IS ILLEGAL DOWNLOADING DESTROYING THE MUSIC INDUSTRY?

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EXECUTIVE SUMMARY

This report analyses the question of whether or not illegal downloading has destroyed the music industry.

RESEARCH OBJECTIVES AND METHODOLOGY

The major goals of this report are to define the qualitative and quantitative effects which illegal downloading has had on the music industry and to define whether these effects warrant the definition of destroyed. The research objectives are designed to offer a framework for the research completed throughout the report. Specifically, this research was to include expert surveys with bands and producers in Vancouver along with a Facebook survey with roughly 100 respondents who are mostly young adults and have knowledge of the changing technology industry. This is important as these consumers are not only the target audience for our survey, but also illegal downloading and peer to peer file sharing.

RESULTS

With the use of various exploratory and descriptive research techniques (including secondary research, experience surveys and a Facebook questionnaire) this report has provided perspective on the effect which illegal downloading has had on the music industry. Through the use of past researchers it has been determined that illegal downloading has a 10-33% effect on the decline of CD sales. While this number may warrant significant concern on the behalf of recording companies, it most certainly does not measure up to the definition of destroyed. Furthermore, the experience surveys conducted with local artists showed that there most definitely has been a large effect on the industry due to illegal downloading. However, these artists are generally accepting of the changes which are out of their control and as a result have
found ways to adapt; even going as far to say that programs like Limewire help artists by offering opportunities for promotion. These promotions are undoubtedly an area of opportunity for not only artists, but also the recording industry. As shown by the Facebook questionnaire, online promotional tactics would be very useful as many young adults are not only very technology intuitive, but they are also willing to purchase music online if they have an opportunity to trial artists and make buying decisions prior to purchases.

CONCLUSIONS AND RECOMMENDATIONS

As a result of extensive research it has been decided that the recording industry must adapt to the changes in the external environment which they are faced with. While illegal downloading has had an undeniable effect on the industry; many industries face similar circumstances and must make changes to fulfill the needs of the consumer. This adaptation is increasingly important as many young consumers have begun to favour genres which tend to be found online. Furthermore, young consumers have not been convinced to purchase music online, but are also unwilling to purchase music physically due to the convenience of peer to peer file sharing.

In order to take advantage of such shifts in the consumer market, a number of technology related recommendations have been presented. One alternative is to introduce streaming music services which would be pay-per-month, similar to successful movie services such as Netflix. This service would have to be implemented by record companies in order to maximize the availability of music, but would likely be accepted and appreciated by consumers. In addition, tweet-to-pay services would allow for social media promotions and take advantage of the growing consumer group in young adults. The lack of control that these platforms present would
have to be addressed, but the cost-effectiveness would likely increase revenues for the record companies while also targeting young adults who are a major concern in terms of illegal downloading.
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INTRODUCTION

The purpose of this report is to distinguish the effect which illegal downloading has had on the recording industry and which potential alternatives may limit or take advantage of these effects. While many previous studies have attempted to clarify this issue with the use of quantitative and qualitative analysis, there is still much confusion as to the exact extent of such effects. Two sides of the argument exist. While organizations such as the RIAA argue that illegal downloading has attributed to a massive economic problem in their industry, the use of unclear numbers and biased qualitative arguments attribute to many people claiming such hypotheses are invalid. Additionally, the use of high profile court cases and making examples of individual consumers has led to a strong negative image of the RIAA. On the other side of the argument, many consumers find themselves caught up in a misconception that downloading music is perfectly fine and doesn’t hurt anyone. The more knowledgeable counter argument to the RIAA states that downloading actually stimulates the music industry by allowing people to sample music which would otherwise go unsold. Also, music concerts have grown in popularity and musicians have become much more reliant on touring in order to earn their living. Many musicians themselves have bought in to this idea and have attempted to work with consumers by providing their music free of charge. In order to prove such arguments, past researchers have done extensive qualitative and quantitative analysis on a number of variables. These variables generally focus on the consumer and factors which may affect the purchase of CD’s, demographical information, or broader national statistics. The information available in such cases has grown significantly since the onset of declining CD sales with studies such as the CEX providing relevant census material. However, quite surprisingly, there have been no significant changes in the analysis of this research. Most studies find that while a portion of the decline in
CD sales is in fact due to illegal downloading, this portion is limited to anywhere from 10-33%. Overall, such numbers prove that while the RIAA may have some grounds for legal action, the decline in CD sales involves many different factors and requires much more extensive research into a variety of areas.
RESEARCH OBJECTIVES

- To determine the quantitative effect that illegal downloading has had on the decline in CD sales.
- To determine the qualitative factors involved in the increased usage of peer to peer file sharing and illegal downloading.
- To determine whether the current drop in CD sales warrants the definition of destroyed.

RESEARCH OBJECTIVE ANALYSIS

The proposed research objectives are important to consider due to lost economic activity through the free sharing of music. It is important for the recording industry to quantify such losses and determine the factors influencing this downward trend in CD sales. The recording industry claims that illegal downloading has accounted for a 10-33% decline in CD sales but they must consider the technology changes that have shifted the way individuals listen to music. If the internet factor accounts for only the low end of the percentage estimate, there is a much larger concern that CD sales are diminishing due to other reasons such as new music listening devices and mediums. In addition, it is important to identify the main factors involved in increased usage of peer to peer file sharing and illegal downloading to develop a plan in response. Identifying the significance of the drop in CD sales is important to the businesses involved in music distribution. If this trend in sales continues it must be determined if this will cause the end of the recording companies and so prevent the artists and musicians from selling their music. If the distribution of music continues via other means, then the music industry has not been destroyed but only changed and must adapt in order to stay in business.
RESEARCH METHODOLOGY

The purpose of the study is to distinguish the effect which illegal downloading has had on the recording industry. This study contains both qualitative research as well as quantitative research. The qualitative research method will be that of personal interviews with experienced industry leaders. This would include individuals involved with the music industry, including current and former artists who have experienced the shift in change. The interviews would be with a lead singer of a group called Columbia, and a former producer and current singer of Stealing Eden. They would last approximately an hour and would consist of unstructured and undisguised questions.

Sampling, fieldwork method, and data analysis are used for the quantitative analysis. First, sampling mainly includes respondents of young adults from the ages of 18 to 25. This is the primary age group of social media users as well as file sharing users. The sample size is approximately 100 people as the variance over such a controversial issue is large. The selection method is convenience and Facebook provided an appropriate sampling frame for the given population with monetary and time constraints taken into account.

In addition, fieldwork method made up the second area of that quantitative analysis. A standard online questionnaire was utilized with the use of Facebook in order to reach the target population. These questions are disguised and structured in order to minimize coding and editing issues. The questionnaire covered a variety of information; including demographics, opinions and previous experiences. Pre-testing was used to filter the questions and assure validity in each of the answers.
Finally, statistical data analysis included the use of excel functions to code the data and make tables and graphs. These were then used for comparison analysis on variables such as age differences in terms of buying behaviour and changes in types of music downloaded. The raw data was compiled into an easy to read worksheet for reference throughout the report by all members.
RESULTS

SECONDARY RESEARCH

Many past research efforts have shown a drop in record sales since the advent of illegal downloading programs such as Napster, but fail to show that they were the primary cause for this drop in sales. The RIAA conducted research over the past 10 years that shows that the correlation between record sales and the amount of albums per year is not following the pattern that it should (RIAA, 2008). The amount of sales should increase with the amount of albums released, and since the advent of peer-to-peer illegal downloading networks, this trend has changed.

A drop in record sales did occur with the introduction of peer-to-peer file sharing networks. However, it is hard to pinpoint the significance that illegal downloading has had on the recording industry, and how much it has contributed to the loss of sales. The music industry experienced successful overall sales growth throughout the mid-1990s, but with the introduction of peer-to-peer file sharing and Napster in 1999, it experienced a significant decline in CD sales—a drop that would last for over 10 years (RIAA, 2008). Goel and Chandra (2010) claimed that that P2P file sharing systems are responsible for a 25% decrease in music sales since 1999. They also distinguish “unauthorized file sharing over the internet as a major threat to its long-term survival with large negative effects on the broader economy as well”.

There is no disagreement as to whether or not record sales have dropped since the introduction to P2P file sharing systems on the internet. The potential contributors to this drop in sales are the primary concern. The drop in sales may be the result of “...a decline in [the] quality of new music or [a] change in the way people listen to music” (Goel & Chandra, 2010, p.7).
Statistical Analysis and Qualitative insight are the primary tools used by researchers to attempt to explain the drop in CD sales. Many researchers have made questionable studies, especially when they have a bias. The RIAA has done their own questionable studies that show a drop in sales; studies that are not only questioned by critics, but even the RIAA themselves (Ziemann, 2003).

Despite the biased and questionable studies by the RIAA, other researchers have spent time extensively researching the problem and have come up with conclusions of their own. Liebowitz (2002) found several factors that could influence the sale of music through a qualitative study. These factors include changes in income, changes in the price of compliments and substitutes, changes in musical tastes, and changes in recording formats. This variety of potential factors could greatly reduce the likelihood of illegal downloading being the primary cause of a decrease in record sales. However, the drop in record sales does not follow the trends of previous years, and the drop is much more significant than any time in the past. Unless there has been a significant change in other potential variables that would drop record sales, the negative correlation between illegal downloading and record sales have an increased likelihood that they would affect one another.

Many studies following the earlier qualitative studies found little correlation between the drop in CD sales and the illegal downloading of music. Olberholzer and Strumpf found that downloads had no significant effect on purchases of the average CD album, and could not possibly explain the drastic decrease in sales (2004). Peitz and Waelbroeck (2003) did a very extensive study involving 16 different countries and a variety of dependant variables. These findings were not much different than the previous studies. Through regression analysis they found that only 11% of the CD sales decline could be attributed to illegal downloading. To reinforce the findings of that study, a different study in 2006 found that illegal downloading
contributed to only 13% of the decrease in CD sales (Michel). While these studies show that illegal downloads have indeed attributed to the decrease in CD sales, they are most certainly not the only culprit (Mooney, 2010). Researchers still struggle to this day to show that the link between illegal downloads and record sales is much less significant than what the RIAA studies show.

The RIAA saw that illegal downloading and the advent of Napster in 1999 was a major threat to the industry. They responded by creating awareness campaigns as well as legal punishments to deter individuals. Threats were launched against Napster, and towards internet service providers to provide lists of individuals who were sharing copy-right protected materials (Janssens, Vandaele, & Beken, 2009). However, the penalty of punishment may not always work on all individuals. One study found that “the perceived severity of punishment for engaging in online music piracy is a significant antecedent to attitudes toward the behaviour for females, but not for males” (Morton & Koufteros, 2008, p.508). Regardless of the effectiveness of legal action targeting illegal file sharers, the music industry tried several strategies to compete with the growing persuasion for users to get free music. Such strategies include stricter copyright laws, and informing the public of the moral issues in downloading music.

In contrast to the USA, there is no sort of downloading protection for artists in Canada. It is completely legal to download music from others, but illegal to upload the same music to others. There is an on-going effort by the United States Government to change the part in Canadian law regarding downloading media with a copyright using peer-to-peer networks. The RIAA and the United States are dissatisfied with the lack of consistency between countries. So far, Canada has not implemented laws that are comparable to the United States (U.S. Digital Millennium Copyright Act).
The Canadian Government is, however, working with the Copyright Board of Canada to address the problem regarding royalties that are not being paid to musicians and songwriters who fall victim to the vastly growing peer-to-peer file sharing networks. One strategy used was to “impose a fee of as much as $25 on iPod-like MP3 players. [This] money collected goes into a fund to pay musicians and songwriters for revenue lost from consumers’ [illegal downloading]” (CNET News, 2003).

Since music is intellectual property, “… [It] is protected by U.S. and international copyright law” (Jeffrey Ober, 2011). Penalties on violating the copyright law depend on the case, location and circumstances. In the U.S, penalties can be very stiff. “In general, anyone found liable for civil copyright infringement may be ordered to pay either actual damages or "statutory" damages affixed at not less than $750 and not more than $30,000 per work infringed” (Princeton University, 2010). This copyright infringement can also include a five year stay in prison as well as a fine of up to $250,000. Many of the outrageously high fines were made to advertise to the public about the dangers of illegal downloading. In one case in June 2009, a woman plead guilty to downloading music illegally and was fined $80,000 for each of her 24 songs for a total fine of $1.9 million. According to this woman’s attorney this was the “first such copyright infringement case to go to trial in the United States (Elianne Friend, CNN, 2009)”.

Many forms of file sharing emerged after the RIAA caused Napster to shut down, causing an even greater threat to the RIAA. Limewire would be the most successful P2P network until its fall in 2010 (Jacobsson Purewal, 2010). With every victory the RIAA had, more file sharing alternatives became popular, such as the “Bit Torrent” client.
The RIAA continues to make claims through statistical analysis and comparisons that display the decline in record sales. However, many variables are left out of consideration.

In conclusion, many studies show that illegal downloading is accountable for at least a small portion of the decline in CD sales (10-33%). The RIAA has enough base statistics for some legal action, but many variables and factors are unconsidered in most studies. There are many different factors that are involved in determining the decline in CD sales. Further, more extensive research in many different areas is required to truly determine the full extent of the relationship between illegal downloading and the decline in CD sales.
This personal interview provided insightful information from an internal perspective of illegal downloading impacts on the Recording Industry. Interviewee, Kevin Schallie is the singer of a small Canadian Rock and Roll band called *Columbia*. Kevin feels that the music industry has changed quite a bit as many successful bands now share their music for free through Twitter and YouTube in order to create wide spread awareness. There seems to be a direct correlation between bands that are active online and their success in the industry, compared to bands that are not active on such sites. In 2005, *Columbia* used MySpace for promotional purposes, now the band is able to distribute some songs via Bit Torrent free downloading sites to help reduce illegal downloading and file sharing. This gives the public a chance to download *Columbia*’s music for free but provides a link to iTunes and the band website to promote legal song purchases as well as band awareness.

*Columbia* started producing CD’s just as illegal downloading became a growing trend which is why the band is unable to identify any notable decline in CD sales. However, Kevin stated that another band, *Oasis* has sold over 35 million CD’s but did so before the popularity of internet downloading. On the other hand, *Lady Gaga* a more recently popular artist is estimated to have had her music downloaded a great deal but does not have the same success in CD sales. This demonstrates the recent negative impacts of free downloading for artists in the industry. Illegal downloading makes it easier for many artists to penetrate into the recording and music industry but this does not necessarily mean they will be able to make a financial profit.

In the last 5-10 years, Kevin felt that illegal downloading was greatly reducing sales through the increased use of Limewire and many other file sharing sites. However, in more
recent years, *Columbia’s* sales are beginning to increase as more users are listening to the songs for free which are followed by a legal iTunes purchase. Kevin believes that their fans as well as the general public are becoming conscious of their actions which negatively affect many artists and in turn, song and album purchases are made to support these artists. In addition, the band has distributed its music to 10 of the largest Bit Torrent sites as a promotional tool and to increase awareness of their music through these free downloading sites. In later years Napster had adopted the same concept used by iTunes in which customers were able to legally purchase music online. *Columbia* received an equal amount of money from either site when CD purchases are made.

On the other hand, Limewire and other file sharing sites do not benefit *Columbia*, or other musical artists in the industry. These sites allow users to download without providing support to the band so that they can continue to produce more music. These large bands are not compensated for their efforts and product which may reduce their future opportunities. *Columbia* is part of a private label and although their costs of recording are much lower than the major labels, the $40,000-$50,000 in costs still must be covered by the support of their fans through purchasing downloads, merchandise, and CD’s. For *Columbia* and many other artists, the music they produce is their career, if they are not supported, they will be unable to succeed in this industry.

Often there is a split between artists who are indifferent towards illegal downloading, and artists who are strongly against illegal downloading. Kevin has identified some qualities that may explain these different opinions as some artists are more businesslike than others. Kevin comes from a business background which he believes to positively influence the success of his band.
Many other successful bands like U2 and Metallica are businesses that strongly oppose illegal downloading and file sharing.

Kevin believes that there is a long future ahead for the recording industry in promoting artists due to the high costs involved in producing a CD. However, he feels the life expectancy of the Rock and Roll recording industry is uncertain. Columbia is on an independent label which provides much higher returns on CD purchases than larger mainstream labels. The band is able to generate $6.25 per CD sale on iTunes, whereas, larger labels only return $0.25-$1.00 to the artists. As a result, Columbia is able to sell less CD’s and make similar or greater profits than larger artists or bands. Although the returns at minimum are 6 times as large, the importance of selling CD’s, downloads, and merchandise are equally as valuable. Kevin does not consider peer to peer file sharing or illegal downloading beneficial except when awareness is provided. When a link to the band website is made available to consumers, interaction and purchases are likely to occur. This is the only money making opportunity for artists through illegal downloading and if these links are not provided, neither are the benefits.

STEALING EDEN

This second personal interview presented an interesting two-sided view of illegal downloading impacts on the recording industry. David Ottoson, singer in a modern rock band called Stealing Eden, and former Producer for Moshpit Production feels that the music industry as well as music piracy are both necessary for artists to survive. Music piracy allows artists to gain additional fans through free illegal downloads that appeal to individuals who are unwilling to make album purchases. Unfortunately, artists must reach a very large number of downloads in order to survive through this distribution medium. On the other hand, a few fortunate artists, one
being Justin Bieber has been able to achieve viral awareness via the internet, leading to a successful, money making career.

David stated that CD production and distribution have been phased out of the music industry and eventually will be classified as a collector’s item. There has been a large notable shift in the industry since the introduction of illegal downloading and as a result, the recording industry is rarely signing new bands and artists anymore. For example, a band called Destineak who are on the same label as Stealing Eden are expected to grow, develop, and become well known before the recording industry will bring in any assistance. With illegal downloading being an accessible and convenient solution for many users, penetration into the market is made much easier. When individuals are able to preview and freely download a variety of music, it is much easier for artists and bands to become well known through this wide spread distribution and awareness.

In the last 5-10 years, David feels that illegal downloading has destroyed the way people will remember the recording industry. In addition, record sales are noticeably declining due to decreased popularity in purchasing hard copy music. As illegal downloading was in its initial stages, David was singing with his former band, Noise Therapy. The introduction of music piracy was the main factor involved in the breakdown between David’s former band and their record label. Illegal downloads skyrocketed and legal downloading options had not yet been developed which led to major financial issues for many artists and bands. Illegal downloading began to wipe out a number of less talented bands who were not recognized on a viral level.

In previous years, David was strongly against the use of music piracy due to the reliance and importance of physical CD’s. Nowadays, with the existence of iTunes, virtual CD’s are the
more common form of CD purchases that generate a large amount of revenue through wide spread distribution. Although illegal downloading may negatively impact CD sales, file sharing sites add a great number of fans to their follower base. In addition, David feels that the artists may receive some benefits from peer to peer file sharing. These benefits include the chance to preview different music for free for a listener which increases the chance of a purchase if the music is enjoyed.

Illegal downloading allows independent bands to exist and survive as producing artists due to the wide spread distribution medium that is created through many peer to peer file sharing sites. These sites generate buzz via the internet, however, they are not considered an effective promotional strategy for bands and artists as these methods allow users to steal protected songs. On the other hand, iTunes and many other legal downloading sites provide artists with more valuable benefits through the encouragement of allowing a free song download following an album purchase. This technique promotes awareness as well as increases the likelihood of these individuals making a future album or song purchase.

David also sees a long future ahead for the recording industry as they are always going to have all the power, money, and resources which are necessary for artists to survive. There will always be some artists who become viral via YouTube on their own; however, the record label even assisted Justin Bieber in order to allow him to grow further and to distribute his music worldwide. In addition, David and Stealing Eden feel that the recording industry will continuously discover new ways of maintaining business operations due to the fact that they control all signed artists. Although profits from these signed artists have significantly dropped, the recording industry still has a strong relationship with the radios and distribution centers which greatly impact how individuals hear and download all different types of music. For this
reason, the recording industry will always be present due to great public interest and demand for music which is a function that the recording industry facilities.
In a survey conducted online with 15 questions it was determined that from the individuals who participated in the survey that:

- 69 percent of the surveyed consumers download single songs for free using P2P sharing networks
- Of the 31 percent of individuals who did not use P2P sharing networks 37 percent of those individuals still received free music from Online sites.
- 18 percent of the participants who did not download single songs from P2P networks downloaded full albums.
- The majority of individuals appeared to be most interested in Techno/House/Electronic/Dubstep music.
- The majority of individuals still use their Mp3 player to playback their favorite songs
- 64 percent of individuals who download music from P2P sharing networks are influenced to purchase music.
- The primary reason for using P2P sharing networks is to save on Price/Cost

There were assumptions made that the lower the income of the participant the more likely that P2P networks would be used, however, based on the results there was no correlation to such assumptions; even though 50 percent of the participants who responded have an income lower than $10,000, only 78 percent of those individuals use P2P sharing networks. The remaining 22 percent of the participants all download music legally through software such as iTunes.

The questions which required the most analytical detail were the multiple answer questions; it was apparent that certain individuals had a preference to different taste of music. A
correlation was unable to be determined whether individuals who like two certain types of music preferred to download music from P2P networks over purchasing music. This was important to the research because it eliminated more assumptions that because there are more online music sites for the Hip-Hop, Rap, and Techno/House/Electronic/Dubstep that less P2P network sharing would occur, this however was not the result. All genres had relatively the same percentage of individuals who downloaded music from P2P sharing networks as those who did not.

It was important to determine what medium the participants used in order to listen to their music; this aided the research because it allowed unknown factors to play a role such as participants using an mobile device; participants using mobile devices are 5 percent more likely to purchase music from iTunes or other legal venders than any other type of medium.

The overall goal of the survey was to determine how many of the participants still download music from iTunes or other legal tenders (refer to exhibit 1) and how many use P2P sharing networks and if they do use such networks if it influences them to purchase music. It was found that 30 percent of the participants who answered they have not downloaded any music using P2P software in the past answered Yes to being influenced by free music to purchase music from vendors such as iTunes.
Participants purchasing music vs. Downloading music from P2P networks

- Participants who purchase songs
- Participants who download from P2P networks
As the advent of the internet and internet based services have spread throughout the world over the past fifteen years, the music recording industry has witnessed a significant decline in terms of CD sales and have responded through various legal tactics. The blame of such declines has been overwhelmingly placed on illegal downloading and peer to peer file sharing by the recording industry. However, the validity of this conclusion has been questioned by many researchers and the bulk of this report has posed the question of whether or not illegal downloading has indeed “destroyed” the recording industry. This question has been analyzed with the help of secondary research, industry experts and a survey of the general public. Furthermore, recommendations will be presented as potential alternatives in order to alleviate the pressure of external factors such as the technological boom. These alternatives will include realistic, technology related solutions which will be easily adopted by music consumers and in turn will increase sales of the recording industry.

Is illegal downloading destroying the music industry? This question depends on your definition of destroyed. The oxford dictionary defines “destroyed” as ending the existence of something. While illegal downloading has most certainly had a notable affect on the recording industry, it has not ended its existence. To prove such a theory, many past researchers have completed studies to determine the actual effect which peer to peer sharing has had on the recording industry and have come across interesting conclusions.

The studies which were considered in this report found that based on a variety of variables, illegal downloading has had a 10-33% effect on the decline in CD sales. These results
prove that while there has been a fairly significant effect on sales, the RIAA is essentially better served in using their resources to research alternative methods of distribution which may take advantage of the other external factors that have had large affects on the recording industry. These methods would likely be related to the changing technology environment and would take advantage of the growing generation of consumers who spend large amounts of time on the internet. An example of these methods would be a company like Apple who has exploded on to the music industry scene by offering alternatives which suit the consumers rather than spending vast resources on legal action against potential customers who have not adapted properly to the environment.

This philosophy of changing the way the recording industry does business can be seen from the grass roots level in artists themselves. Many artists, including the band which we interviewed, have taken actions to use technology in their favour. Adapting to the environment by offering promotional options to users who are likely to download their material regardless of penalties involved. While these alternatives may not provide the margins which were seen in the pre-Napster days, they may offer intangible benefits to both the artists and the recording companies. These benefits include allowing the consumer to trial the music and then offer them a convenient method of purchasing the music online, rather than going through the hassle of purchasing music physically. In addition, artists can take advantage of social media which allows for instant interactivity and the sharing of popular bands and songs.

The consumer market is an important factor to consider as every business must adapt to changes in the marketplace, and this is no different in the recording industry. Customers are changing over the past 15 years, becoming more technology intuitive and less likely to put effort into purchasing something which they can find with the convenience of the internet. However,
convenience is not the only variable to be considered. Artists and recording companies must do a
better job of providing value to the end consumer in terms of what they are receiving. Social
media can aide in this area, as many “illegal downloaders” are young adults who frequent
services such as Facebook or Twitter and also find some form of value in sharing ideas with their
peers. If these ideas could be utilized in a profitable way for recording companies while
maximizing the value to consumers, both parties would see benefits and many internet related
issues could be alleviated. Furthermore, issues surround the changing music environment are
very important to take into consideration. The results of our survey showed that 45% of young
consumers are now interested in genres which are frequently found on the internet through
streaming services (including top 40 and electronically mixed music). Also, out of 80 surveyed
young adult consumers, 86% have not accepted the idea of purchasing music online; likely
because they can access free music elsewhere with convenience. Conversely, providing online
sampling of music allows consumers to test music and up to 64% of consumers are more likely
to purchase songs after doing so. These facts highlight the importance of providing some form of
online trials which benefit both the consumer and producer, while also changing the perception
amongst young adults who are unwilling to purchase music online.

![Number of songs purchased in the last month](image_url)
RECOMMENDATIONS

The following recommendations are partially based on ideas which have become popular in the last few years with the introduction of social media and other technology based innovations. Specifically, The Globe and Mail recently offered a few relevant solutions to the issues surrounding illegal downloading and we believe some of these alternatives address the objectives presented earlier in the report (The Globe and Mail, 2011).

ONLINE STREAMING

The first potential alternative we will provide is for recording companies to introduce online streaming services which would allow consumers to pay a monthly fee in order to listen to their favourite music genres online.

These services would be offered at various pricing packages which would as a result allow for various amounts of content to be streamed per month. For example, if a user paid a flat rate of $9.99 per month, they would be allocated a one gigabyte budget to use up over the course of that month. Constant reminders of your monthly budget would be presented on the homepage.

**Does sampling music influence you to purchase songs online?**

- Yes: 34%
- No: 64%
- No Response: 2%
of such a site, and higher prices could be paid for larger amounts of content. This concept would follow the lead of the popular movie streaming service known as Netflix, with more value for producers coming from consumers who listen to larger amounts of music.

The issue of limited availability would have to be addressed as users would not see the value in such a service if they could get a larger variety of music from free services. This issue has been seen in the Netflix service and can only be fixed by the recording company’s willingness to provide their copyrighted material online. While this may be seen as counter-productive to their business strategies, they must understand that such content is already being found online and adapting to the external environment is a necessary element of every industry. Also, providing their content would allow for further promotion through social media which is becoming more and more popular every year.

Additionally, such a service would only allow for users to listen to music from devices with an internet connection and would encourage users to purchase music if they were big fans or wanted to listen to their favourite music via other mediums. This sampling idea would take advantage of the willingness for even young adults to purchase music which they prefer and would undoubtedly be seen as a form of adaptation on the behalf of the recording industry. This perception may separate the recording industry from the view of the “bad guy” which they have fostered over years of attempting to take legal action on the general public, and may actually increase their reputation and brand image.

TWEET TO PAY

Another potential alternative which would take advantage of the current external environment is for users to pay for music by “tweeting” a promotional message which is pre-
defined by the artist or recording company. For example, users could download a set of singles from an album individually by hitting a Twitter icon which would then lead them to a message that would be circulated to all of their friends. This method would provide for an exponential number of promotional messages to be spread on the internet and could easily be applied to other services such as Facebook. The message could be personalized by each user as long as a link was given to the bands website or the services website in order to increase the amount of downloads.

A big advantage of this strategy would not only be the viral nature of social media, but also the potential for producers to link users to other popular music which they are offering as well as other services they provide. In addition, large amounts of money could be made through advertisements posted on such web pages from third-part companies. If this service became popular and was supported by all parties involved the advertising space would be extremely valuable and would be a new form of revenue generation for recording companies which has never previously been seen in such a capacity.

Potential issues surrounding this concept would be the lack of control over the message which is being spread. Certain artists could literally be ruined by bad messages or bad views represented by select groups of users. However, this problem could be seen as a benefit for the recording companies as it may act, in a way, as a form of natural selection for artists. Genuinely good artists would receive good reviews and the number of downloads would increase as a result, whereas bad artists would receive bad reviews and people would know about it instantly. If the recording industry is still uncomfortable with this notion, they may only offer a service for well known bands, or bands that consent to such a service. This alternative could be used as a part of the streaming services alternative, in order to generate awareness of the service and to bring in new visitors.
LIMITATIONS

When researching a problem of this magnitude there are many problems which may arise in relation to the size of the industry. Specifically, time and budget constraints have not allowed this report to do an in depth analysis of the factors involved in the decline of CD sales over the past 15 years. As a result, secondary research has been heavily relied on to gather statistical data and while many studies were considered, a number of more recent variables could have been omitted due to the period which these studies were conducted in. Furthermore, as Facebook was the primary questionnaire medium, young adults were paid special attention to in terms of recommendations and analysis. This is due to the social media target audience being 18-24 year olds.

While conducting the survey many of the limitations that came forth were due to participating audience. The number of respondents only allowed for certain results to show, especially individuals between the age of 18-24, it would have been more appealing to get a wider audience, especially those aged 13-17; in order to see the magnitude of how the younger generations who have never really be exposed to CD’s regard downloading music off the computer. In order for the results to be more accurate also, the age range of 25 + and users who do not use Facebook would have been beneficial as the results would have been of a wider skew.

The time constraints faced in order to conceive and conduct the survey limited corrections that could have been made for the most effective results. The time constraints also limited the amount of interviews that could have been held in order to achieve the most accurate results.
### Exhibit 2

#### THE RECORDING INDUSTRY ASSOCIATION OF AMERICA

**2008 Consumer Profile**

**www.riaa.com**

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### Methodology


Data based on telephone survey of past-month music buyers. For 2007 and 2008, to better include younger and cellophone only consumers in the survey, age/gender quotas were utilized to match survey data with the overall U.S. population. For 2009, the reliability of the data among 900+ past-month music buyers is +/- 3.2% at a 95% confidence level. With respect to genre, consumers were asked to classify their music purchases.

### Gender

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<thead>
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<th>Gender</th>
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1 Calendar year 2004 data based upon a combination of survey data collected by Peter Hart Research & The Taylor Research & Consulting Group, Inc. Includes only partial-year data, as Hart did not interview during the months of March, April, June, and July of 2004. 2004 Channel data derived solely from Taylor August-December interviews.

2 "Rap": Includes Rap and Hip-Hop.
3 "R&B": Includes R&B, Blues, Dance, Disco, Funk, Motown, Reggae, Soul.
6 2005 and after channel data based on all purchases made, 2004 and earlier channel data based on only the first purchase made each month.
7 Internet does not include record club purchases made over the Internet or digital downloads.
References


APPENDIX B – QUALITATIVE RESEARCH

EXPERT INTERVIEW WITH COLUMBIA

1. Who are you (band)?
   • Kevin Schallie, singer, Columbia

2. What type of genre do you represent?
   • We represent mainstream Rock and Roll

3. What’s your take on the music industry and piracy?
   • It seems that the music industry has changed quite a bit. The majority of the good bands
     are now using the internet in terms of sharing their music through Twitter, YouTube, and
     other avenues. I have noticed that bands who do not utilize such mediums are not doing
     as well in the industry. There seems to be a direct correlation between bands that are
     “smart online” and bands that are doing well in the industry.

   • When our band started in 2005, only MySpace was around. It helped a bit but there are
     so many more options available for bands now. As far as piracy goes, I do not like it
     because I do not get paid. Most people believe that the artists are not affected, but this is
     not true. We can make a lot of money selling CD’s and this is mainly because we are on
     an independent label. Larger artists on larger labels only generate $0.25- $1.00 per CD
     but we are able to make about $6.25 a CD on iTunes. Think of how many CD’s a big
     artist/band would have to sell to make as much as we do with a smaller amount of CD’s
     sold.

4. Why do you think artists are split into two groups when it comes to being pro or anti illegal
   downloading?
   • I think it is because some people are “artists” and others are “business people.” I have a
     business background and treat our band like a business which is why we are doing
     well. U2 and Metallica are both businesslike bands and they both are against illegal
     downloading.

5. What is your view on illegal downloading?
   • In all seriousness, illegal downloading is the difference between us (as artists) having a
     job or not. If more individuals did purchase music then we would not need to have a side
     job in order to survive.

6. Do you download illegally?
   • No. I have never actually downloaded illegally. However, I do know many people that do,
     including my own brother. Many fans have stated that they downloaded our music
     illegally through Limewire. When they say this I think to myself, “Great, there goes my
     90 cents per download.” Our record label has decided that we should distribute some of
     our songs on the internet for free. This adds to the way the way the future is embracing
     people to download through new avenues.
• We have placed our music on a few Bit Torrent sites to help prevent illegal downloading. This gives listeners the option to download our songs for free. The Bit Torrent site actually links back to iTunes. The only reason we do this is because it provides a link to our website where the public can learn about us. This is also a great advertising promotional technique which helps get individuals interested in the band. Providing an iTunes link allows users to purchase any songs if they are enjoyed. You can still download the song for free from Bit Torrent but this may make users feel guilty and encourage them to purchase it instead. With programs such as Limewire, no benefits are provided and the public can download our music without any previous knowledge about us.

7. With downloading being to accessible to the individual does it make it easier or more difficult to penetrate into the market?
• It makes it easier to penetrate into the market but that doesn’t mean you will survive.

8. Do you think that illegal downloading is a useful promotional tool?
• No, not illegal downloading, but free legal downloading is a useful promotional tool. We gave the 10 biggest Bit Torrent websites in the world permission (written consent) to distribute some of our music.

9. How has illegal downloading changed the music industry over the last 5-10 years?
• Limewire illegal downloading caused large negative impacts on the recording industry and sales had dropped. In more recent years, people are beginning to make more purchases of our music. Last week a fan told me that he listened to a song of ours which led to him making a purchase on iTunes. I think this is a recent shift in the consumers as they may have felt guilty and are starting to make more purchases. “They are beginning to have a conscious.”

10. How have the distribution options for music changed with the introduction of illegal downloading? (If they were around before illegal downloading)
• In the past, Napster used to distribute music illegally and now there is a charge for listening to music. Napster has the same concept as iTunes, and our band is paid the same amount per download through each site.

11. Have you noticed a difference in CD sales since the introduction of illegal downloading?
• As far as CD sales go, our band was just starting out when illegal downloading began. We did not see any changes as we had nothing to compare it too.

a. Is this difference enough to say the industry has been "destroyed"?
• The industry has been destroyed for artists who want to make a lot of money. Bands used to make a lot more money than they do now. For example, Oasis sold 20 million from one record and 15 million of another whereas, Lady Gaga is not able sell 20 million records even though she gets many downloads. In the 90’s there used to be a larger number of “rich” bands in the industry, nowadays there might be only 20 bands that are considered to be very “rich.”
b. Do you see any benefits in peer to peer file sharing or illegal downloading?
   • No, not unless the consumers have access to our website through an available link. This allows users to learn about the band, become educated with tours dates, or ever purchase merchandise.

12. Do you think all music in the future being distributed for free, and record companies gone?
   • No, I do not believe that will even happen because CD’s still cost a large amount of money to record and produce. Our next album is going to cost us about $40,000-50,000 to record and major record labels charge around $200,000. If all music is distributed for free, artists will be unable to cover these costs. You need CD sales to support those costs whether it is through iTunes, or a physical CD. I think that recording companies will get smaller and the large companies will become even larger, like Warner.

13. Do you think there is a long future for the recording industry?
   • Yes there is definitely a long future for the recording industry but for the Rock and Roll industry, who knows.

**INTERVIEWING STEALING EDEN**

1. Who are you (band)?
   • David Ottoson, Singer in a band called Stealing Eden and Producer for Moshpit Productions. (Former singer of Noise Therapy)

2. What type of genre do you represent?
   • Modern Rock

3. What’s your take on the music industry and piracy?
   • I think that the music industry is a joke and piracy is not helpful. My take would be a negative view on both but on the other hand, I think artists need both to survive in the industry in this day and age.
   • There are people who will not be willing to buy your album but will support you by attending your shows. These individuals are still able to download pirated music. Unfortunately it takes a large number of downloads in order for artists to survive and become well known.
   • Some artists are lucky, Justin Bieber was able to get people interested in his music on his own and that was when the music industry became involved.

4. Why do you think artists are split into two groups when it comes to being pro or anti illegal downloading?
   • I think it is because neither is better. If illegal downloading did not exist, there would be no independent bands.
5. What is your view on illegal downloading?
   • I used to be completely against illegal downloading. When it all started Cd’s were physical CD’s and people bought them regularly because iTunes did not exist. I think now with iTunes, I believe a lot of people still buy CD’s and yes, it may hurt sales but a lot of fans are gained through illegal downloading.

6. With downloading being to accessible to the individual does it make it easier or more difficult to penetrate into the market?
   • I think that this makes it easier to penetrate into the market because once the public starts hearing your music; they are able to listen to you easily. This downloading accessibility makes it easier for artists to become well known and able to eventually start making money.

7. Do you think that illegal downloading is a useful promotional tool?
   • I do not think that illegal downloading is a good promotional tool but awareness through legal downloading sites is a good promotional tool. Individuals will always steal music because it is easy. To calm down illegal downloading, iTunes allows users to upload a song for free after the purchase of an album. By doing so, people are able to listen to your music for free which encourages future purchases.

8. How has illegal downloading changed the music industry over the last 5-10 years?
   • It has completely changed the music industry. It has kind of destroyed it and the way people will remember it. Everything is very different, record sales are lower and the popularity of CD’s has declined. Illegal downloading is destroying the less talented bands and keeping around the more talented bands.
   • “If you are not a good band, everyone is going to hear about it quickly because of the internet.” Artists must be talented in order to survive in the industry and generate sufficient CD sales.

9. How have the distribution options for music changed with the introduction of illegal downloading? (If they were around before illegal downloading)
   • “When I was in Noise Therapy, illegal downloading did not exist, there were only CD’s. Right near the end of our last album was the time when illegal downloading kicked in and it was what killed us with our record label.”
   • CD sales started going down and illegal downloading skyrocketed. There was no way to legally download music online at the time and because of this, it was very convenient to download illegally rather than going to a store. Not many people buy CD’s anymore and this is evident as HMV has greatly reduced its CD collection.

10. Have you noticed a difference in CD sales since the introduction of illegal downloading?
    • CD’s are eventually going to be a collector’s item. It is only a matter of time until CD’s will cease to exist.

    a. Is this difference enough to say the industry has been "destroyed"?
Yes. Recording industries do not really sign bands anymore. For example, we have a band called Destineak on our label, Sony wants to get involved with them but they are only willing to take a chance on one single. It has gone from signing a band with a 5 album deal to expecting artists to develop themselves on their own and once they are large enough, the industry will step in and help out.

b. Do you see any benefits in peer to peer file sharing or illegal downloading?

- Yes, there are benefits to P2P file sharing. A lot of people who do not know you but through file sharing sites they will listen to your music and discover what you are like. If you have one good song on the radio, individuals are going to download a couple more songs and will listen to you. If they enjoy your music there is a higher chance they will buy it.

11. Do you think all music in the future being distributed for free, and record companies gone?

- No, I think the record industry will always find a way to keep itself in business. The record industry still has control over all the artists even though profit is barely there. Now instead of them developing you, they want you to develop yourself. Once you have enough interest generated by selling out local shows in your city then the industry will assist you.
- You will never make it to where Eminem or Rihanna has because you cannot do that on your own. You do not have the contacts and you don’t know enough people. Just because the public is able to listen to you on the internet, does not mean they are going to. People need to be told that you exist.
- Artists need to have the “machine” promoting them in order to reach out to a large group of customers. The record industry will never go away, they will always find a way to keep their claws in you because they still own radio, distribution centers and networks, and all of the ways people get music. Bands can put music up on iTunes but iTunes does not promote you and there is no way you are going to get big and famous just because you are on iTunes.

12. Do you think there is a long future for the recording industry?

- Yes, the recording industry is always going to be on top with all the money that is necessary for promotions and awareness.
- There are a few flukes, for instance how Justin Bieber goes viral and gained millions of fans through YouTube. However, a record label helped out in his case aswell. This machine gets behind these kids that have talent and they sell it to the masses. With that being said, even Justin Bieber needed the recording industry to make it big.
# Participant Results

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</tr>
<tr>
<td>50-100</td>
<td>0%</td>
</tr>
<tr>
<td>100+</td>
<td>2%</td>
</tr>
<tr>
<td>Participants have purchased____ number of CD’s in the past month</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>85%</td>
</tr>
<tr>
<td>1-3</td>
<td>13%</td>
</tr>
<tr>
<td>4-5</td>
<td>1%</td>
</tr>
<tr>
<td>6-8</td>
<td>0%</td>
</tr>
<tr>
<td>9+</td>
<td>1%</td>
</tr>
</tbody>
</table>
Participants either answered Yes or no to the following question: Does sampling music using Frostwire, Bit torrent etc (P2P networks) influence you to actually purchase the songs that appeal to you using iTunes or other music software?

- Yes: 64%
- No: 34%
- No Response: 3%

Participants have downloaded ________ number of songs from P2P sharing software/websites:

- 0: 32%
- 1-10: 9%
- 10-20: 20%
- 20-50: 13%
- 50-100: 9%
- 100+: 16%

Participants have downloaded ________ amount of CD's in the past month from P2P sharing software/websites:

- 0: 55%
- 1-5: 29%
- 6-10: 8%
- 11-15: 2%
- 16-20: 1%
- 21+: 6%
- No Response: 1%

Participants answered Yes or No to the following question: Did you know most peer to peer sharing programs share/upload all your songs automatically?

- Yes: 58%
- No: 40%
- No Response: 2%

Participants finished the following statement: “I download music using peer-to-peer sharing programs because...”

- Convenience: 13%
- Curiosity: 8%
- Price/Cost: 17%
- My friends have influenced me to do so: 4%
<table>
<thead>
<tr>
<th>Other</th>
<th>5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Response</td>
<td>61%</td>
</tr>
</tbody>
</table>

Participants ranked on a scale of 1 - 10 (1 being not at all and 10 being a lot) how much the possible repercussions of using peer-to-peer sharing software affect your decision to download?

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>47%</td>
</tr>
<tr>
<td>2</td>
<td>14%</td>
</tr>
<tr>
<td>3</td>
<td>7%</td>
</tr>
<tr>
<td>4</td>
<td>5%</td>
</tr>
<tr>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>6</td>
<td>3%</td>
</tr>
<tr>
<td>7</td>
<td>4%</td>
</tr>
<tr>
<td>8</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>3%</td>
</tr>
<tr>
<td>10</td>
<td>5%</td>
</tr>
<tr>
<td>No Response</td>
<td>2%</td>
</tr>
</tbody>
</table>

Participants age ranged from:

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>13-17</td>
<td>6%</td>
</tr>
<tr>
<td>18-24</td>
<td>68%</td>
</tr>
<tr>
<td>25-29</td>
<td>12%</td>
</tr>
<tr>
<td>30-39</td>
<td>8%</td>
</tr>
<tr>
<td>40+</td>
<td>4%</td>
</tr>
<tr>
<td>No Response</td>
<td>2%</td>
</tr>
</tbody>
</table>

Participants income:

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $10,000</td>
<td>50%</td>
</tr>
<tr>
<td>$10,000 - 20,000</td>
<td>13%</td>
</tr>
<tr>
<td>$20,000 - 30,000</td>
<td>9%</td>
</tr>
<tr>
<td>$30,000 - 50,000</td>
<td>12%</td>
</tr>
<tr>
<td>$50,000 +</td>
<td>14%</td>
</tr>
<tr>
<td>No Response</td>
<td>2%</td>
</tr>
</tbody>
</table>

Participants were asked: Who pays for your tuition?

<table>
<thead>
<tr>
<th>Payment Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Myself</td>
<td>34%</td>
</tr>
<tr>
<td>My Parents</td>
<td>34%</td>
</tr>
<tr>
<td>Government/Bank Loans</td>
<td>13%</td>
</tr>
<tr>
<td>N/A (Do not go to post-secondary)</td>
<td>21%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>No Response</td>
<td>11%</td>
</tr>
</tbody>
</table>