

# **Future of Indian Music Business: In “Music World” or “Palika Bazaar”?**

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## **I. Prologue**

The first decade of the twenty-first century has been a tumultuous time for the music industry. A rash of technological developments, including file sharing, satellite radio and social networks have changed the face of the industry. Since the late 1800s, when the general public started buying recorded music for entertainment, the music industry has been there to provide it and profit from it. The last half of the twentieth century was the zenith for the record industry. Consumers spent enough money on music to fund a slew of high-paying music-related jobs, including those for producers, recording studio engineers, entertainment lawyers, album art designers and publicists.

An important consequence of the seismic shifts in the landscape of the music industry was the development of Compact Disk (CD). CD was the real foundational evolution in audio technology since Edison. It was not an analog or mechanical model of audio reproduction, but a digital one. Now the entire music industry is in flux. Technology has changed how music is delivered, how people listen to it and how it is promoted. One huge factor has been the advent of digital downloading. Illegal downloading is a challenging issue. File sharing and P2P (peer-to-peer) technology has made it easier than ever for people to find and trade music without ever paying anyone. It is not just record companies that are concerned – many artists and other workers in the music industry are worried about illegal downloading because it affects their bottom-line as well. The big question is whether with so much music available for free, music will become so devalued that people will not pay for it. Social networking sites like MySpace and video sites like YouTube have changed the way consumer discover music. All of these changes make for an unpredictable future for the music industry raising big issues facing the industry today, including illegal downloading, whether or not social networking sites should pay royalties and whether or not CDs are dead.

Physical music album sales have been declining for a decade with an average of 8% every year. Several studies found a negative correlation between physical album sales and online piracy and they attribute the decline

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of physical album sales to the increase in online piracy.<sup>2</sup> International Federation of Phonographic Industry in their report, “Recording Industry in Numbers 2013” stated that shares of physical format sales declined from 74% in 2008 to 57% in 2012. Recently, IFPI published “Top 20 Markets Summary” of recorded music sales in its Annual Report, “Recording Industry in Numbers 2013”. In that report India ranked 14<sup>th</sup> amongst the top 20 countries in terms of trade value, generated by recorded music sales. In 2012 Indian music industry generated trade value of US\$ 146.7 (7,888.5 INR). Among the total trade value, 31% was attributed to physical sales, whereas 60% was the contribution of digital sales. Moreover, according to FICCI-KPMG Report 2013 in India physical music continues to de-grow in terms of sales<sup>3</sup> as share of industry revenue due to consumers shifting to the newer technology platforms (online and music) and continued piracy. The Indian music industry witnessed a decline of 12% year over year in 2012 (KPMG analysis) in the sale of physical sales format.

While making an endeavor to trace the recent transition in music sales, the focus of the present paper would be on analyzing the phenomenon of diminishing physical music sales both nationally and internationally, and its consequential effects on the music industry. The paper would also embark on highlighting the recent closure of “Music World” Flagship Store at Park Street, Kolkata and would try to comprehend how the sale of counterfeit/pirated music products affects on the retail music business. The core of this paper would devote on finding out the future of Indian music business. Whether it will rest in “Music World” or in “Palika Bazaar”?

## II. Previous Studies

Presently in India there are no authentic estimates to ascertain the contribution of music copyright industries to the national economy. Moreover no significant studies have been made to study the phenomenon of declining physical music sales and its consequential damage on the music industry. However, few related literatures are available which provide insight to the present study. In 2005, *Lonnie K. Stevans* and *David N. Sessions* made an empirical investigation into the Effect of Music Downloading on the Consumer Expenditure of Recorded Music using a time series approach and found that the proliferation of peer-to-peer file sharing networks has led to a significant decline in music format sales and

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<sup>2</sup> Byungwan Koh, B.P.S. Murthi and Srinivasan Raghunathan, Shift in Demand for Music: Effect of Online Music Piracy and Digital Music on Album Sales

<sup>3</sup> Physical music sales include sales of all physical formats, including CD, vinyl, cassettes and other CD sales ordered via the Internet (e.g. Amazon) are reported as physical sales.

downloaded music has reduced spending on recorded music.<sup>4</sup> In 2006, *Alejandro Zenter* estimated the effect of music downloads on the probability of purchasing music using a European individual-level cross section of 15000 people from 2001. The results suggested that peer-to-peer usage reduces the probability of buying music by 30%. On the basis of estimation, back-of-the-envelope calculations indicated that without downloads sales would have been around 7.8% higher.<sup>5</sup> In 2010, the study made by *Byungwah Koh, B.P.S. Murthi* and *Srinivisan Raghunathan* showed that availability of iTunes like legal channels for digital music has blunted the effect of online music piracy on physical album sales and in the presence of those legal channels for digital music, digital music, not online music piracy substitutes for physical album sales.<sup>6</sup>

*David Blackburn* investigated the effects of file sharing on the sales of recorded music in the United States. He found that file sharing had strong effects on the sales of music. The study estimated that if files available online were reduced across the board by 30%, industry sales would have been approximately 10% higher in 2003.<sup>7</sup> *Martin Peitz* and *Patrick Waelbroeck* analyzed the role of music downloading on the current downturn in CD sales. They provided 2000-01 cross-country evidence in support of the claim of losses due to internet piracy made by the industry. For the United States they assessed the potential loss from internet piracy. They concluded the empirical analysis by forecasting CD sales for 2002. The results suggested that internet piracy played a significant role in the decline in the CD sales.<sup>8</sup> *Siwat Auampradit* attempted to measure the effect of music piracy on CDs purchases in Thailand. The econometric result showed that expected quantity of the original CDs individual purchased decreases by 0.001 albums when the quantity of pirated albums individual consumers increased by one album. *Duchene and Waelbroeck* claimed that internet piracy has reduced sales of original CDs and that illegal MP3 files have become a substitute to legal CDs purchases.<sup>9</sup> Several more studies found a negative correlation

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<sup>4</sup> Lonnie K. Stevans and David N. Sessions, An Empirical Investigation into the Effect of Music Downloading on the Consumer Expenditure of Recorded Music: A Time Series Approach, *Journal of Consumer Policy* (2005) 28:311-324.

<sup>5</sup> Alejandro Zenter, Measuring the Effect of File Sharing on Music Purchases, *Journal of Law and Economics*, Vol. XLIX (April 2006).

<sup>6</sup> Byungwan Koh, B.P.S. Murthi and Srinivasan Raghunathan, Shift in Demand for Music: Causal Effect of Online Music Piracy and Digital Music on Album Sales.

<sup>7</sup> David Blackburn, Online Piracy and Recorded Music Sales.

<sup>8</sup> Martin Peitz and Patrick Waelbroeck, The Effect of Internet piracy on CD Sales: Cross-Section Evidence, *Review of Economic Research on Copyright Issues*, 2004, vol. 1(2), pp. 71-79.

<sup>9</sup> Duchene Anne and Patrick Waelbroeck (2005). "Peer-to-peer, Piracy and the Copyright Law: Implications for Consumers and Artist." *Developments in the Economics of Copyright*, Cheltenham, UK, Edward Elgar: 60-79.

between physical album sales and online music piracy and they attribute the cause of decline of physical album sales to the amplified online music piracy.<sup>10</sup>

### III. Evolution of the Music Recording Industry

For centuries man had dreamed of capturing the sounds and music of his environment. Many had attempted it but no one had succeeded until Thomas Alva Edison discovered a method of recording and playing back sound. On December 24, 1877, Edison applied for the US Patent 200 521 which covered talking machines and sound writers to be known as Phonographs.<sup>11</sup> The first phonographs used tin foil cylinders. The earliest system used was cylinders on which sound waves were scribed. In the 19th century, sheet-music publishers started to dominate the music industry.<sup>12</sup>

At the dawn of the early 20th century, the recording of sound began to function as a disruptive technology to the commercial interests publishing sheet music. The original industry standard was overtaken around 1914 by flat disks, the manufacture of which was less costly per unit than wax cylinders. This change in standard led to increasing but still modest levels of competition in the industry. Real competition in the industry would arise in the 1950s with the advent of magnetic tape recording. Magnetic tape was easy to edit unlike recording technology prior to the development of tape and the recording devices themselves were inexpensive to purchase. Moreover the introduction of magnetic tape production technology coincided with the popular introduction of a genre of music generally known as rock-and-roll. During this period concentration in the industry fell dramatically and the number of new firms increased rapidly.<sup>13</sup>

The music industry remained largely unchanged throughout the 1970s and 1980s with album sales hovering around 650 million. In the early

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<sup>10</sup> N.J. Michel, The Impact of Digital File Sharing on the Music Industry: An Empirical Analysis, *Topics in Economic Analysis & Policy*, 2006, Vol. 6(1), pp. 1-22; *see also* S.J. Liebowitz, Testing File Sharing's Impact on Music Album Sales in Cities, *Management Science*, 2008 Vol. 54(4), pp. 852-859 and S. Hong, The Recent Growth of the Internet and Changes in Household-level Demand for Entertainment, *Information Economics and Policy*, 2007, Vol. 19(3-4), pp. 304-318.

<sup>11</sup> The History of Recorded Music, *see* <http://www.soc.duke.edu/~s142tm01/history.html>, visited on 10.7.2013 at 6 p.m.

<sup>12</sup> Music Industry, *see* [http://en.wikipedia.org/wiki/Music\\_industry](http://en.wikipedia.org/wiki/Music_industry), visited on 10.7.2013 at 6 p.m.

<sup>13</sup> Peter J. Alexander, Peer-to-Peer File Sharing: The Case of Music Recording Industry, *Review of Industrial Organisation*, 2002, Vol. 20, pp. 151-161 at p. 152.

1990s CDs started gaining popularity and in a span of 6 years—1992 to 1998—CD shipments from the manufacturer doubled from 408 million (Recording Industry Association of America). CDs were extremely popular because of their convenience and flexibility. Music listeners could repeat songs, shuffle, skip, etc. all with the easy touch of a button — much faster and easier than the guess and check of rewinding a cassette or the delicate finesse of moving a record player arm. At the turn of the millennium, a new form of media began to threaten the dominance of the CD. The MP3 provided similar improvements over its predecessor that the CD had compared to tapes and records only a decade before.<sup>14</sup>

Furthermore, while offering infinitely more convenience and flexibility, digital audio media created whole new possibilities for distribution, sharing, and acquisition. While record company executives were slow to realize the potential in MP3s, 17-year-old Shawn Fanning was not. Napster was created in 1999 as a peer-to-peer (P2P) music file-sharing network that turned the Internet into an almost unlimited cyber-library of free music. At its peak, Napster had 70 million users but was only allowed to exist as a free service for less than two years before it was forced to shut down due to prosecution from many of the largest entertainment and technology companies. In the midst of the music industry's war on Napster, album sales began to decline. Album sales have decreased every year since 2000 and the decline was greatest in 2007.

#### **IV. Overview of the Declining Physical Sales of Music Albums**

The global music industry was quite successful during the 1990s. According to IFPI, album sales grew from US\$24.1 billion in 1990 to US\$39.4 billion in 1996 and remained at a high level until 1999. Those days are over and now the industry is struggling. Global music sales have been falling for approximately the last 10 years. Global sales (units) of CDs – the most popular format – fell in 2001 for the first time since its introduction in 1983.<sup>15</sup> This downturn coincides with the proliferation of online music file sharing.

##### **IV. I. Declining Physical Music Album Sales - Global Overview**

The major setback in physical music album sales started to take a grave form in 2005, when IFPI found that more than one in three of all music discs purchased around the world is thought to be an illegal copy. It is

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<sup>14</sup> Doug Walters, Causes and Solutions for the Recent Decline in Recorded Music Sales.

<sup>15</sup> Alejandro Zentner, Measuring the Effect of File Sharing on Music Purchases, *Journal of Law and Economics*, vol. XLIX, April 2006, p. 63.

estimated that some 37% of all CDs purchased (legally or otherwise) in 2005 were pirate – 1.2 billion pirate CDs in total. Pirate CD sales outnumbered legitimate sales in 2005 in a total of 30 markets. The majority of pirate discs sold are CD-Rs copied on highly efficient burner machines in small commercial labs. DVD music video piracy also started expanding, affecting the format's growth in many markets. 1 in every 3 CDs sold was an illegal copy (IFPI 2007).<sup>16</sup>

Global overcapacity in the optical disc industry remains a major contributor to music piracy. Global disc capacity totaled 60 billion units in 2005, compared to a legitimate demand of only 20 billion units, according to research firm Undertaking and Solutions. Taiwan remains the largest supplier of blank CD-Rs, accounting for just over a third of global supply. Back in 2005 IFPI estimated that the global traffic of pirate product was worth US\$4.5 billion based on pirate prices.<sup>17</sup>

In the United States of America, physical sales suffered a decline by -17% in 2012. In Europe music sales fell by 4.1% to US\$ 5.2 billion (€4.1 billion) in 2012. Physical formats continued to drag down the region's performance, falling by 14% while still accounting for 60% of all revenues. Music sales in France fell by 2.9% in 2012, reflecting a less negative result compared to 2011. The physical decline (-11%) continued to impact overall sales. In Italy, music sales fell by 1.8% in 2012 driven by a speed drop in physical sales. The market in Germany saw acceleration in the rate of decline in 2012, falling by 4.6%. Impacting the results was an 8% decline. In China there was a fall of 17% in physical sales.<sup>18</sup>

Figure 1: Global Recorded Music Trade Revenues (US\$ Millions)

Sector	2011	2012	%change
Physical	9,893	9,403	-5.0%
Digital	5,371	5,798	+8.0%
Performance Rights	862	943	+9.4%
Synchronization	330	337	+2.1%
Total market	16,456	16,481	+0.2%

Source: IFPI, 2013.

<sup>16</sup> Matthias Duenner, The Impact of Legal and Illegal Downloading of Music on the Financial Performance of the Recording Companies

<sup>17</sup> IFPI Recording Industry Piracy Report 2006: Protecting Creativity in Music.

<sup>18</sup> RIN 2013

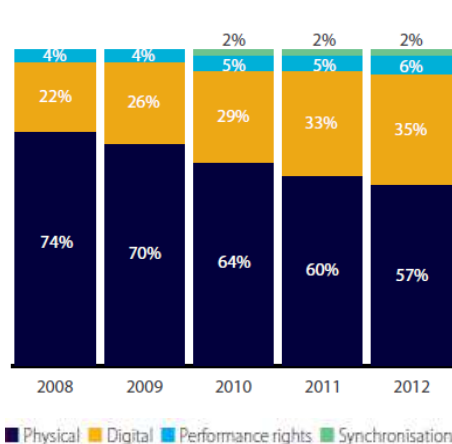


Figure 2: Global Recorded Music Sales by Sector (Value) reflecting gradual decline in physical music sales. Source: Recording Industry in Numbers, 2013, IFPI.

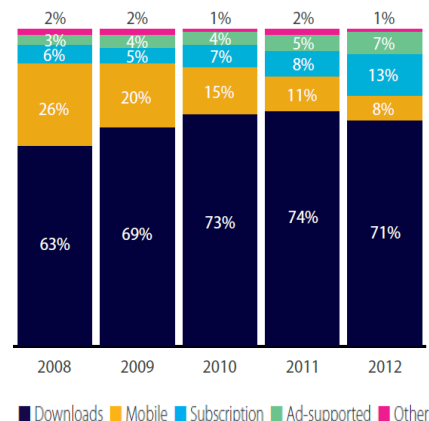


Figure 3: Global Digital Music Sales by Sector (Value) reflecting gradual increase in digital music sales. Source: Recording Industry in Numbers, 2013, IFPI

#### IV.II. Diminishing Physical Music Sales – Indian Scenario

Currently 95% of the Indian physical market is made up of Bollywood soundtracks, regional language soundtracks and local music, with 5% of sales coming from international repertoire. The physical market in India took off in the late 90s with cassettes sold at around US\$1 or less. The traditional CD format took nearly three years to become popular in major urban cities given its higher price (US\$2-10). Before the CD could reach its potential, a unique format of MP3 tracks on CDs stormed the market. Local estimates indicate that 200-250 million MP3 CDs and VCDs were being sold illegally annually. Legitimate MP3 CDs peaked at around 40 million units. As physical sales began to fall, India experienced a mobile revolution that saw the acquisition of more than 600 million mobile subscribers between 2006 and 2010.

Music industry revenues from digital platforms have grown from 4.5 billion INR in 2010 to 7 billion INR in 2011 registering a whopping growth of 60 & year-on-year. The overall Indian music industry has grown to 12 billion INR in 2011 from 10 billion INR in 2010 with physical sales of music being stagnant at 3 billion INR.<sup>19</sup>

In India, digital sales are overtaking physical sales. Physical sales of audio cassettes and CDs have been on a downward path. Physical sales were estimated to be INR 3.3 billion in 2010 as compared to INR 4.0 billion in

<sup>19</sup> India Entertainment and Media Outlook 2012, PWC Report.

2009 showing a decline of 17.5%. While in previous years, piracy in cassettes and CDs was a major issue for physical sales, the challenge now has been easy availability of music online, be it legal or illegal. This provides users with the convenience of selection. Moreover, the next generation also believes in sharing music content among the peer group and this again results in consumers preferring music in the digital formats.<sup>20</sup> Consumers are preferring music in the digital formats.<sup>21</sup>

Figure 4: Sector Revenue Contribution in 2012 – Indian Scenario

Segment (INR bn)	2008	2009	2010	2011	2012	2013p	2014p	2015p	2016p	2017p	CAGR (2012-17)
Digital	1.9	2.6	4.2	5.2	6.0	7.0	8.3	10.1	12.6	16.1	+21.7 %
Physical	4.9	4.5	3.2	2.6	2.3	2.0	1.7	1.5	1.4	1.3	-10.5 %
Radio & TV	0.4	0.5	0.7	0.6	1.4	1.6	1.8	2.0	2.3	2.7	+13.7 %
Public performance	0.2	0.2	0.5	0.6	0.9	1.1	1.3	1.6	2.0	2.4	+22.0 %
Total	7.4	7.8	8.6	9.0	10.6	11.6	13.1	15.3	18.3	22.5	+16.2 %

Source: FICCI-KPMG Annual Report 2013

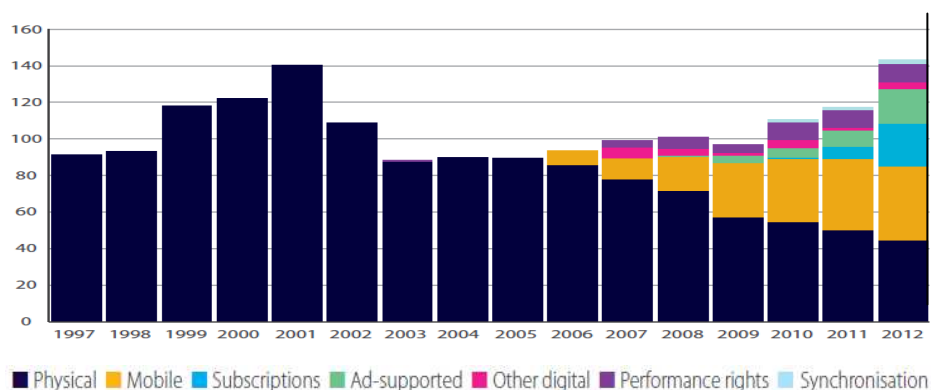


Figure 6: Indian Recorded Music Market (US\$); Source: IFPI 2013.

<sup>20</sup> India Entertainment and Media Outlook 2011, PWC Report.

<sup>21</sup> India Entertainment and Media Outlook 2011, PWC Report.



India is replicating world music industry trends. Music delivery and consumption are fast evolving on digital platforms as revenues from physical sales are fading.<sup>22</sup> The online delivery of purchased music in digital format – as opposed to sales of physical CDs online – became available in 2001.<sup>23</sup> Globally, there are over 100 companies selling digital music. Among the biggest companies are iTunes, Spotify, Napster, Rhapsody and Musicmatch. In India, online music stores, such as Flipkart, Music Today, Infibeam and legal music streaming services, such as, Gaana, Dhingana, Saavn and other download stores have begun their operation. Sales of digital singles are outselling physical singles by three to one in the second half of 2003 (IFPI, 2004).

Country	Physical sales (USD million)	Digital sales (USD million)	Physical : Digital Sales Ratio
US	3,649	2,976	55:45
UK	1,390	636	67:33
Germany	1,789	220	89:11
China	40	125	24:76
Japan	4,190	1,270	77:23
India	73	100	42:58

Figure 5: Physical sales v. digital sales across the world.

Online sales of CDs and both legitimate and illegitimate downloads may render traditional music specialty stores obsolete. Low search and distribution costs, tax advantages, low start up costs and no monetary price for illegal downloads are factors altering the landscape of the retail music business.

## V. Factors Affecting Music Sales

Sales of audio CDs are in their steady decline. With sleek iPods rapidly becoming the hi-fi system of choice, satellite radio offering hundreds of specialty stations and the internet overflowing with all kinds of free and cheap illegal digital music, suddenly the thought of owning awkward polycarbonate compact discs (CDs) that hold only an hour of tunes by just one artist seems positively prehistoric. There are several factors influencing and affecting music sales and current trends beyond music sharing through P2P. They are follows:

<sup>22</sup> FICCI-KPMG-Report-13

<sup>23</sup> Alejandro Zentner, Online Sales, Music Downloads and the Decline of Retail Music Specialty Stores, Centre for the Analysis of Property Rights and Innovation Publication 06-06.

## V.I. Digital Technologies and Decreasing Costs

Prior to digital technology, music was produced and distributed using magnetically encoded tape. Compact disks, introduced to consumers in the 1980s, were the first element in the industry's shift to digital technology. Compact digital disc, or CD, was developed in 1979 and reached Asia market in 1982. Technology improvement reducing price of CD player and the convenience in consumption make CD more popular and replace cassette tape. The development of recordable CD (CD-R) and CD burner make it easy to duplicate music.<sup>24</sup> As a result many consumers were able to use computers to play compact disks for storage and replay on their computers.

Development of MP3 file format<sup>25</sup> dramatically changed the storage and bandwidth requirements. MP3 is an audio compression format that generates near compact disk quality sound at approximately 1/10 to 1/20 the size. To give a practical example of the compression savings achieved by MP3, consider that Brian Adam's "Please Forgive Me" on compact disk requires 24 megabytes of hard disk space, but when converted to MP3 the storage requirement falls to 2 megabytes.

On a 28.8 kilobit per second modem, the compact disk version of "Please Forgive Me" would take at least one and one-half hours to download from another computer. On the other hand, if the file were first converted to MP3, it would take approximately eight and one-half minutes. The transition from analog to digital production and reproduction has had a potentially significant effect on costs within the industry. With digital products the cost of reproducing and distributing perfect copies is functionally zero. Unlike the case where the tape player made production cheaper but did not alter the costs of distribution, digital technology has reduced both reproduction and distribution costs.

In US the average cost for a physical CD is \$ 15.98. The average cost for a downloaded album is \$ 10.00. In India, the price of a very recently released physical audio CD of nine Hindi film songs, "Yeh Jawani Hai Deewani", published by T-Series is Rs. 199/-. However, the official website of T-Series also offers to download all the nine songs of the same album at the rate of Rs. 10/- per song. So, the entire album can be purchased at Rs. 90/-. It is needless to state the difference of price in online and physical mode of purchase and also not necessary to assume the medium towards which consumers will be inclined.

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<sup>24</sup> Siwat Auampradit, The Effect of Music Piracy on CDs Purchases,

<sup>25</sup> MP3 is created by engineers at the German company Fraunhofer Gesellschaft is short-hand for Motion Picture Expert Group- Layer 3.

## V.II. Illegal downloading

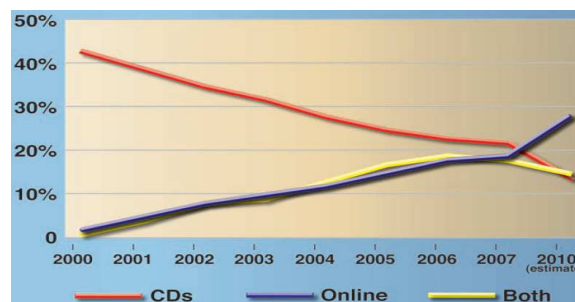
Online music piracy is directly affecting the music industry. If consumers stop buying music, the sales of the music companies will decline. Due to the relatively small size of music files and the growing availability of broadband internet connections, acquiring a pirated song over the internet has become faster and easier than ever. The illegal and unauthorized downloading of music that otherwise would have been purchased is lost revenue to the music companies. However, one needs to distinguish between two different types of lost sales. One is the actual loss from music that was downloaded illegally and would otherwise have been purchased. These consumers were able but willing to pay for music or were able and willing to pay but did not download legally. The other group includes consumers that are willing or unwilling but unable to pay for downloaded music. Since these consumers do not have the money to buy music there would be no revenue to be made from these consumers. Illegal downloading causes decline in sales revenue and income of record companies.<sup>26</sup>

## V. III. Album Prices and Consumer Income

Some have made the argument that the music industry is hurting because CD prices are too high. This argument is based on looking at nominal instead of real prices. Adjusting for inflation, record shipping prices have remained nearly constant during the last 20 years.

## V.IV. Population Age

Different age groups buy different amounts of records per capita. Perhaps because of having no time constraints and musical culture, youths aged 15 to 19 have long been the heaviest purchasers of records, while people over 45 have been the lightest purchasers. If the age distribution has been changing in recent years, it is possible that the current decline in music sales could be a result of the population leaving the high-purchase groups and entering the low-purchase groups.



<sup>26</sup> Matthias Duenner, The Impact of Legal and Illegal Downloading of Music on the Financial Performance of the Recording Companies.

Trends in Music Media Purchases (Taken from Bridge Ratings: 'Music Consumption Study', June 20, 2007).

## **VI. The Outcomes of Declining Music Sales**

The copyright-based industries form important and well-recognized contributory components of the economic and cultural development of any country. They add considerably to national wealth, and therefore declining music sales have a corresponding negative effect on national wealth. The negative effects of counterfeiting on the economy of any developing country are in purely economic terms. Many jobs and investment are lost. It is important to understand the harmful effects of decline in music sales.

### **VI.I. Specific Effects on Developing Countries**

Allowing duplicate or pirated musical products to be sold freely in local markets effectively eliminates all opportunities for a national recording industry to develop. This is because pirates are only interested in dealing in a small range of the most popular recording artists, sure-fire in demand entertainment products that are highly sought after and can be easily sold. They have no interest in making works of local artists, or works less widely known, available. And those independent producers who might in other circumstances have been willing to invest in local recording artists find themselves unable to compete with illicit product.

Pirates pay no advances to performers, no royalties on sales, no licensing fees to composers, songwriters, and music publishers, no fees to graphic artists and photographers, and no tax revenues on their sales. They take no risks and ride along on the promotional and marketing spend of legitimate producers of the musical albums that they illicitly reproduce. A legitimate enterprise, which does incur all of those necessary costs of production, cannot possibly compete with pirate CD's. Recorded music represents the musical life of a society in a particular time. If the best of a nation's performers are not being commercially recorded, then their works are not being preserved and the losses to local culture are incalculable. A key element of the historical memory of the nation is lost.

### **VI.II. Negative Effects on Creative Industries and Local Economies**

Wherever piracy flourishes, it is virtually impossible for local music industries to compete, to grow, or, in emerging economies, to develop at all. All of these industries require significant investment and, even in the absence of piracy, involve considerable risk to investors given the highly competitive markets for these works and the difficulty of predicting consumer tastes and desires. Where any considerable degree of piracy exists in a particular market, making the risk of success even slighter still, it is not

surprising to see investors staying away, with the consequence that new films are not produced or CD's recorded, and all of the employment and trade opportunities that might have derived from such investment are lost.

### **VI.III. Negative Effects on Sustainable Development**

Investment in the cultural sector of any country can be significant and sustained over many years, if investors find in place both an adequate legal system for the protection of the rights in intellectual property and effective enforcement of those rights. If either element of this formula is lacking, a nation's ability to attract such investment and to develop its own cultural industries - together with all of the additional benefits of increased employment opportunities, wealth creation, and tax revenues will be lost.

Due to fall in sales of music CDs/DVDs, not only the music retailing stores, but also the recording studios are getting affected. Lots of recording contracts are being cancelled. The artists are backing off from recording new songs and cancelling recordings. Consequently, from music stores to the owners of music recording studios and all persons connected with these recording studios, fellow artists, musicians – future of all of them are at stake. Their livelihood is in front of a big question. The music stores are saying that they have not anticipated such decline in sales. Previously 250-300 CDs are sold per day, but now-a-days only 50-60 CDs are sold. Not only Bengali music, but also sale of Hindi music is also severely hampered. The owners of recording studios fear that they have no idea how many recording contracts are going to be cancelled in future days.

Approximately 3000 musicians are proximately associated with the studios in Bengal music industry. With them other persons like the people working in press preparing CD inlay cards, people working in canteen and other supporting staffs are also involved in the functioning of recording studios. The manner in which recordings of new songs are being cancelled they have started to fear that their livelihood will be in deep trouble in the coming days. An atmosphere of uncertainty regarding their sustainability is created in the recording studios due to the “recession” in music sales. Their anxiety is rising day-by-day. Many of the owners of recording studios started business by taking loan. Due to loss in business they are not being able to repay the loan. Their business has started to shrink down in an alarming manner and the income and professions of lots of persons are at stake.

## **VII. Recent Closure of Music World Flagship Store at Park Street, Kolkata**

### **VII.I. Formation of “Music World”**

Music World is a group company of the diversified Indian business house of the Rama Prasad Goenka (RPG) Group. The formation of the RPG group of companies dates back to the 1820s, when an entrepreneur, Ram Dutt Goenka came to Kolkata from Rajasthan. He began doing business with the British East India Company. Many RPG brands were a part of almost every Indian's life. Ranging from Ceat Tyres to Sprint cellular telephony and from the HMV music label to FoodWorld outlets, the RPG group touched the lives of a large number of Indians. The group assumed its present form after Hari Ram's grandson Rama Prasad Goenka (Goenka) came into the picture. Goenka was responsible for the formation of the RPG Group of companies

In this juncture it would be pertinent to trace the history of music major Saregama, which dates back to 1901, when the Gramophone Company Ltd., England (GCE) entered India. This British company set up a factory in Kolkata in 1907 to manufacture records and gramophones. In 1931, GCE was merged with the Columbia Gramophone Company to form a new company Electric and Musical Industries (EMI). GCIL marketed its label through His Masters Voice (HMV) and Columbia. HMV lost its monopoly and in 1990 RPG bought EMI stake in GCIL. In 1991 Spencer's store was redesigned and modernized and the store was divided into three formats – ‘Food World’, ‘Health and Glow’ and ‘Music World’. In June 2001, 61 stores of Food World, 13 Music World outlets and 18 Health and Glow Shops were established and their average earning was Rs. 350 million per month. In October 2001, “Music World” emerged as distinct identity.

In the absence of any major countrywide organized sector players, music companies had to shell out a huge amount as margins at various levels in the distribution channel. Issues such as piracy of cassettes and CDs were a major problem, which prevented the industry from reaching its full growth potential. Given these circumstances, the establishment of MusicWorld seemed to have come as a welcome development in the industry. The sales of the outlet soared high, establishing MusicWorld very firmly as the one-stop shop for the city's music lovers. MusicWorld had reportedly become a major factor that changed the way music was sold in India.

### **VII.II. Declining Sales and Closure of “Music World”**

Music World was one of the first entrants into the specialty retail space opening its first store in 1997 and then taking the franchise route in 2003. It started its business through retailing audio CDs, DVDs, gaming consoles and software, besides other music accessories and home videos of

leading brands. The company, which had some 40 shops across the country, has been scaling down its operations since the beginning of April 2012. (fn 27) Unfortunately, India's premier music retail franchisee, Music World's biggest outlet at Park Street will be the last to down its shutters on July 1, 2013. Pirated sales of music products such as DVDs and CDs on streets and pavements is felt to be the main cause for this sudden collapse.

This popular music hub, owned by RP-Sanjiv Goenka Group, had been hit hard by "the onset of digitization of music and shift in consumer preferences towards music and video downloads and is quitting the music retail business forever." according to Sanjay Gupta, the group's corporate head marketing.<sup>27</sup> He added, "Sales were hurtling down and there was no stopping the slide. Sales have been halved in a year and a half. While people were listening to music more than ever, they were obviously not willing to buy it." In the same line the franchisee attributed the group's decision to exit the music retailing business to the constantly falling margins and sales of pre-recorded stored music due to a variety of factors including piracy, digitization in the industry and increasing option of being able to download music straight from the internet. The combination has sounded the death knell for CD shops and made the whole business model itself unviable.<sup>28</sup> Information trickling in suggests that the group felt the impact more strongly over the last six months to a year, with sales dropping over 50 per cent. In the financial year, 2011-2012, the economic loss extended up to Rs 258 crore and in 2012-2013, the loss reached Rs. 300 crore.<sup>29</sup>

A string of music shops have downed shutters in recent years, including Planet M that recognized the ominous signs early and exited the business. The latest to down the shutters was CC Saha on Lenin Sarani, Kolkata that has been retailing music for more than half a century. The store now retails premium luggage. Videocon Group-owned Planet M's share of music in its revenue has fallen from 40 per cent a few years ago to 25 per cent. The chain expects this to fall to 10 per cent by next year, said chief executive Sanjay Karwa. "Music retailing is seeing a lot of challenges from piracy, free download, etc. Today, nobody wants to listen to music released

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<sup>27</sup> Bengal music industry to protest Music World closure, Jun 14, 2013, <http://www.firstpost.com/bollywood/bengal-music-industry-to-protest-music-world-closure-872709.html>

<sup>28</sup> Music World to shut all stores due to falling margins, **ET Bureau** Jun 13, 2013, 04.33AM IST, [http://articles.economictimes.indiatimes.com/2013-06-13/news/39952181\\_1\\_music-world-music-retailing-business-business-model](http://articles.economictimes.indiatimes.com/2013-06-13/news/39952181_1_music-world-music-retailing-business-business-model)

<sup>29</sup> "Surer Jale Chondopoton Music Worlder", Ekdin, Siliguri Edition, June 13, 2013, p. 1.

two to three months ago," he said.<sup>30</sup> Chief Manager of Saregama, S F Karim observed, "Almost 70% sales of Saregama have reduced. As a result, we remain fretful about the sales before releasing new music CDs. We have switched to release digital music."<sup>31</sup> Online retailer, Flipkart shut its music download service, owing to piracy issues.<sup>32</sup>

### VII.III. Notorious Pirated Markets

The pre-dominant form of retail piracy in India consists of burned optical discs with content including music companies in MP3 formats, pre-release music (primarily Indian titles and some international repertoire), and motion pictures on VCDs, DVDs and CD-Rs. The music industry alone reports losses due to hard goods piracy of Rs. 300 crore (US\$55.8 million).<sup>33</sup> Some imported discs and factory-produced discs from India have reportedly still been detected in recent years. Pirated hard goods remained available for open sale through street vendors who were most prominent in metropolitan areas like Mumbai, Delhi, Chennai, Kolkata, and Ahmadabad. Pirated discs are commonly called 'maal' in India – a colloquial term meaning 'goods' but usually used in reference to illegitimate or pirated goods. There are two kinds of maal in circulation: blue and silver. The average blue maal is a low quality VCD – generally a locally produced copy of a Bollywood film. These cost anywhere between Rs. 40 and Rs. 50 in Mumbai. Imports are generally higher-quality silver maal – discs copied from DVD masters. Silver maal are available for both Bollywood and international films and can command a premium price of up to Rs. 100, especially when they replicate the cover treatments of licensed discs.<sup>34</sup>

According to the Report of the FICCI-National Initiative against Piracy and Counterfeiting (FICCI-NIAPC), the share of fake music CDs/DVDs at 40%, The 'Bollywood-Hollywood Initiative' launched by the US-India Business Council with the FICCI has estimated that the Indian entertainment industry is losing approximately 80% of its revenue to counterfeiting (and piracy). Both USTR and International Intellectual

<sup>30</sup> Subhro Niyogi & Rohit Khanna Smart killer of good ol' music business, TNN Jun 16, 2013, 02.25AM IST, [http://articles.timesofindia.indiatimes.com/2013-06-16/kolkata/40005997\\_1\\_music-rights-music-retail-industry-music-world](http://articles.timesofindia.indiatimes.com/2013-06-16/kolkata/40005997_1_music-rights-music-retail-industry-music-world)

<sup>31</sup> "Interneter phanse hansphans CD-DVD", Anadabazar Patrika, Siliguri Edition, June 14, 2013, p. 4.

<sup>32</sup> Lifestyle chains no longer hear rhythm in retail music, [http://www.business-standard.com/article/companies/lifestyle-chains-no-longer-hear-rhythm-in-retail-music-113061301254\\_1.html](http://www.business-standard.com/article/companies/lifestyle-chains-no-longer-hear-rhythm-in-retail-music-113061301254_1.html)

<sup>33</sup> IIPA Special Report on Copyright Protection and Enforce

<sup>34</sup> Media Piracy in Emerging Economies, Social Science Research Council



Property Alliance members have noted various physical marketplaces in India as “notorious” for the availability of pirated/illegal materials.<sup>35</sup>

The United States Trade Representative report has named the places where counterfeit (and pirated goods) abound in India, viz. Nehru Place and Palika Bazaar in New Delhi, Richie Street and Burma Bazaar in Chennai, Manish Market, Heera Panna, Lamington Road and Fort District in Mumbai, and Chandni Chowk in Kolkata. These locations are particularly well-known for the high volume of pirated DVDs, and CDs offered for sale. These places surely need to be kept under vigil for their high-volume trade. USTR expressed serious concern over "India's inadequate legal framework and ineffective enforcement".

#### • Major Pirated Rackets in West Bengal

On August 18, in Chandni Chowk 350 DVDs and 95 VCDs, worth Rs 68,000, were seized. Another 499 DVDs and 232 VCDs, worth Rs 98,500 were seized. Pirated DVDs, VCDs and MP3 discs, worth Rs 2,77,000, were seized in BBD Bag and Chandni Chowk. In the same area 1,115 pirated MP3 CDs of Hindi, English and Bengali songs were confiscated.

In 2008, 367 MP3 CDs, 370 pirated VCDs and 202 pirated DVDs were seized from a vendor at M.G. Road, Kolkata on 15th April 2008. Owner Raja Gupta was arrested. 525 MP3 CDs and 272 pirated DVDs were seized from a vendor at J.L. Nehru Road, Kolkata on 30th April, 2008.<sup>36</sup>

In 2007, 625 MP3 CDs, 458 pirated VCDs and 452 pirated DVDs were seized from a vendor in AJC Bose Road, Kolkata on 3rd May 2007. 1619 MP3 CDs, 3230 pirated VCDs and 840 pirated DVDs were seized from 3 vendors in Brabourne Road on 7th May. 500 pirated VCDs, 225 pirated DVDs and 600 MP3 CDs were seized from 2 vendors in Narkeldanga, Kolkata on 9th May. 4900 MP3 CDs, 1914 pirated VCDs and 4200 pirated DVDs were seized from a shop in Chandni Chowk Street, Kolkata on 17th May. 3525 MP3 CDs, 715 pirated DVDs and 8655 pirated VCDs were seized from a shop in Niamatpur, Dist. Burdwan on 23rd May). 34 CD Writers, 1 Computer, 7329 MP3 CDs, 1245 blank CDRs, 270 pirated VCDs and 6725 inlay cards were seized from a unit in Mukherjee Lane, Dist. Hooghly on 10th May. 6 CD Writers, 650 MP3 CDs, 1550 pirated DVDs, 450 pirated VCDs and 15000 inlay cards were seized from a unit in Siliguri on 22nd May (Value app. 2.7 lakhs). 6 CD Writers, 650 MP3 CDs,

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<sup>35</sup> International Intellectual Property Alliance Submission for the Record Hearing on U.S. – India Trade Relations: Opportunities and Challenges, March 13, 2013.

<sup>36</sup> April 2008 State wise raid reports published by Indian Music Industry in its official website of Indian Music Industry, see <http://www.indianmi.org/newsletter/Apr108/StatewideReports.html#WestBengal>

450 pirated VCDs and 1550 pirated DVDs were seized from a shop in Siliguri, Dist. Darjeeling on 22nd May (Value app. 2.7lakhs).<sup>37</sup>

In 2006, a vendor was searched in A.J.U.C. Bose Road, Kolkata on 3rd November. 859 MP3 CDs and 260 pirated VCDs were seized. 2 persons, Shaikh Kutub and Moni Khan were arrested. 475 MP3 CDs and 672 pirated VCDs were recovered from a vendor at Narkeldanga Road, Kolkata on 6th November. Owner Mohd. Azhar was arrested. In a raid conducted on a vendor in Hazra Road, Kolkata 365 MP3 CDs and 790 pirated VCDs were seized. Owner Raju Moni was arrested. 222 MP3 CDs and 250 pirated VCDs were seized from a vendor in Maniktala Road on 10th November. A shop called Uttam Variety Stores was raided in Asansole, Dist. Burdwan on 23rd November. 2517 MP3 CDs and 4772 pirated VCDs were seized. Another raid conducted in Asansole, Dist. Burdwan on 8th November, on a shop called Music Center and a vendor yielded 3158 MP3 CDs and 5505 pirated VCDs. Owner Imtiaz Khan was arrested. 316 MP3 CDs and 2115 pirated VCDs were recovered from 2 vendors in Durgapore on 9th November.<sup>38</sup>

#### • Major Pirated Rackets in Delhi

The United States has named New Delhi's popular Nehru Place as among the world's notorious markets for pirated and counterfeited products. 'Notorious Markets List' prepared by the Office of the US Trade Representative (USTR) has named numerous physical markets that are trading in pirated products. 'Nehru Place is reportedly one of the many markets in major cities throughout India that are known for dealing in large volumes of optical media and counterfeit goods, containing movies and music.' The USPTR report said.

Besides Nehru Place, Palika Bazaar also has a reputation for a wide availability of illegal products such as and pirated music CDs and movies. Palika Bazaar in Delhi's central district, Connaught place is an enclosed underground market. Palika's great notoriety came with the video-boom. Early on the cassette and video years of the 1980s, Palika emerged as one of Northern India's major suppliers of music, video products, recorded tapes, etc. Every major new audio and video company had shop outlets in Palika, ranging from T-Series to regional productions from other states. As video and electronic shops increased in number and influence, Palika became main hub for circulation of printed music and videos, both Hindi and international, a feature that remains to this day. For enforcement anti-piracy detectives, Palika became a den of vice, a free zone of piracy. By the late 1990s Palika became a site of violent clashes between detectives and shopkeepers. When

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<sup>37</sup> April 2007 State wise raid reports published by Indian Music Industry.

<sup>38</sup> April 2006 State wise raid reports published by Indian Music Industry.

raids used to begin, shopkeepers rapidly closed down shops and counters and the fragmented structure of Palika made recovery of pirated materials difficult.<sup>39</sup>

In 2006 in an excellent raid conducted by the IMI team and the local police officials, a CD replicating unit called 'Dugobh Replication India Ltd.' was raided in Delhi on 9th November. A whopping 80000 pirated CDs, 9.5 lakhs inlay cards, 1 CD replicating unit, 1 moulding unit, 1 printing unit, 1 lamination machine and 1 packing unit were seized. Moreover, shop no. 264 was raided in Palika Bazaar, Delhi on 15th November. 300 MP3 CDs and 1102 pirated VCDs were seized and 2 shops and a store house were searched in Karol Bagh area of Delhi on 16th November. 230 MP3 CDs and 2811 pirated VCDs were seized. 548 MP3 CDs and 1885 pirated VCDs were seized from a shop at Patel Nagar on 17th November. Shop no. 478 was searched in Old L.T. Market, Delhi on 18th November. Furthermore, 1362 MP3 CDs and 2703 pirated VCDs were seized. 1628 MP3 CDs and 902 pirated VCDs were recovered from a premise in Sultanpuri Colony, Delhi on 27th November.

In 2007, 1415 MP3 CDs, 600 pirated DVDs and 129 pirated VCDs were seized from 3 vendors in Lajpat Rai market, Delhi on 19th and 20th May. In 2008, 9 CD Writers, 634 MP3 CDs, 577 pirated VCDs and 450 inlay cards were seized from a premise in Uttam Nagar, Delhi on 23rd April. 626 pirated VCDs and 378 MP3 CDs were seized from a unit at Prem Nagar, Delhi on 18th May.

### **VIII. Conclusion**

The future of music industry is looking miserable with the advent of 3G and 4G technology. The mushrooming of illegal websites has been a dominant trend and is likely continue to dominate the music download business because there are no proper measures to check operations. Retrenchment has set into the music business triggering unemployment. The handfuls of audio companies who are still around are there more out of love and passion than out of pure business interest. But even they are finding it difficult to survive in the current market scenario. Eastern India Music and Home Video Producers' Association presented Seven-point agenda to the West Bengal Government. Some of the steps are introduction of the Goonda Act in West Bengal that is already at work in Karnataka, Kerala, Andhra Pradesh, Punjab, Rajasthan, Uttar Pradesh and Tamil Nadu that include music piracy as a major offence under this Act; Punishment for cyber crime offences must be more stringent; All FM stations should increase the

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<sup>39</sup> Ravi Sundaram, *Pirate Modernity*, (1<sup>st</sup> Edition, Reprint 2010), Routledge Publication, p. 97.

revenue-sharing model with audio companies as it was till August, 2010; Implementation of a law to make it mandatory for FM channels to take permission from licensing authorities and share reasonable revenue to help the music industry producer new albums; Reduction of taxes to cut down on additional burden on the music companies; Permitting downloading from legal websites only alongside blocking of copyright infringing websites with immediate effect; Bringing mobile companies within the ambit of the law and make it mandatory for them to establish a revenue-sharing model with music companies.

The national exchequer is losing huge revenue that can be earned from legal sale of music. The shutting down of iconic music stores because of non-existent physical sales is caused mainly because of piracy and unethical downloads from illegal websites that enjoy the liberty and freedom to carry on with their illegal and unethical business in the absence of stringent laws on the one hand and the absence of application of available laws on the other. Music Labels show little or no interest in recording new music and talents. The morale of many artists is also at an all-time low. This will affect the listeners who will be denied the privilege of listening to new generation of talents and to their favourite singers and music makers.

However, because of the benefits of recent technological advancements in digital music format the transition from physical to digital music format is inevitable. It is the high-time this inevitability is accepted by the music industry. Undoubtedly selling pirated versions of CDs or uploading Illegal MP3 music files over internet are violating the provisions of law, but time has come to bring the desired changes in the music industry to keep in pace with the requirement of time. The reports are showing that globally music is going digital and this format is fetching increased revenues. The recording companies as well as the artists are having an outlook of look down upon music sales in digital format. At the same time they are complaining about music piracy, about the sales of pirated CDs, etc. But, owing to the inevitability of digital format, music sales via online medium is the future. In order to fight against piracy, this inevitable transitional change has to be acknowledged. Sale of counterfeited CDs as well as online music piracy can be controlled, if not eliminated, if the online music sales are regulated, monitored and legalized. In other way, the so-called 'piracy' has to be legally controlled and regulated. The concerned industry has to realize that digital music sales is the prospect since it is getting hold of more revenue, as evident from the global music sales reports.

Governmental copyright policies have to appreciate the scale of the challenge of trying to monetize content in an environment where around 95 per cent of all music is downloaded without payment to artists or producers. (IFPI 2010). The Copyright Act of India is recently amended by the Amendment Act of 2012. However, none of the recent changes appeared to

be inadequate to address this issue. The provisions have failed to give the impression that the laws are at par with the recent transitional changes in the scenario of physical music sales. Apparently the laws appear to be inadequate to offer adequate protection to online music sales. High-time has come to decide where will the music buyers akin to place the future of Indian music industry – will it be in the legal music retailing stores, like “Music World” or will it be allowed to destroy in the rackets of illegal pirated music markets, like “Palika Bazaar”?