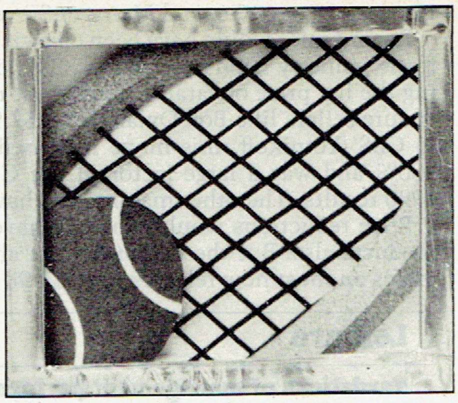
With home taping taking a deadly toll on the recorded music industry, retailers might end up switching to video accessories and allowing records to bite the dust.



Leisure

DESPITE INFLATION AND THE RECESSION, one 26-year-old, $30,000-a-year New York television spot salesman still eats out frequently, buys the latest men's fashions and rents a beachside cottage during the summer. But he's cut back on his record purchases: "Six bucks a pop is too expensive," he says. "I make tapes instead."

So does a growing portion of the U.S.' record-buying public. The sale of tape recorders has overtaken record players at many audio stores, and home recording has become a major discretionary dollar-saving device for millions of Americans. In response, retailers are now offsetting dwindling record sales with blank cassettes and video accessories.

Blank-tape aisle in New York record store
Little room left for the records.

A CBS Records study found that the record industry loses over $700 million in sales annually to home taping on blank cassettes. "We have not been successful, nor do we know exactly what to do to prevent home taping," admitted Walter Yetnikoff, president of CBS Records Group. "It remains a very serious problem. I think it's going to require congressional legislation before it can be dealt with effectively."

Add on at least $400 million in records pirated, counterfeited or otherwise diverted from normal channels every year, and you have a burden not even an industry as vigorous as the $3.7 billion record industry can sustain very long.

According to the Recording Industry Association and the National Association of Recording Merchandisers, unit sales of records reached an alltime high of 531 million in 1978, thanks largely to the unparalleled success of the *Saturday Night Fever* and *Grease* soundtracks. In 1979 unit sales fell to 502 million, and in 1980 may have dropped off another 5%. Which means that, excluding the expected surge in sales of Beatles and John Lennon records following his death late in the year, there were about 30 million fewer records sold in 1980 than in 1973. In the same period, the number of blank cassettes sold has more than doubled to over 250 million.

Home-taped copies of LPs are made from borrowed records or albums broadcast over the airwaves. Radio stations advertise the uninterrupted play of a soon-to-be-released recording, and home-taping enthusiasts tape the entire LP on one side of a 90-minute cassette. Half a high-quality tape costs about $2—a fraction of the cost of an $8.98 list-price disc. To make matters worse, the recorded cassettes most record companies market (about 15% of 1979 industry sales) are usually of a quality inferior to the cassettes made by most home tapers.

Airplay is essential to record sales, so the record companies couldn't simply cut back advances of new releases to stations. Instead, they tried to convince DJs not to play uninterrupted LPs. That didn't work, so last summer Arista, CBS, Chrysalis and Polygram announced they would not pay for retailer advertisements that appeared with ads for blank cassettes. The retailers went along, but consumers went on taping.

The industry then launched a $10 million "Give the Gift of Music" publicity campaign. Lackluster blank cassettes can't compete with shiny record jackets, so gifts—14% of record sales—have so far held their own against cassettes.

But the pinch was beginning to hurt, and early last year the major record companies unexpectedly changed their traditionally liberal 100% return policy (originally designed to encourage distributors and retailers to keep large inventories), and replaced it with a strict credit line and a new 20% return policy. Stores suddenly found themselves stuck with millions of dollars of unsalable, unreturnable inventories, and hundreds of small independent distributors were driven out of business. Norman D. Cooper, Inc., one of Philadelphia's largest independent distributors, found itself stuck with nearly $1 million of unmovable inventory. Two of its smaller competitors were forced to close. Now Cooper can only stock hit products. "I've lost accounts because I haven't been able to carry full-line inventory," says General Manager Steven Parelman.

Record sales would have been off twice as much as they were if the industry hadn't cut prices. CBS led the majors in reducing the list price of catalog items (past releases from hundreds of sure-sellers like Bob Dylan) from $7.98 to $5.98. According to CBS' Yetnikoff, this move increased catalog sales by over 400% and was a large factor in the CBS Group's successful 1980 results. The other major labels have followed suit.

Price reductions would probably have worked well for new products also. But the industry went ahead and increased list prices on most new releases from $7.98 to $8.98, making 1980 the fifth consecutive year of dollar increases. Some albums even list for $9.98, testing the waters for a 1981 price increase. But every increase almost certainly diverts even more consumers to the blank-tape aisles, where prices have been increasing at the negligible rate of 10 cents per year. A $9.98 list price, says John D'Antoni, record buyer for New York's discount retailing chain Disc-o-mat, "could definitely hurt the industry." D'Antoni estimates that unit record sales for the chain were down about 10% in 1980, but the loss had been compensated for by a similar increase in blank cassette sales.

So far the big record companies have managed to stave off

Leisure

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year average	5-year rank	latest 12 months	debt/ equity ratio	latest 12 months	5-year rank	5-year average	net profit margin	5-year average	5-year rank	5-year average	5-year rank
Travel												
Loews	23.8%	1	24.1%	0.7	11.8%	2	10.5%	5.0%	25.4%	1	27.6%	2
Hilton Hotels	23.1	2	26.3	0.3	20.5	1	16.3	19.1	5.0	5	29.6	1
Marriott	14.9	3	19.2	0.8	9.8	4	8.3	4.4	18.7	2	20.5	3
Holiday Inns	11.5	4	15.2	0.5	12.3	3	8.6	7.6	6.2	4	7.7	4
Ramada Inns	7.5	5	8.5	1.8	5.1	5	4.8	3.3	13.7	3	–0.2	5
Medians	**14.9**		**19.2**	**0.7**	**11.8**		**8.6**	**5.0**	**13.7**		**20.5**	
Entertainment												
Columbia Pictures	54.4%	1	24.6%	0.2	18.5%	1	21.0%	6.8%	15.7%	5	D–P	
Warner Communications	31.5	2	34.7	0.4	25.0	3	19.9	11.6	19.3	1	34.7%	2
Twentieth Century-Fox	25.6	3	20.7	0.4	15.9	4	18.9	6.9	18.7	2	38.3	1
MCA	21.7	4	17.8	0.0	15.8	2	20.1	10.6	16.3	4	21.6	3
General Cinema	19.6	5	17.3	1.1	11.2	5	12.8	3.5	17.1	3	16.2	5
Walt Disney	12.7	6	14.0	0.0	12.8	6	11.4	14.8	14.8	6	17.0	4
Medians	**23.7**		**19.3**	**0.3**	**15.9**		**19.4**	**8.8**	**16.7**		**21.6**	
Recreation												
Tandy	47.5%	1	43.5%	0.8	26.4%	2	27.1%	8.3%	25.6%	3	51.7%	2
Resorts Intl	38.8	2	22.7	0.4	16.2	1	29.8	14.0	39.9	1	93.9	1
Parker Pen	26.4	3	26.2	0.1	25.4	3	24.7	5.7	37.1	2	28.4	3
Mattel	24.2	4	14.1	0.8	10.8	5	17.7	3.6	14.3	10	D–P	
Bally Manufacturing	24.1	5	19.5	0.8	10.6	6	17.4	9.0	24.8	4	24.7	6
MGM Grand Hotels	23.8†	6	25.2	1.0	13.5		**	11.0	23.9‡‡	5	28.2‡‡	4
Milton Bradley	20.1	7	23.1	0.2	20.3	7	15.7	8.0	14.7	9	21.7	7
Eastman Kodak	19.3	8	21.2	0.0	20.1	4	18.2	12.4	12.2	12	8.7	11
Franklin Mint	18.7	9	18.3	0.2	14.7	8	15.2	6.1	17.8	7	8.1	12
American Greetings	14.5	10	13.8	0.4	10.0	11	10.9	5.9	11.7	13	10.7	9
AMF	13.1	11	12.9	0.4	9.7	14	9.3	3.5	7.2	17	0.5	15
Caesars World	13.0	12	34.9	2.2	17.1	16	7.4	6.5	23.2	6	27.5	5
Fleetwood Enterprises	12.0	13	def	0.0	def	9	12.0	def	16.0	8	5.6	13
Del E Webb	11.1	14	8.5	1.3	7.1	12	10.5	2.0	8.1	16	13.2	8
Skyline	11.1	15	4.3	0.0	4.3	10	11.1	1.7	3.5	18	–4.0	16
Brunswick	10.8	16	6.0	0.6	5.3	15	8.4	2.4	9.9	14	3.3	14
Polaroid	10.2	17	8.9	0.0	8.9	13	10.2	5.8	13.0	11	10.6	10
Outboard Marine	7.9	18	0.8	0.4	1.9	17	6.8	0.3	8.8	15	–4.7	17
Medians	**16.6**		**16.2**	**0.4**	**10.7**		**12.0**	**5.9**	**14.5**		**10.7**	
Food service												
McDonald's	24.7%	1	22.3%	1.0	12.0%	1	13.6%	10.0%	23.3%	3	24.1%	2
Denny's	21.7	2	12.7	1.7	7.3	3	12.9	2.4	24.3	2	23.2	3
Host International	20.5	3	19.2	0.8	12.2	2	13.0	4.1	12.6	5	20.8	4
Hardee's Food Systems	20.2	4	21.1	1.1	10.8	4	12.2	3.5	17.1	4	34.8	1
Gino's	4.9	5	def	4.1	1.9	5	5.7	def	11.7	6	–13.7	5
Sambo's Restaurants	def	6	def	3.9	def	6	4.4	def	25.7	1	P–D	6
Medians	**20.4**		**16.0**	**1.4**	**9.1**		**12.6**	**3.0**	**20.2**		**22.0**	
Industry medians	**19.6**		**18.3**	**0.5**	**11.8**		**12.5**	**5.8**	**16.0**		**20.5**	
All industry medians	**15.8**		**16.1**	**0.4**	**11.0**		**11.1**	**5.0**	**14.3**		**13.9**	

Note: Explanation of Yardsticks calculations on page 49.
†Four-year average. ‡‡Three-year growth. P-D: profit to deficit. D-P: deficit to profit; not ranked. def: deficit.
**Not available; not ranked.

the onslaught. Earnings at CBS Records were up about 25% in 1980; Warner Communications, Polygram and RCA kept earnings from their record businesses roughly on a par with 1979, and MCA had a large income increase reflecting its acquisition of ABC Records. But how long these kinds of results can last is anyone's guess.

The industry's distributors and retailers are not waiting around for congressional legislation or John Travolta to help ailing sales. They are keeping their eyes on the future and they're not looking at audio discs. They're looking at videotapes, video discs and electronic game cartridges, which carry much higher markups than records. For distributor Parelman, video accessories represented nearly 15% of his sales last year, up from nothing in 1979. Henry Brief, executive vice president of the International Tape/Disc Association, says that the sale of video cassette recorders (VCRs) probably topped 750,000 in 1980, up 58% over 1979, and should nearly double in 1981. At the same time, 1980 blank videotape sales were up 42%.

With record unit sales declining, the next new wave in the leisure industry promises to be electronic games, the hottest innovation since the invention of the phonograph disc. Atari, Inc. has increased Warner's consumer electronic and toy division revenues from $238 million in 1979 to about $400 million in 1980. The consumer buys a computer video system for $150, then cartridges of such games as Space Invaders and Asteroids at $20 a shot, to bring star wars into the living room. When he is bored with one game, he simply goes to the record store and buys another one.

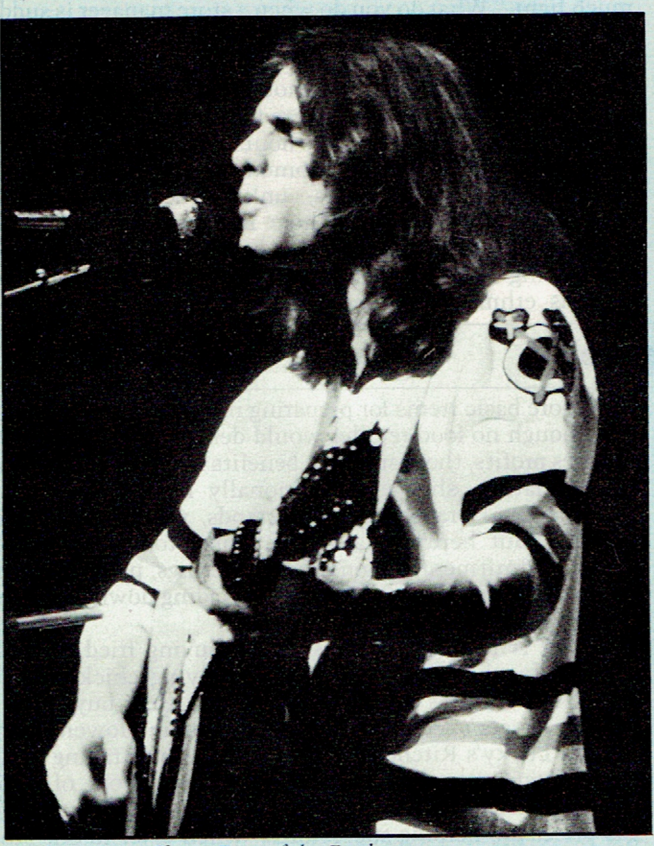
For the future, says analyst David Londoner at Wertheim & Co., the major direction of the leisure industry is the move in prestige consumer durables toward home video durables: "I think what you see is the anxiousness of the American public to embrace this whole video technology and bring the screening room into the home."

For the record companies this may just be the handwriting on the wall.—**Jonathan Greenberg**

Too old to rock 'n' roll?

When the ultrapopular rock band, the Eagles, set out on tour last summer, they chartered a 727 for a month at $300,000, assembled a crew of 47 and stayed at the best hotels for $6,000 per day. Even adding in salaries, equipment and freight charges, the group's expenses probably didn't amount to half their revenues. That's because the Eagles were paid about $350,000 for every night they performed.

The Eagles are among a dwindling number of rock bands that can afford such extravaganzas. These days nearly 90% of the bands on tour fail to make money. Although hot groups still sell nearly as many tickets as ever, there aren't as many hot groups as there used to be, and soaring expenses are eating away at promoters' profits. "It used to be," says Larry Magid of Electric Factory Concerts, which handled about 300 concerts in 1980, "you would make a healthy profit on $85,000 for a concert. But now you can easily lose $20,000 to $25,000 if that's all the business you're generating."



Lead guitarist Glenn Frey of the Eagles
An endangered species?

Until last year such losses were often subsidized by the record companies that contributed millions to touring groups in order to boost disc sales. But no more. Rock isn't selling the way it once did, so the companies have drastically reduced their support. According to the National Association of Recording Merchandisers, rock music dropped from 41.7% of record industry sales in 1978 to 37.4% in 1979, and lost a few more percentage points in 1980.

Rock isn't drawing the concert crowd either. Ticket prices are getting higher and audiences are getting younger, explains Stephen Bernstein, the 24-year-old president of Air Apparent, a Los Angeles-based concert tour company that handles travel arrangements for Fleetwood Mac and Diana Ross, among others. The record industry's decision to raise the price of new LPs even further won't help any either. "The average ticket costs $12. Added to an $8 record, that's $20 for a 15-year-old kid. So you're going to see fewer record sales and that means fewer concert tours, and less business for me."

Fewer rock concerts also means trouble for civic halls and arenas across the country, where municipalities have depended on rock concerts for a portion of their income. Now that such once-popular groups as Heart and Dave Mason fail to draw audiences, the concert halls are feeling the pinch. College audiences seem to offer little relief for the hard-pressed, marginally successful rock band. In 1979, when the Marshall Tucker Band played at the 7,000-seat Broome County Arena in upstate New York, the show was a sellout. A year later student promoters at the State University of New York at Binghamton thought the group would surely be worth the $30,000 it cost to have them perform, even at $10 a ticket. But like other college performances in Albany and Oswego, the concert was a dismal failure. Only 2,000 tickets were sold, and the school lost $12,000. David Wysnewski, a student-association president, said, "We've reached the point where every rock group is not going to sell out. So when the concert commission puts on a show they're going to have to think twice about who they invite."

Teenagers from the baby-boom years of the late Fifties have aged and been turned off by the large concert crowds and audiences disrupting shows, and the reverberations of that Cincinnati concert in which 11 Who fans were killed in a stampede still linger in people's memories. Rock just doesn't pull the way it used to. As Air Apparent's Bernstein admits, "People are tired of paying $18 to sit a mile away from the group they're seeing—they enjoy the intimacy of a smaller club more."—J.G.