

The home taping revolution has knocked record sales out of the growth groove. Help from new technology or new laws is unlikely. Why not offer better quality higher-fidelity cassettes?

Fast forward



Changing the beat in New York's Washington Square Park

"Records are going to be like hardcover books and cassettes like paperbacks."

By Jonathan Greenberg

JESSICA EPSTEIN WAS every record executive's dream. When punk rocker Patti Smith hit the market, Jessica, a 21-year-old student from Brooklyn, donned a black leather jacket and bought every one of her albums. When Talking Heads blasted onto the New Wave scene, Jessica eagerly awaited each new release and "pogoed" to their music at parties. She snapped up products by such new artists as the Contortions and Pere Ubu. Six records a month this young music enthusiast bought, spending about \$400 a year.

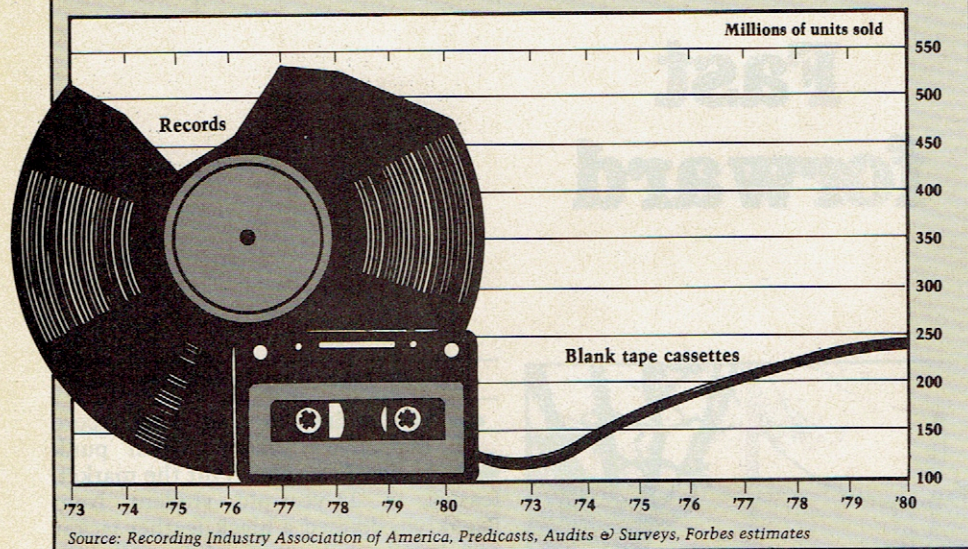
Then something happened. "I was living with a friend and she taped all my albums," Jessica remembers. "I thought, 'Wow, it's really great she can do that.'" Jessica thought some more and bought a \$200 cassette deck that attaches to her stereo. Now, she borrows albums from friends for home taping. "I don't notice any difference in sound quality," she said. She does notice a rather large difference in costs. For \$3 she can record two entire albums on a premium-quality cassette. Her record expenditures are down to just \$60 a year—but she buys \$80 worth of blank recording tape.

Rock fans, however, are only part of the tape craze. Sony's Walkman, a 14-ounce portable tape player with stereo headphones, retails for \$150 and is *must* wearing for joggers, skaters and jet-setters from New York to Los Angeles. Sales, including competitors' models, should top 1 million units this year. A less expensive Walkman—bound to catch on with teenagers—will hit the market soon. Meanwhile, car stereo cassette installations are growing by 30% annually, and demand for high-quality tape deck components is on the rise while turntable sales are falling.

It's easy to see why. Taping music from a phonograph or the radio for personal use isn't against the law, and today's technology makes it cheaper—and

Discs slip; tapes rip

Something is amiss in musicland. After reaching a high of 534 million units in 1977, record sales have steadily wound down. Demand for blank tape cassettes, not coincidentally, has more than doubled since 1973.



in most cases more convenient—than buying a record. Two \$8.98 albums fit on a single \$3 cassette that is easier to store and will never crack or scratch. Also, a battery-powered Walkman-like player is not much bigger than a cigarette pack and goes anywhere. "Records are going to be like hardcover books and cassettes will be like paperbacks," predicts one music industry executive.

The people who make blank tape, of course, have been riding this wave for the past decade. Domestic sales to distributors now amount to \$300 million annually—3 times the 1973 level. Memorex and Minnesota Mining's Scotch division lead the pack in dollar volume and unit sales. Close behind are two Japanese companies, TDK and Maxell, a subsidiary of Hitachi. Both had only a minor share of the market until a few years ago when they began advertising heavily. Now each has about \$40 million in annual revenues from the U.S. Sony, Signal Co.'s Ampex, BASF, Fuji and others also sell blank tape.

Selling blank tape is a cutthroat commodity business—and one that promises steady, if hardly superior, profits. But the tape boom is already eroding unit sales in the \$3.7 billion recorded music industry. Unit sales, which include 99 million prerecorded cassettes, have decreased for the second straight year, from 726 million in 1978 to 649 million last year. Experts estimate that perhaps \$700 million in record revenues was lost last year to home taping. At the moment, the sound quality of a home-recorded blank cassette is often superior to a prerecorded product, which is made on low-grade ferric oxide-coated tape instead of re-

finer ferric oxide or even chromium dioxide, which allow higher frequencies and greater audio levels. And the price difference is considerable: a purchase price of \$3 to \$4 for a top-quality 90-minute blank tape vs. \$14 for two \$8.98 list-price albums.

Unless record companies can reverse that trend, sales will continue slipping.

At the moment, however, industry executives see four potential solutions.

The first and simplest is to bet on the laziness of the American consumer. Says CBS Records' Division President Bruce Lundvall, "Many people don't have the time or inclination to tape at home... after a period of time they won't continue to do it."

Other record moguls want a lobbying campaign for legislation to place a surcharge on all tapes or recording equipment, similar to regulations that now exist in Germany. These funds would then be divided among record companies, publishers and artists. Fat chance of getting that through Congress.

Another possibility is a high-tech fix yet to be invented. It would involve either an encoding system placed on recorders to prevent direct taping from the radio or a new electronic device that would prevent musical reproduction. Some experts believe the latter system will be perfected within the next two years. "They've been talking about this for ages and have never been able to do it," says an electronics engineer.

A few record companies have tried to meet the challenge of home taping, and the results are encouraging. In London, Island Records, for example, sent tremors through the British music industry a few months ago with the introduction of its controversial One Plus One tapes. They offer a premium-quality chromium tape with one 40-minute side containing a prerecorded album and the other left

"One Plus One" equals trouble

Island Records is a \$20 million-a-year company based in the Bahamas that is giving fits to its normally laid-back competitors. Island's new One Plus One cassettes are half prerecorded music and half blank—an encouragement to home taping that is heresy in the record business. Still, Chris Blackwell, the Jamaican entrepreneur who founded the company and introduced reggae music to the world, hardly seems to be puffing Rastafarian marijuana. "People are turning off to records... tape players outsell phonographs in England 4 to 1," he explains. "The problem is that companies sell their cassettes for the same price as records, when clearly they don't have the same value."

Blackwell sees his innovative One Plus One, which is available now only in England, as an incentive to get home tapers to buy prerecorded product. But the trade association of the \$2 billion-a-year British record industry, which claims \$500 million was lost to home taping last year, objects strongly. It recently issued a statement complaining that "home taping is gradually killing the music industry, and it is particularly unfortunate that Island should embark on its venture at this time." A boycott attempt failed, and One Plus One is now a hot seller—at a price well below shorter, inferior quality prerecorded tapes.

So far this has caused only a ripple on the American scene. But the waves should come soon, since Blackwell wants to bring One Plus One here. In the U.S., Warner Communications distributes Island's label, which includes such artists as Bob Marley and Steve Winwood. But the company opposes the new unconventional tapes. Says Stan Cornyn, who heads Warner's record operations, "We endorse Blackwell's belief that blank taping should be discouraged, but we cannot endorse the means he is using."

Cornyn, however, admits he's monitoring Island's British sales, and if buyers keep snapping up One Plus One you can bet that one way or another it will be available in the U.S. soon.—J.G.

blank for home taping. "Record companies grudgingly manufacture blank tapes as if they were by-products. Trying to ignore home taping is like burying your head in the sand," says Chris Blackwell, who founded the small private company 21 years ago. "The best way to encourage people to buy more prerecorded music and steer them away from blank tape is to give them blank tape."

That may sound bizarre, but Blackwell, a Jamaican whose company introduced reggae music to the world, claims Island's sales are up 500% in the months

since he launched One Plus One. His initiative also reveals much about the economics of upgrading tape quality. The manufacturing cost of a typical prerecorded cassette—tape, cartridge, casing and graphics—comes to about 65 cents, vs. 75 cents for a recorded disc. Both can list for \$8.98. Island's improvements add only 20 cents per cassette.

In the U.S. another small independent company has begun to sell inexpensive chromium cassettes. New York's Inner City Records has converted 50 jazz LPs onto high-quality tape with foldout liner

notes. They sell for about \$1 higher than standard prerecorded tapes. Though Inner City launched its tapes just this year, they now make up 20% of sales.

Soon the giants of the industry will probably begin manufacturing similar cassettes. CBS and RCA already have premium lines as good as Inner City's, but both charge \$15 for each tape. At that price they will scarcely lure many people from home taping.

Record executives who expect the competition to fade may suffer from a lingering case of Saturday night fever. ■

From what tiny acorns do mighty businesses grow? Consider the Texas film industry.

Hollywood, look out!

By Toni Mack

TALK ABOUT COMPARATIVE advantage. A movie can be shot in Texas for 25% less than one would cost in Los Angeles or New York; the average 30-second TV commercial costs \$20,000 to tape, half the price on either coast. "You get a lot on the screen at a very good price," says one filmmaker.

With Dallas in the lead, Texas has become the largest regional film center in the U.S. Last year the state played host to 23 feature and television movie productions with a total budget of \$110 million and the Texan filmmakers made an additional \$100 million worth of commercials and industrial films. Sure, California has little to fear—570 films worth \$2.5 billion were made in moviedom's capital last year. But Texas' 23-film, \$110



Producer Joe Camp with Benji memorabilia
Dallas, not Hollywood, was where it happened for him.