Digital Love.

Can the music industry be saved? **Miles Leonard**, chairman of Parlophone Records UK and Warner Bros Records UK, makes the case for a digital future based around access not ownership

Words: Eugene Costello

Only the most obstinate, on-message, "my company, right or wrong" corporate spokesperson would try to claim that the record industry has not taken a pummelling in the last decade. In 2004, the global record industry was worth $21.9 billion, whereas last year it accounted for $15 billion, down around a third. In the UK, the story is even worse, closer to a 50 per cent drop.

But rumours of the death of the music industry have been greatly exaggerated.

"Record companies, as they were then called – nowadays we use the term music companies more accurately – were interested in selling physical copies of CDs, vinyl or cassettes," says Miles Leonard, chairman of Parlophone Records UK and Warner Bros Records UK.

There was little interest in any other part of the business such as live opportunities or working with brands, and there was very little piracy. "The route to market was pretty straightforward – you had radio, TV and press and that was it," Leonard continues. "It was straightforward and didn't change for many years – the only change was really format, ie vinyl to cassette, cassette to CD."

What this meant was that the labels were the "gatekeepers of the market", they would promote to a selected targeted audience through radio and TV, and could manipulate sales through press and granting or withholding access to artists, not to mention deciding when they would release singles from an album.

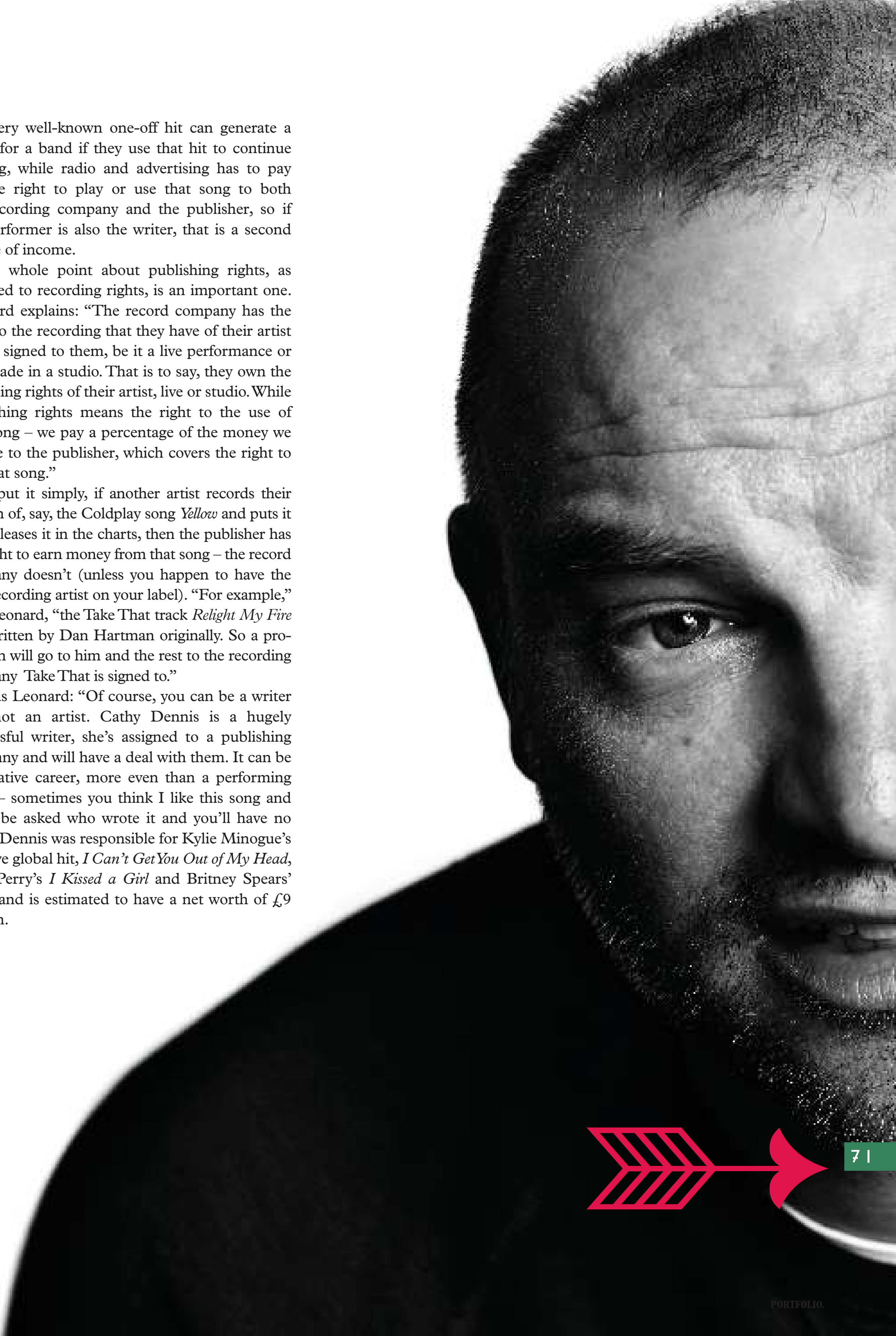
"Back in the day, 12"s were £3.99 or £4.99, the original 7" was about £1.99, so not to be sneezed at, though nowhere near as important as album sales, when you consider that in the '90s, we could sell album CDs for £12 to £15 and upwards, especially for well-packaged special editions for collectors. But some acts have a lifetime of earnings off the back of one single – there can be a big market for one-hit wonders," says Leonard.

A very well-known one-off hit can generate a living for a band if they use that hit to continue touring, while radio and advertising has to pay for the right to play or use that song to both the recording company and the publisher, so if the performer is also the writer, that is a second source of income.

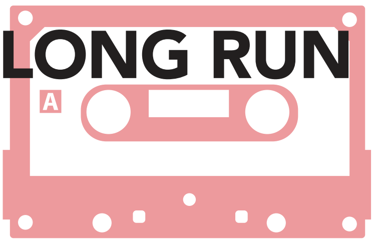
The whole point about publishing rights, as opposed to recording rights, is an important one. Leonard explains: “The record company has the right to the recording that they have of their artist that is signed to them, be it a live performance or one made in a studio. That is to say, they own the recording rights of their artist, live or studio. While publishing rights means the right to the use of that song – we pay a percentage of the money we receive to the publisher, which covers the right to use that song.”

To put it simply, if another artist records their version of, say, the Coldplay song *Yellow* and puts it out, releases it in the charts, then the publisher has the right to earn money from that song – the record company doesn’t (unless you happen to have the new recording artist on your label). “For example,” says Leonard, “the Take That track *Relight My Fire* was written by Dan Hartman originally. So a proportion will go to him and the rest to the recording company Take That is signed to.”

Adds Leonard: “Of course, you can be a writer and not an artist. Cathy Dennis is a hugely successful writer, she’s assigned to a publishing company and will have a deal with them. It can be a lucrative career, more even than a performing artist – sometimes you think I like this song and you’ll be asked who wrote it and you’ll have no idea.” Dennis was responsible for Kylie Minogue’s massive global hit, *I Can’t Get You Out of My Head*, Katy Perry’s *I Kissed a Girl* and Britney Spears’ *Toxic*, and is estimated to have a net worth of £9 million.



TRYING TO SHUT DOWN PIRATE SITES IS COSTLY, EXHAUSTING AND PROBABLY IMPOSSIBLE IN THE LONG RUN



But those days are gone, so what of the future for the music industry?

For Leonard, it is clear: the future is digital, and it is one based on the individual who proactively seeks out music, rather than passively buying what the labels offer up. "We of a certain age can all remember recording the Top 40 on BBC Radio One on a Sunday night, say, 30 years ago, finger hovering over the pause button to try to weed out the DJs waffle between songs, and it was the case that you were served up whatever you were served up," he says. "Now the consumer has the most powerful voice, now there is access to almost anything, whether signed and even not signed. The individual can seek out whatever they want to listen to, and they choose what music they listen to, rather than being influenced or manipulated by record companies and the press. Or to a far, far lesser extent, anyway. So that is good news for the consumer – the market now is a better place where the consumers and fans have a voice in the industry."

Of course, it has meant a huge bloodletting in the marketplace and a massive restructuring for labels. Many independents have gone to the wall, and the huge labels that have survived have had to trim a lot of fat and look at new revenue streams. Chief among these is the subscription-based digital streaming model.

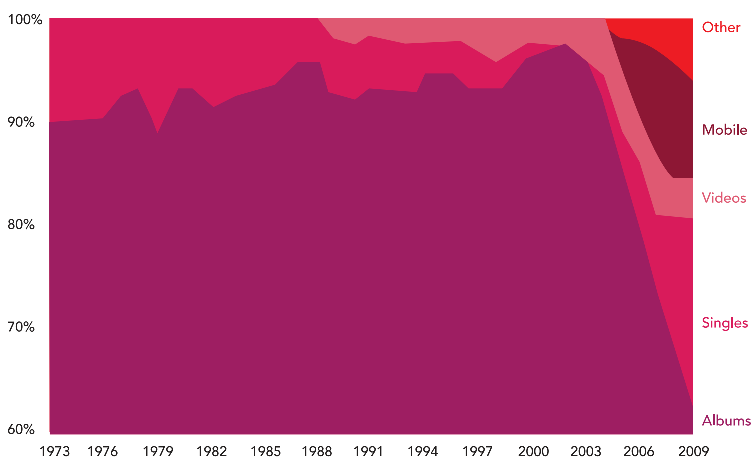
"Over the past five to ten years, the digital age in all creative industries has forced an exciting change," says Leonard. "Access to all music is easier, the touchpoint for a fan to see and hear music at the same time is phenomenal. The speed at which you can access music is great, it has burst open the industry to the consumer in a huge way."

Business models, he says, have had to change to be able to compete. "Online is free, so how do you compete with free?" Leonard asks rhetorically. "The consumer has to have a very easy experience, for example trawling through pirate sites can be difficult, but the genuine sites like Apple, Spotify and Deezer are great digital platforms laid out in such a way that it offers a great consumer experience.

"Trying to shut down pirate sites is costly, exhausting and actually probably impossible in the long run – they simply shift to other servers in other jurisdictions. And we are up against evermore sophisticated methods by the pirates. For instance, there are third-party apps that allow you to import music from sites such as YouTube. It's called skimming or swiping, and just shows that as soon as we shut down one area of piracy, another will crop up, so it's better to put our energy into offering a quality consumer experience so fewer people will use pirate sites and apps."

On the quality of the streaming platforms, Leonard is impressed with what Spotify has achieved: "Spotify competes by offering a free platform funded through playing advertising every 20 minutes (we call this freemium), and then there's premium where you pay around £10 a month and you have a premium platform minus the ads." So rather than pay lawyers to litigate against the ever-mushrooming pirate sites, you make it easy for the consumer: "You can create your own playlists, there's no difference between freemium or premium, it's just that premium loses the ads, which are every six tracks or so. Some don't mind, which is fine, and some find them

WHERE THE MONEY CAME FROM



From 1973 to 2009, these figures from the Recording Industry Association Of America show how important album sales were to revenue and how the industry is diversifying.

annoying and are happy to pay the relatively modest monthly subscription.

"It's all about access, not ownership; people pay several times that amount for Sky TV to access content, so I would say this is perfectly reasonable in terms of having unlimited access to music."

And those acts that are unconvinced about putting all their work on streaming sites? He is quite clear that it is the future. "We'd rather the music was available where you can earn money even in small amounts as opposed to not being paid at all by a pirate site," he says, adding that consumers often go to a pirate site to find something that's not on a streaming site, so paradoxically not being on a streaming site can feed piracy.

Of the various streaming sites, Leonard has a great deal of respect for Spotify. "Spotify were the future of streaming when they launched, around seven years ago; they have had to build it up from scratch, they know what their core business is and they continue to build upon consumer experience," he says. "The product is right, they're innovators and they became the ones to go to for streaming. Apple has only just launched."

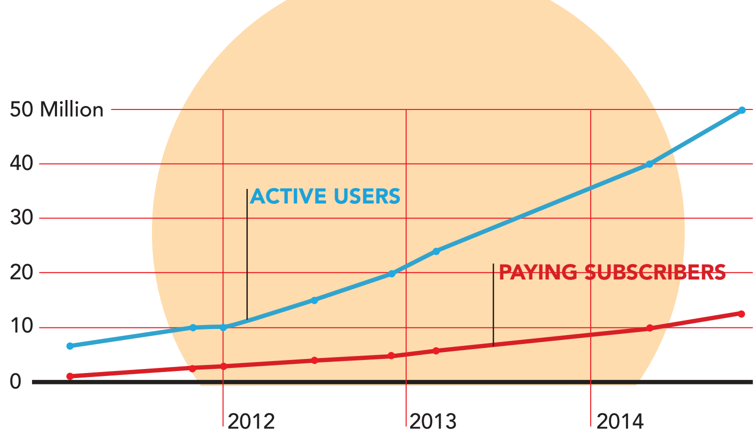
He points out that Apple came to the table very late because, unlike Spotify, they didn't grasp that the future was about access, not ownership. "They were blinded by their iPods for a while, as iPods were still about ownership of music for the consumer, the only difference being that you downloaded the song that you paid for and then owned, rather than bought it on CD. As an industry, we are excited that Apple have done it, it already has a consumer base worldwide of some 400 milion who have signed up with their credit card details."

As well as streaming the industry has been forced to look to new revenue streams, such as licensing music for use on TV and film and working with brands to help get their message across by associating with the right artists for their product. "Brands recognise that music is a direct way of connecting with an audience – music is about emotion," Leonard says. "It can be happy, sad, melancholy, aggressive, and so on. Artists still connect, and can have an affinity, with an audience that brands don't have, but want. They can reach these groups through an artist across social platforms. It's more about engaging with the groups, not flogging products."

And it can be a mutually beneficial process, he points out: "These companies have a lot to spend on marketing. So if you're putting your track into a global marketing campaign for, say, a new product, they will spend a fortune on advertising so there will be people who wouldn't necessarily have heard your music. They'll see an advert for a car and will wonder who the artist is. It works for the artist, you know you'll get revenue from letting them use your song in an ad but also it's about reach, about finding a new audience." UK online advertising industry magazine *The Drum*, for instance, for instance, has a weekly 'Shazam' chart, based on the number of times each ad has been 'Shazamed' over the past week using the popular music identification app.

Labels are even getting involved in the revenue from live ticket sales, something they had no part of before. "Music companies do make money through artists' live music whereas they didn't ten years ago," he says. "That's because of the huge investment that music companies are still having to make into marketing artists – the cost of marketing artists has gone up, not down, because there are so many places and platforms where you have to do it. And the cost of making records hasn't really changed a great deal either. The deals we cut with artists are because we're making such huge investments into building and marketing their brand, which

SPOTIFY'S USER GROWTH



IS SPOTIFY FAIR?

In 2013 Thom Yorke called it "the last desperate fart of a dying corpse" but Spotify now has 60 million users, of which around a quarter are paying. Those who pay don't get intrusive adverts after every third of fourth song. Spotify announced that they took $1.03 billion in revenue for 2013 and say they pay 70 per cent of that to record companies and music publishers. Not all are happy though.

All About That Bass by Meghan Trainor was one of the biggest-selling digital singles of all time. Kevin Kadish, who wrote the song, says he made just $5,679 from 178 million streams of the song. He told the US House Judiciary Committee during their investigation into copyright laws: "That's as big a song as a songwriter can have in a career and No 1 in 78 countries. But you're making $5,600. How do you feed your family?"

Similarly, YouTube pays for plays but Ellen Shipley, co-writer of Belinda Carlisle's *Heaven Is A Place On Earth* (with a 50 per cent share) reported receiving $38.49 for 2,118,200 streams the track had accumulated on YouTube during one quarter.

Yorke, meanwhile, gave away his latest album via a BitTorrent feature called Bundles, which allows artists to both sell and give away their material. Some was free but the whole album cost $6. It was downloaded over 4.4 million times with Yorke retaining 90 per cent of the money. No record label needed, potentially more than $20 million received.

OWNERSHIP IS FOR THE OLDER GENERATION, IT'S NOT JUST A CULTURE, IT'S A MINDSET. THE FUTURE IS ONE OF ACCESSS

in turn helps them to sell tickets to live gigs, so there's an absolute correlation between having hit records and selling tickets."

There was a point where record companies had enough revenue from music alone that they didn't need to look at other revenue streams to keep the industry buoyant, he points out. "But as I read those stats [see above], the revenue from simply recording music has taken such a dive over the past ten years that investing as much as they have to not only new artists but artists already signed, the cost hasn't changed even though the income revenue has gone down, so you have to get it from somewhere."

The amount of investment a label has made into a band has a direct effect on the band's ticket sales, he says. "So if we stop spending thousands on your videos, and marketing you, your tickets won't sell. So we're saying, let's work together — and that means sharing in live sales where appropriate. And this will only apply to artists we have signed in the past ten years, because older artists will have been on different contracts. So we think it's transparent, and we think it's fair."

The record/music industry can learn lessons from the fragmentation of the TV and radio sectors. "Radio has adapted and understood. Kids never have radios in their bedrooms anymore. Apple's Beats 1 is a new global radio station, broadcasting live from LA 24/7. How are kids listening to music? On smartphones and on tablets via iPlayers, Spotify, YouTube and online radio stations – it's a very fragmented way. You used to just have terrestrial TV with four channels, the channel Dad watched was the one everyone watched. Now you have Jimmy upstairs watching NetFlix, Dad watching Sky sports, Mum on ITV... family time in front of the TV doesn't really happen anymore," says Leonard.

So despite the drop in revenue figures, Leonard sees a healthy future for the industry, especially as streaming will be second nature to today's youngsters. "Younger consumers pay for access rather than ownership, nobody these days needs to clog their phone memory with songs," he says. Memory on a phone or laptop is precious – the more memory we can free up by using the Cloud, the better. The more you can pull down from streaming, the more you're not using up your device's memory.

"Ownership for the younger audience is going to become quite alien to them. We used to buy a song and own it, you used to only be able to listen to a song if you went out and bought the CD. Now you can listen to whatever you want. You can store them in your playlist or whatever and it becomes a much more valuable experience. Ownership is for the older generation who feel that they need something more tactile, where ownership is key, it's not just a culture, it's a mindset. The future is one of access."

We are poised on a transformative paradigm shift both within the industry and in wider society as we move fully into the digital age. What the industry has to do is to educate the consumer and invest in doing so, to move from ownership to access. The experience with streaming is great, he says, and there is a low barrier to entry. In the days when the labels simply sold records, the artist would get one payment and that was it. "Now," Leonard points out, "if a record is played a million times, the artist gets a million payments. Yes, they are small, but every time a consumer listens to that track you will get a payment, and artists are waking up to that. We just need to build on that."

FROM EIGHT-TRACKS TO DIGITAL – THE RISE AND FALL OF MUSICAL FORMATS