

# Study of the advanced music model for the digital age

Yasutaka UEDA\*

## Abstract

In the past, Japan's music business viewed live performances as a means for advertising CDs, and although it was considered okay for live performances to record a deficit, the current way of thinking may actually be the exact opposite. Accompanying the conversion of information and recordings to digital media, although methods for purchasing music continue to expand from CDs to cellular telephones and the Internet (on-line music distribution), the value of analog contents (such as live concert performances and merchandise sales) is increasing. For example, in 2008 Madonna terminated her contract with the record giant, Warner Music, and instead concluded an agreement with an event production company known as Live Nation. Many of her major recordings were released free of charge over the Internet as a means of attracting fans to her concerts. As a result, Madonna's income in 2008 moved to the top of list among music artists at 240 million dollars due to the sales of tickets for concerts held in Europe and throughout the U.S. starting in the summer of that year. This indicates a shift in the emphasis of music activities from CD sales to live performances and sales of T-shirts and other merchandise. This model that adopts the opposite view of generating a profit with analog contents (such as live concerts and merchandise) by using digital contents (such as CDs and on-line music distribution) as publicity means has already become established in countries having high piracy rates where CD sales cannot be expected to generate income, and although we perceive such countries to be backward nations, we have developed a hypothesis by which these countries actually indicate an advanced music model for the digital age. Although we tend to think that advanced nations are more advanced, Vietnam is an advanced nation in terms of having constructed a business model that generates earnings from live performances instead of packaged software. Field surveys were conducted on six occasions in New Zealand, which has a low piracy rate, and in Vietnam and China, which have high piracy rates, after which this hypothesis was verified by discussing a music business model for the digital age based on the data obtained from those surveys.

**Keywords :** illegal copy, piracy rate, opposite approach

## 1. Introduction

In the past, Japan's music business viewed live performances as a means for advertising CDs, and although it was considered okay for live performances to record a deficit, the current way of thinking may actually be the exact opposite. This model that adopts the opposite view of generating a profit with analog contents (such as live concerts and merchandise) by using digital contents (such as CDs and on-line music distribution) as publicity means has already become established in countries having high piracy rates where CD sales cannot be expected to generate income, and although we perceive such countries to be backward nations, we have developed a hypothesis by which these countries actually indicate an advanced music model for the digital age. Field surveys were conducted on six occasions in New Zealand, which has a low piracy rate, and in Vietnam and China, which have high piracy rates, after which this hypothesis was verified by discussing a music business model for the digital age based on the data obtained from those surveys.

## 2. Music Situation in Vietnam

On the CD market in Vietnam, consumers can select either pirated versions or authorized versions. Since there are hardly any controls on pirated CDs, the number of stores selling pirated CDs is overwhelmingly large, with the number and sizes of major pirated CD stores being more prominent than even government-operated authorized CD stores. In Ho Chi Minh City, which was one of the cities surveyed, two authorized CD stores were also handling pirated versions of all CDs sold. This situation in Vietnam in which both authorized versions and pirated versions of CDs are present in the same store is clearly evident in the fact that major pirated CD stores also sell authorized versions of those CDs. In Vietnam where copyrights have very little meaning, a pirated CD is perceived as being of low quality rather than being illegal. Pirated CDs may have poor quality packaging and have problems with sound quality due to inadequate audio reproduction techniques. On the other hand, although authorized CDs do not have such problems, they are priced at 32,000 Vietnam dong (US\$ 2.13), making them just under three times more expensive than pirated versions. Young people in Vietnam frequently purchase authorized versions of CDs of their favorite artists or when giving as a gift to friends.

**Table 3 Differences between High-Quality (High-Priced) Merchandise and Low-Quality (Low-Priced) Merchandise**

	High-Quality (High-Priced) Merchandise	Low-Quality (Low-Priced) Merchandise
New Zealand	Recently released CDs	CDs for which considerable time has passed since their release and have yet to be sold at CD stores
Vietnam	Authorized versions of CDs	Pirated versions of CDs
Japan	No distinction due to existence of "resale price maintenance system"	

Source: Prepared by Ueda

**Photo 1: CD/DVD store in Hanoi**



**Photo 2: Display of pirated copy CD/DVD at a CD/DVD store in Hanoi**



Photo 3: Price list at CD/DVD store in Hanoi (prices shown in Vietnamese dong)

Price list	
- Movies DVD.....	15.000vnd/ea case
- DVD9(Boxset).....	25.000vnd/ea case
- DVD M.....	17.000vnd/ea case
- Classic DVD.....	17.000vnd/ea case
- Music DVD.....	17.000vnd/ea case
- DVD9 (dts 5.1).....	30.000vnd/ea case
- CD (box).....	35.000vnd/ea box
- CD (box3).....	45.000vnd/3 cases in china
- CD copy.....	10.000vnd/ea case
- CD case (small size).....	20.000vnd/ea case
- CD case (big size).....	30.000vnd

Buy 10 get 1 for free !

Photo 4: Outdoor stage music performance in Ho Chi Minh where popular singers frequently appear (San Khau Ca Nhạc Trong Dong)



Photo 5: Restaurant featuring live performances in Ho Chi Minh where popular singers frequently perform (Phong Tra Khong Ten)



### 3. Music Situation in China

In looking at the situation in China, even though many CDs are pirated versions, singers are able to maintain their livelihood by obtaining revenues from stage performances. There are many singers who perceive pirated versions of CDs made from authorized versions as means of generating publicity for their stage performances. Since China does not have a system for singers to protect their copyrights, young singers produce CDs even though they know they are unable to cover production costs since pirated versions will soon appear on the market. For these singers, pirated CDs are recognized to be necessary since pirated CDs generated as a derivative of CD production function as means of publicity for letting people know of their existence even though they are unable to generate revenue from them. The major source of revenue of Chinese singers is stage performances, and compensation for those performances is dependent upon their popularity. In China where protection of copyrights is essentially ineffective, publicity effects of pirated CDs exist even though revenue cannot be expected to be generated from authorized versions of those CDs.

**Photo 6: CD/DVD store by using bicycle in Shanghai**



**Photo 7: CD/DVD store in Shanghai**



**Photo 8: Display of pirated copy DVD at a CD/DVD store in Shanghai**



**Photo 9: Display of pirated copy CD at a CD/DVD store in Shanghai**



**Photo 10: Outdoor stage music performance in Shanghai**



#### 4. Differences between New Zealand and Vietnam:

In the case of New Zealand, although on-line music distribution sites allow users to listen to songs for several tens of seconds, it is not possible to listen to an entire song. A fee must be paid in order to listen to the entire song. This system is similar to that employed by Apple's iTunes in the U.S. Copyrights are firmly established in New Zealand, and because of this, artists can expect to generate sales from CD software. However, in the case of artists in New Zealand, if sales are attempted to be increased, efforts are made to expand CD sales on overseas markets due to the small size of the domestic market. An example of this is the desire for Hayley Westenra to establish performance bases in the U.K. and Japan.

On the other hand, in Vietnam where copyrights have yet to be adequately established as in New Zealand, no matter how popular a song is and no matter how many CDs are sold, artists are not able to get by on royalties from those songs, forcing even major artists to generate revenue by performing on stage. Since there is very little awareness of copyrights among the Vietnamese, it is possible to listen to entire CD albums by on-line streaming. Since Vietnam is a socialist country, although it is strict with respect to monitoring and protecting its own copyrights, it is quite lax when it comes to infringement on overseas contents. In other words, since overseas copyrighted merchandise should not even exist in the country, at least on the surface, protection of such merchandise also ought not to exist. However, even though it is said that overseas copyrighted merchandise does not exist in the country, at least on the surface, in actuality such merchandise is sold without reserve at government-operated department stores, thus resulting in the existence of rampant pirated versions on the market, as well as the existence of a gap between what is expressed to the outside and true intentions.

**Table 1: Survey of Diffusion Rates of Pirated Software**

Countries having Low Piracy Rates		Countries having High Piracy Rates	
U.S.	22%	Vietnam	92%
New Zealand	23%	China	92%
Denmark	26%	Ukraine	91%
Sweden	27%	Indonesia	88%
Austria	27%	Zimbabwe	87%
Japan	29%	Russia	87%
Belgium	29%	Algeria	84%
U.K.	29%	Nigeria	84%
Germany	30%	Pakistan	83%
Finland	31%	Paraguay	83%

Source: Todd Weiss, Computerworld Online, U.S.

**Table 2: Losses Attributable to Proliferation of Pirating and Piracy Diffusion Rates in Vietnam**

Year	2007	2006	2005
Computer software	90% (US\$ 82 million)	88% (US\$53 million)	90% (US\$ 21 million)
Books	(US\$ 17 million)	(US\$ 18 million)	(US\$ 16 million)
Music CDs	95%	95%	95%
Total	US\$ 99 million	US\$ 71 million	US\$ 37 million

Source: International Intellectual Property Alliance (August 4, 2008)

Although we tend to think that advanced nations are more advanced, Vietnam is an advanced nation in terms of having constructed a business model that generates earnings from live performances instead of packaged software. The reason for the circulation of pirated versions among consumers is that, from the viewpoint of the user, contents can be acquired free of charge if someone would allow them to make copies. On the other hand, from the viewpoint of artists, if users who ought to inherently purchase contents are able to obtain copies free of charge, this represents a decrease in earnings and is therefore disadvantageous. As can be seen from Table 1, since pirated versions constitute more than 90% of music consumption in Vietnam and China, artists are unable to generate revenue through the sales of CDs, and therefore record and produce singles for radio broadcasting instead of albums targeted at users. In the cases of countries like Vietnam and China where pirated versions and illegal copies have permeated deeply into the social life, the piracy diffusion rate is 90% or higher, thus meaning that 90% or more of listeners are excluded the instant music is taxed. In Vietnam and China, music is considered to be a luxury item for the middle class, or in other words, is not something that can be paid for easily. Artists become trusted as a music brand widely popular among the general public by using free media and enabling their work to be listened to by anyone. Consequently, there are many artists who perceive pirated versions of music CDs in a positive manner. Artists are aware that inexpensive pirated versions generate publicity effects that contribute to revenues from live performances even if they are unable to acquire copyright royalties. If CDs were sold at regular prices, many fans would be unable to purchase them, thereby preventing artists from obtaining a response or accolades from fans. Artists acquire revenues by appearing in media and commercials due to the popularity generated by pirated versions and illegal copies. They are also able to acquire earnings from live events and concert tours. In addition, even if a live event is not attended by a large number of people, those persons that actually attended write that they attended the live event or went to a concert and enjoyed it on their own blogs, thereby generating interest among readers of those blogs that makes them want to attend the next live event.

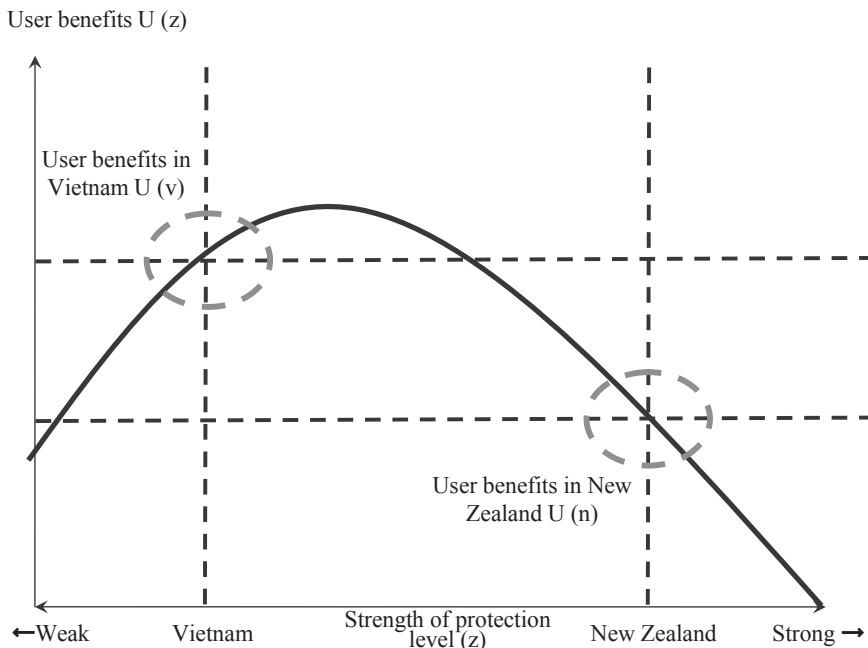
In this manner, from the viewpoint of total earnings obtained by artists in this manner, the perspective that illegal copying does not necessarily have only negative aspects may appear unexpected from persons such as ourselves residing in advanced countries where there is strict protection of copyrights. In advanced countries, the supply of contents decreases unless



copyrights are protected, and under extreme circumstances, a market may not be established. However, under circumstances in which copyright protection is virtually nonexistent as in Vietnam and China, users are able to listen to music inexpensively thanks to pirated CDs. Conversely, although singers who have a hit song are able to generate huge copyright royalties from earnings from legitimate versions of CDs under conditions in which copyrights are strictly protected, users have fewer opportunities for coming in contact with music than when pirated CDs are available. There are also views that favorably evaluate pirated CDs since they fulfill the function of generating publicity in terms of increasing the number of music fans. Thus, the proliferation of pirated versions is expected to increase the scope of users while also demonstrating publicity effects that lead to purchases of legitimate CDs.

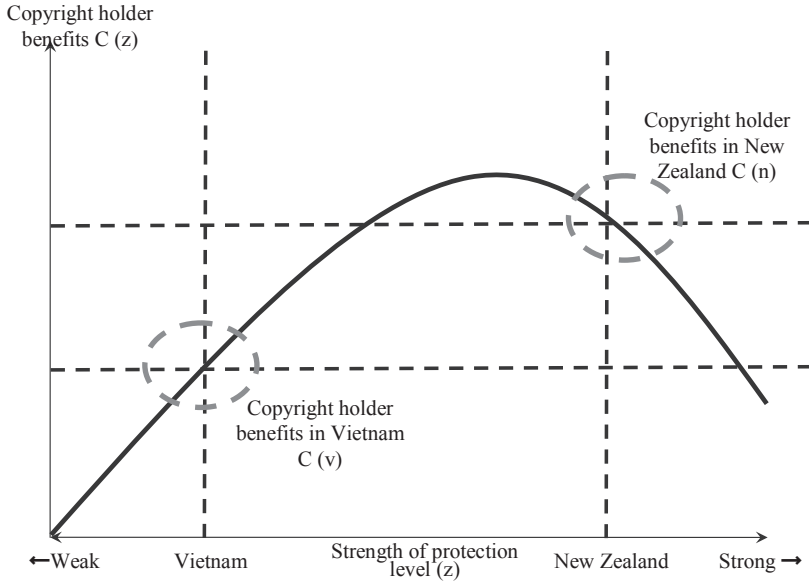
The rampant proliferation of pirated software and illegal copying has brought about an ironic outcome with respect to Japanese contents. In other words, these actions have fulfilled a considerable role in enabling music, animation, comics and other forms of Japanese culture known as "JPOP" culture to propagate and permeate various regions throughout Asia, including Beijing, Shanghai, Taipei, Seoul and Bangkok. In response to this result, although suppliers such as lyricists and composers, singers, performers, record companies, music producers and other members of the production side having copyrights and neighboring rights to songs have become increasingly sensitive to illegal music distribution, in consideration of the rapid growth of online music distribution over the Internet, there is also a growing opinion that it may be of more benefit to not become overly excessive with claims of copyright infringement.

**Figure 1: User Benefits in New Zealand and Vietnam**



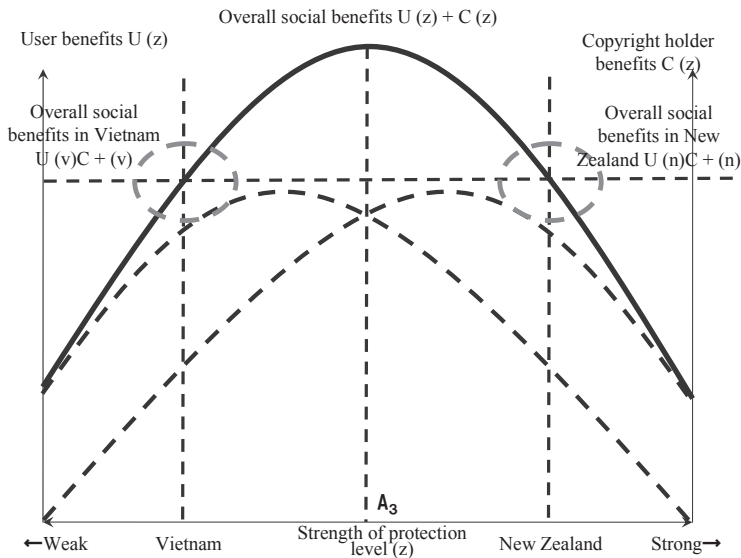
Source: Prepared by Ueda with reference to Tanaka and Hayashi (2008), 12p.

**Figure 2: Copyright Holder Benefits in New Zealand and Vietnam**



Source: Prepared by Ueda with reference to Tanaka and Hayashi (2008), 12p.

**Figure 3: Overall Social Benefits in New Zealand and Vietnam**



Source: Prepared by Ueda with reference to Tanaka and Hayashi (2008), 12p.

Traditionally, the Japanese music industry has positioned live performances as a form of publicity for increasing sales of CDs, and has tended to ignore the profitability of such live performances. At present, however, when it has become easy to copy digital contents, it has become necessary to adopt the opposite approach of generating earnings from live performances and using the providing of CD and other digital contents as publicity for live performances. In actuality, although sales of CD and other packaged media continue to struggle, the number of persons attending live performances and concerts is demonstrating solid growth. As the CD market gradually shrinks as a result of being pushed out by online music distribution, the live concert market has grown steadily to about 150 billion yen. In addition, live concert attendance figures have continued to increase steadily, currently standing at about 24 million after having surpassed the 23 million mark in 2003. The major factor behind this is established popularity of summer festivals and the growing number of live performance venues. The contribution made by outdoor music festivals has been particularly significant after having become firmly established as Japanese summer events during the past 10 years. Ever since the start of the Fuji Rock Festival in 1997, roughly 50 music festivals are currently held in the summer alone. Summer music festivals have gained the support of music fans since they provide an opportunity to see a wide range of musicians all at once. In addition, due to the strong event-like features of these outdoor festivals, they are also attended by persons other than core music fans. Moreover, there are also a growing number of music fans who decide to attend solo performances by artists they became interested in while attending a summer festival. Particularly famous artists tend to increase the number of live performances at large-scale venues and also tend to raise ticket prices. Thus, there is an increase in efforts to break away from the overemphasis on CD sales and place greater emphasis on revenues of live performances, merchandise sales and other music contents.

One area of the Japanese music industry where the model of using digital contents as publicity for analog contents has already been established is the popular music genre of Enka. In this model, since expectations cannot be placed on CD sales, Enka performers use appearances on television and radio (and particularly on special Year's End and New Year's programming that has extremely high ratings) as means for generating publicity, and generate earnings by traveling to regional night clubs or civic centers where they participate in numerous live shows. In addition to Enka performers, special Year's End and New Year's programming also provides the perfect opportunity to become known for artists who usually have little exposure and are not seen regularly by ordinary viewers. There are cases in which sales increase suddenly in the new year as a result of having appeared on a special music program aired on New Year's Eve. Thus, an artist is able to develop a new fan base by appealing to viewers, who ordinarily have little opportunity for coming in contact with music and usually do not watch music programs on television, but always watch the special Year End programming.

## 5. Conclusions

Although we tend to think of advanced nations as being advanced, in terms of constructing a business model in which revenues are generated through live performances instead of packaged software, countries like Vietnam and China are advanced. What is happening in Vietnam and China will also occur in other advanced countries throughout the world. In other words, a model will become established in which earnings are generated in a different manner than in the past by providing music free of charge and using it as a marketing tool for artists.

## 6. Acknowledgements

Financial support by Edogawa University to this study is gratefully acknowledged. Note that the author is responsible for any errors in this paper.

## 7. References

- [1]Domon, K., Nakamura, K., (2006), "Economic analysis of illegal copying and file sharing in developing countries" , Infocom Research Inc., "InfoCom Review Vol. 38" , pp. 120-129
- [2]Iguma, T. (2009), "The Day Newspapers and Televisions Disappear" , Shueisha Inc., p. 156
- [3]International Intellectual Property Alliance (August 4, 2008)
- [4]Shintaku, J., Yanagikawa, N. (2008), "Economics of Free Copies" , Nikkei Inc., p. 204
- [5]Tanaka, N., Hayashi, K. (2008), "Does extension of copyright protection periods promote culture?" , Keisho Shobo Publishing Co., Ltd., p. 12
- [6]Todd Weiss, Computer world Online, U.S.