pie chart Fig 2.1.

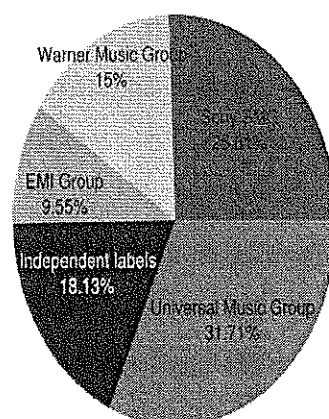


Fig 2.1: Pie Chart the main record companies controlling majority of the music industry worldwide as at 2005 according to Neilson SoundScan.

(Source; Neilson SoundScan)

These big labels have long been urged to reduce their retail prices of the compact disc. Davidson, (2007) suggests that their attempt to reduce prices came off looking like a feeble publicity stunt. He notes that the major record companies were slow to adapting to new internet technologies as a means to better reaching consumers. They let decades of label brand development wash away with conglomeration cutting down companies like Napster amongst others with low suits.

The famous music group called Radiohead found what it saw as the inability of major record labels to adapt to the changing market environment frustrating. According to Kot (2009) major records normally imposed long lag times between completing an album and its actual release to set up what they call a suitable big-budget promotion campaign. This was particularly annoying coupled with their inability to stay in touch with how fans consume music. The band took the opportunity to release its music independently on their website and have been successful in effectively running its own record company and distributing services.

Kaufman (2007) points out that 2007 marked a year when record companies old model of signing up artist to long term deals and releasing an album every few years would be an irrelevant move as artists seek out new and innovative ways to better reach their consumer fan base cheaper and faster leading some to say that the music business is on death row.

Also, Nee (2008) analyses that the World Wide Web has been putting pressure on the global music industry over the years simply because it serves as a challenge to the traditional business model for recorded music. He points out that the possibility for large amounts of music files to be shared online has been beneficial to music consumers who can now access millions of music libraries at almost no cost. At the same time, the internet also empowers musicians, including those

sidelined by traditional media, to self-promote and reach a targeted audience market for free.

"They sell products, and their goal is to sell lots of product. That's good. But they've lost touch with their customers when they think of "product" in terms of the format the music is in, and the medium it comes on, and try to increase product sales by selling the same music to the same consumer in multiple formats and media. To the consumer, the product is the music itself, not what it comes on, and consumers will not buy the same music twice". (Stratton, 2003)

Hebert (2009) record labels profits were killer when they sold a certain amount of CDs incorporating: the cost of actual music production, the development costs of the CD and casing, the delivery of the product and marketing and promotions cost which is known as the most costly of them all.

## **2.4 Consumer Music Buying Behavior**

Consumers are spending less on music CDs compared to last year. A survey done by NPD suggests that consumers were spending less on entertainment in general as a result of the recession. With some turning to paid downloads for a selected number of music tracks in the form of singles. Today's consumers are to a large extent interesting in streaming music on the internet. The NPD study speculates that 19 % of those surveyed alleged that they listen to music through streaming from web sites, up from 15 percent a year ago. The group further state that the decline in CD sales is not attributed to a particular age group.

## **2.5 Review of Related Literature**

### **2.5.1 Arguments against Online Piracy**

The IFPI piracy report (2000) confirms that internet piracy which is most common with the growth in the MP3 music format is an increasing threat to the legitimate recording industry. IFPI estimates that there are about 1 billion illegal music files