

ECONOMIC RESEARCH COUNCIL

Creative Destruction in the Music Industry

THE WAY AHEAD



By Andrew Ian Dodge

Foreword by Jo-Anne Nadler

December 2006

Edited by Dan Lewis

ERC COMPARATIVE ADVANTAGE SERIES – PAPER 2

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Creative Destruction in the Music Industry – THE WAY AHEAD – By Andrew Ian Dodge
ISBN-13: 978-0-903499-25-5

Published by the Economic Research Council 7 St James's Square London SW1Y 4JU

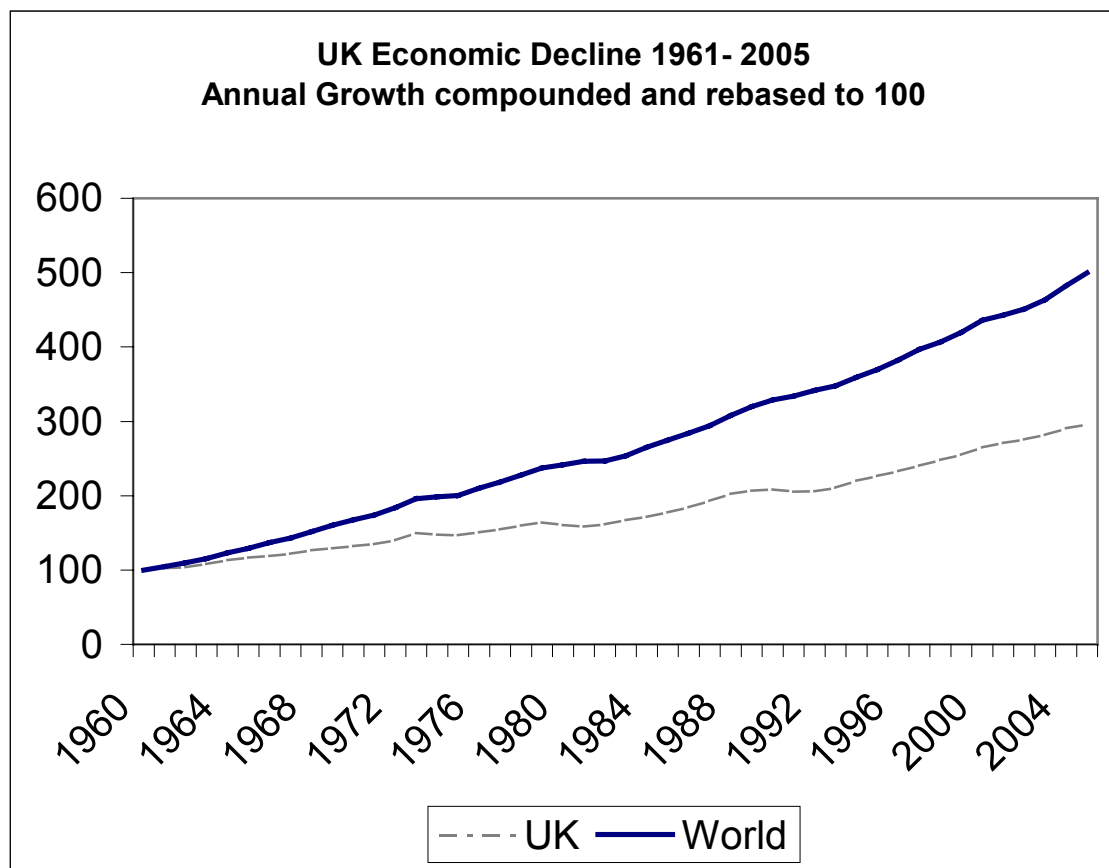
About the comparative advantage series

Comparative Advantage;

“The principle that under given technological conditions the increased product obtained from specialization and exchange rather than from a policy of self-sufficiency and economic isolation will be maximized where each country or region specializes in the production of those goods and services in which its relative advantage is largest.”

From *Everyman’s Dictionary of Economics* by Arthur Seldon and F.G. Pennance

Britain is in economic decline.



According to figures obtained from the World Bank, the UK economy has only exceeded world economic growth since 1961 just 10 times; in 1973, 1982, 1983, 1986, 1987, 1988, 1993, 1994, 1998 and 2001.

This consistent underperformance would have to be reversed if the UK is to maintain its position in the world. In the face of accelerating globalisation, Britain needs new comparative advantages in order to continue to compete and achieve a higher standard of living in the 21st Century. The ERC Comparative Advantage series will ask experts of all professions to look

dispassionately at their respective industries in the UK to ask and explain what can be done better. We will also be taking a hard look at areas in the public sector and how to make them more efficient in the cold light of international comparison. There is absolutely no intention here to pick winners. The series merely aims to close the gap between expert knowledge and public policy in order to further enhance economic performance and by analogy the UK's global standing. The ERC is not committed to any of the views expressed in this paper.

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Foreword

The music industry – it's cutting edge, right? Well, no, apparently not. Here's a business frequently courted by politicians keen to associate themselves with modernity and change but its biggest corporate names are proving so slow to adapt to technological innovation that they risk undermining their very existence. That's the irony presented in this timely paper by musician Andrew Ian Dodge. Perhaps it's also an irony that it has taken an American to shake us Brits up to the possibility that the sponsors of Cool Britannia are betraying home grown talent, both directly by failing to turn innovation to mutual advantage and indirectly by maintaining an overly cosy relationship with the BBC, whose protected market share disproportionately limits the range of music radio in this country.

Not everyone will agree with Dodge's thesis but he has done the cause of British music lovers and music makers a great service in treating this industry with the sort of serious concern commentators usually reserve for dryer subjects. For years industry chiefs have rightly argued that their business worth millions of pounds in exports has not been taken seriously. It is entertainment, it is frivolous, it is ephemeral, so how can it be assessed rationally along side heavy industry or finance? Ever since the birth of rock and roll Britain has consistently produced some of pop music's biggest names. A modest zebra crossing in Abbey Road, NW8 is our characteristically low key answer to Graceland but it daily draws a steady flow of music fans on their own type of pilgrimage. Despite the talent though, the British industry and market place were always seen as the quirky or even poor relation of its US counterpart, especially during the 1970s and 80s. But with the evolution of the Brits, the Mobos and even Simon Cowell into global brands UK music companies have launched a successful PR fight back highlighting its professionalism and the profile.

So what exactly is the problem if the British industry once again has global recognition? Dodge brings the musician's perspective reminding us that this glitzy edifice is nothing without the talent to celebrate. Traditionally the industry has relied on a team of so called A and R (artists and repertoire) people to go out and find unsigned bands playing in dingy basements. What the industry doesn't want to acknowledge is that increasingly the gig has been done in by the gigabyte.

In a multi national industry record labels are generally only one arm of global corporations that also manufacture the consumer hardware used for listening to music at home. Having developed and invested in certain technologies they have a vested interest in resisting competition that enables consumers to by pass them all together. Such is the power and reach of the internet, and the flexibility of digital, that within so short a time it has simply created a revolution in the distribution of music, leaving record companies potentially redundant. Not only can fans burn their own compact discs or download music digitally seriously challenging the retail market, they can also download unpublished music directly from its creators. As long as there remains a certain cache in

'getting a deal' its only the A and R men (they usually are men) whose jobs are threatened by the likes of the *Arctic Monkeys* and *Sandi Thom* launching themselves on the net, but as CDs become redundant as they are bound to do, these digitally self propelling artists mightn't need record company backing at all. Thus far the industry, in Britain particularly, sees internet distribution – the phenomenon of downloading - as direct competition. Dodge argues with force that it is biting a hand that may well feed it and if it continues to do so this hand will certainly crush it.

Rather than resist technology the British industry must embrace it and innovate along with consumer demand. It's a market driven argument that is hard to resist – unless it seems you are a record company executive with an investment in CD to maintain. More controversially perhaps Dodge extends his concerns about the weaknesses of the British industry to the role of the BBC in limiting market choice. In a former life as a Radio One producer it did at times fall to me to choose records for the nation's delectation. I certainly have my doubts, as would any thoughtful but necessarily subjective critic, about whether the BBC always arbitrates the nation's tastes appropriately, but it is worth noting that Radio One suffers from the same lack of being taken seriously as does the pop industry as whole. Few politicians consider the case of pop music broadcasting when they make the well-trodden arguments about what does and what doesn't constitute 'public service' broadcasting. Curiously these Radio 4 and Radio 3 types always argue that their preferred services are in the public interest but Radio 1 and 2 should be sold off immediately. It's the time worn cliché of the cultural imperialist. If there is public service argument for Fiona Talkington then there is one for Zane Low, whose varied repertoire is not matched in the commercial sector. Without fair competition it is impossible to say that it wouldn't be, so the answer is probably to commercialise the whole lot but for now Dodge argues that extending the range of digital radio services can reinvigorate music making of all types by providing narrow casting to suit all tastes. As it happens the BBC is doing well to protect its unique status and brand precisely by embracing new technology and innovating in digital broadcasting. It's a lesson the British music industry would do well to take on board.

Jo-Anne Nadler.

*Jo-Anne Nadler www.jo-annenadler.com is an established political author and commentator. Her career started in the music industry as a producer for BBC Radio 1, before moving on to the Press Office of the Conservative Party and then back to the BBC as a producer and reporter for the politics flagship *On the Record*. She has since published two books including *Too Nice to be a Tory*, a personal account of the mixed fortunes of the Conservative Party and contributes regularly to the media. She is currently working on a book about David Cameron's Conservative project.*

About the author

Andrew Ian Dodge

Andrew Ian Dodge is a 38 year-old American living and working in London. He is a published writer, novelist, blogger, computer games consultant and the lyricist/ frontman for *Growing Old Disgracefully* (www.disgracefulmusic.com). He reviews music (under the nom de music Marty Dodge) for Blogcritics.org, GetReadytoRock.com and several other sites. He has published *Sex, Drugs, and Rock & Roll: A Libertarian View* via the Libertarian Alliance. He hosts a podcast called Dodging Reality and appears regularly on various other popular internet and terrestrial radio shows. Dodge is a policy adviser to Dr Lee Rotherham - a Conservative London mayoral candidate – and “Cry Freedom” a song by Dodge’s group, Growing Old Disgracefully has been selected as the theme tune for Dr Rotherham’s mayoral campaign.

A statistical overview of the global and UK music industries

World Music Sales 2000 – 2005

Year	Trade Value US \$m at 2005 Exchange Rates
2000	\$25,457
2001	\$25,151
2002	\$23,415
2003	\$21,700
2004	\$21,469
2005	\$20,795

Sales in the UK as a % of World Sales

Year	(Trade Value)
2000	8.5%
2001	9.2%
2002	9.6%
2003	10.4%
2004	10.4%
2005	10.4%

Leading world markets as a % of world sales value

USA	33.7%
Japan	17.9%
UK	10.4%
Germany	7.0%
France	6.0%
Canada	2.6%
Australia	2.1%
Italy	2.1%
Spain	1.8%
Brazil	1.3%

Total sales value: 1980 – 2005

(Market Value of UK Trade Deliveries, non-inflation adjusted)

Year	Market Value in GBP millions
1980	£251.8
1985	£375.1
1990	£678.4
1995	£917.5
2000	£1,170.5
2005	£1,176.1

World sales by format type in millions of units

Year	Singles	LPs	Cassettes	CD Albums	DVD Video	VHS Video
2000	370	12	736	2,425	-	12
2001	318	10	659	2,310	22	56
2002	265	8	534	2,190	16	94
2003	233	6	492	2,043	9	145
2004	357	7	368	2,065	6	144
2005	631	4	184	1,969	8	143

Value of UK retail sales 2004 – 2005 in £m

Format	2004	2005	% change
Singles	£84.6	£66.6	-21.3
Albums	£1,760.0	£1,670.0	-5.1
Digital	£5.0	£38.0	660.0
Music DVD	£99.8	£102.6	2.8
Total	£1,949.4	£1,877.2	-3.7

UK Leisure spending 2005 in £m

Satellite TV/Cable	3,800
Video (retail)	2,214
Music	1,877
Games Software	1,352
Cinema	770
Video (rental)	404
On Demand	150

All figures are from the 2006 Statistical Handbook of the British Phonographic Institute.

Summary

- British musicians are failing to break into the American market, the most lucrative of them all
- This is because they are failing to exploit new technology and the recording labels do not understand the diversity of the American market
- The BBC – unfairly – dominates the airwaves and decides what may and may not be played
- And the BBC even contributes to the mass manufacture of boy-band/girl-band phenomena instead of allowing for musical diversity
- American bands manage however to penetrate the UK market with ease
- The music industry worldwide though is fighting a losing battle with the internet which regards it as a threat rather than a way to engage with their customers
- Aspiring musicians can now use several services and technologies that bypass record companies and traditional retail outlets completely
- They can also target new digital sales channels; ringtones, mobiles and taxis
- The BBC's monopoly of the airwaves must be ended for the public to enjoy a wider choice of music
- Live music must be resurrected as a vital market research tool to find what customers like
- Musicians must embrace the new distribution technology like CD Baby
- Recording labels must specialize – not diversify
- The cost of recording, releasing and distributing music has never been cheaper
- Record companies no longer have a monopoly on sound technology or recording studios
- Their model of over-spending on a few stars is over
- The future of music is ever increasing choice and diversity

Creative Destruction in the Music Industry

The Music business is a fickle thing especially in the toughest market in the world, the UK. The song “New York, New York” is misplaced. If you can make it here in the UK, you can make it anywhere. Is this still true today?

The UK has the world’s biggest music industry after the United States and Japan. It has over 10% of the global market share. In the UK, consumer spending on music remains the 3rd most popular choice compared with other media entertainment. Yet all is not well. The sales of singles and albums are collapsing while digital downloading is exploding. In February 2006, the IFPI (International Federation of the Phonographic Industry) declared that 6% of global revenue came from digital downloads, while many forecast that this would triple to around 15-20% by 2008. In this paper we will examine the state of the UK music industry, the changing technology and economics and what kind of impact this is making on the industry. And then it will be proposed what can be done to arrest this still nascent decline.

The music industry is undergoing enormous technological change. Yet as this author will argue, the UK Music Industry is failing to adapt and embrace sufficiently the massive impact of the internet and the new digital era. Sales have now fallen for 4 straight years in a row, from £1.364 bn in 2001 to £1.176 bn in 2005. Has the UK lost its comparative advantage in the \$22 billion world modern music industry?

If you listen to the music industry itself and read the news on their profits you could believe that the British music industry is in terminal decline and that nothing short of banning all internet access and foreign music will save it. Surely the end of *Tops of the Pops* on the 23rd of July of this year is clear example of how bad matters have become?

This paper acknowledges the decline of the music business but comes to a different conclusion on the cause. It will demonstrate how many of their problems are entirely self-inflicted. It examines what has gone wrong and how to reverse this decline with the right application of technology and the demonopolising of the BBC. This piece examines the technology available in some depth and explains its application to the music business in terms of creation, production and distribution.

The difficulty of breaking into the American market

While there have been periods of substantial British musical market penetration in the U.S., this has not really occurred for a very long time. Of course, there are acts that “make it,” however one may argue that this is by luck rather than the fact they are British. For every act which achieves commercial success, there are ten who have sacrificed themselves on the American market altar for little or no reward. The pressure of trying to break into the American market has proved to be immense. An extreme example is

that of a member of the folk-rock group *Fleetwood Mac* who was under such psychological pressure when touring the U.S., that he went out to buy some food and ended up joining the Children of God, a new age Christian cult, never to return. Therefore, many bands and groups actually break up trying to make it big in America, the second hardest market to break after the UK market, but seen as more lucrative.

For every group that conquers the US like *Coldplay*, *Spice Girls* or *Iron Maiden*, there are many acts like *Robbie Williams*, *Oasis* or *Busted!* which have gone to the US and come back with their tails between their legs. Why does this sort of thing happen to plucky young groups of hopeful musicians? It's partly because of the bands themselves and their trust in their handlers. But in many cases, it is the British music companies themselves which seem to have no knowledge of the American market.

A failure to exploit technology

As an example, let us have a look at the latest British sensations, the *Arctic Monkeys* who are currently attempting to break into the US market. It was interesting to see that their PR's initial approach at marketing them was stressing the fact that they had launched themselves via the internet first. Now, to an American group, this is not that unusual. Many current American acts, especially in the pop rock/indie field, where *Arctic Monkeys* reside, have built a following over the internet first. But then that is the problem; UK bands are failing to exploit the requisite technology.

This is because in the UK is that there is no such equivalent that meets the quality, financial backing and profile of the services that **Garageband** offer. In fact, many UK bands are now using both Garageband, a moderate pay service, and **MySpace** which is a free service, to promote themselves worldwide, because there are no sites in the UK that can offer them the same benefits, whether or not they have a label. The problem seems to be that many UK labels have no idea how diverse the US scene is, in all forms of music. This is another factor leading to marketing missteps i.e. *Arctic Monkeys* fall into different categories in different countries and regions.

There are a couple of attempts at the above sort of music sites in the U.K. like **Soundrat** which hosts tracks and **Tourdates.co.uk**, a site that, reflecting its name, is far more aimed at letting people know of new exciting live acts. While Tourdates hosts a few tracks; it is mostly for getting fans to see bands in their element at live gigs. The problem at the moment is that Tourdates and **Soundrat** both suffer from lack of investment and therefore, technical issues including some server unreliability and lack of provision to upload music from anything other than a PC running Internet Explorer. Neither of the American sites have such problems as they understand that many music composers use Macs (Apple computers) to write music. So good is the Mac for music purposes that some of the latest versions of music editing/mastering/mixing programs, like **Logic**, are not even released for the PC and have not been for some time. Apple has always been geared towards the more creative realms and is actively chasing the music/video creators market. The company

frequently hold seminars to explain how to use a Mac for music and video. These also feature external products and software that work both with Garageband, their bundled music application and Logic in all its various iterations. At a recent seminar in London a member of the band *The Zutons* recorded and mixed a song in front of an audience. Apple is clearly trying to encourage people to believe that one brings the talent and they make the rest of it easy.

Tourdates.co.uk has been aggressively pursuing artists by holding showcase gigs up and down the country. It has signed a few acts to its own label to help promote the site and the bands together. However, **Tourdates** pales in comparison to its American brethren whether judged technically, aesthetically or practically. But it is encouraging to see a domestic effort being made in this area. A major sponsor would probably be a great boost for **Tourdates** or better yet, a tie up with an established American site.

The BBC – a 90 ton gorilla

The BBC dominates what does and does not get played in the UK; so much so that record executives constantly complain that Radio 1 will not play acts based on (often unknown) politically correct criteria. Records of a pop nature have been rejected for being “too white,” “too rocky” and “not ethnic enough” when presented to BBC radio chiefs and new music types. Radio 1 and other BBC stations still believe, despite all the years of co-existence with commercial radio, that they are the arbiters of what the great British public should and should not listen to each day. This patronising attitude has repercussions throughout the music business and severely damages the prospects for many signed British acts who because of this face the prospect of never being played on radio.

At the same time, the BBC is guilty of helping the manufactured boy-band/girl-band phenomena retain its potency. It did not help that the BBC has launched its own versions of music reality shows. A seemingly endless supply of bland inoffensive or unoriginal music is played by the BBC and all its outlets. Much of this fare is similar to the music in the lift. The BBC steadfastly ignores the vibrant live music scene in the UK. They do occasionally pluck a few bands and groups out of the morass of contenders but then again these tend toward whatever is trendy according to the same BBC formula. The BBC’s championing of the *Arctic Monkeys* is one such case. The band do not sound much different from other offerings on the current charts. And there again, do not think that the movement of *Top of the Pops* to lowly BBC 2 on a Sunday evening is a sign of the BBC’s waning power. The industry’s dissatisfaction with BBC control over music combined also perhaps with some complacency leads record company artist & repertoire people to concentrate on what they can get played on the radio. This stymies musical innovation rather than leading to investment in new and exciting music that the healthy British music arena could produce outside the BBC fiefdom.

At present there is no dedicated non-digital heavy rock station. When you look at the circulation of magazines such as *Kerrang!*, *Metal Hammer* and

Classic Rock (the numbers as last calculated are the following: *Kerrang!* 76,165, *Metal Hammer* 44,045, *Classic Rock* 50,027 and rising); as well as the myriad of rock clubs up and down the country, there is clearly a market for this music. An online station called **Totalrock.com**, which was heavily supported by legendary now departed Radio 1 rock DJ John Peel, has been trying for many years to get an AM licence. They are routinely rebuffed by those in control of the airwaves on the strength of there not being a “need” for such a station. This attitude reflects the 90-ton gorilla that pervades music in the UK; the BBC.

Of course, there are bands that have merely circumvented British radio and done it for themselves. A classic example of this is a band called *Bush* which was hugely successful in the US in the 90s with its grunge-lite records. The band could not get played on Radio 1 in the UK and barely sold a trickle here. Then in the US, they were a multi-platinum act with a lead singer that teenage girls wanted to be with and teenage boys wanted to be. There are numerous other acts that continue to sell a great number of records in the US while barely denting the charts in the UK, such as *Iron Maiden*, *Judas Priest* and many more. There are clever British bands which have sought and signed management and representation in the US even as an unsigned act via the use of **MySpace**, **Garageband** and its ilk. You may note that I have taken examples from the last two decades. This really is a continuing problem. The situation is similar for acts seeking to gain recognition in European areas like Germany and Scandinavia. There are enough festivals in Europe so it is possible to have wide exposure without a record company just by playing to some of the larger festivals where attendance can top 50,000 people.

American success in the UK market

While British acts are not being heard on the airwaves in their home country if they do not fit into a certain formula, American acts are able to penetrate the UK market with ease. This is depressing fact for British bands trying to crack both their own market and the American one. An act that is successful in the US charts generally has little or no trouble with the right backing finding success in the UK. American record companies know rather well what sells in the UK and send over whatever they can to the music hungry British. It appears that they rarely attempt to force a group on the British public, preferring to make sure to give the public what they want. American labels are well aware that British music buyers are continually looking for new product and do what they can to take advantage of that interest.

Fighting a losing battle with the internet

Of course, the fact that there aren't really the above services (**MySpace**, **Garageband** etc.) making inroads in the UK has much to do with the lack of understanding and appreciation for the internet by record companies, radio stations and even artists themselves. I have spoken to many a signed act in the UK that does not have their own website. This is completely amazing in today's environment. These acts are still merely relying on their record company to get them onto the web. While American unknowns are getting

access to **iTunes** and other digital download services via **CD Baby** and other sites, even signed British bands have a hard time getting their product on **iTunes**. There seems to be a serious disconnect here, no pun intended.

A significant sign of the maturing and lack of development in the mainline music companies is this: record companies in the UK have now reverted to the very questionable tactics of some American companies, suing their own customers. It is understandable for a record company to sue a host of illegal music but prosecuting individual music fans only serves to give record companies bad press and does nothing to stem the tide of illegal downloads. Sadly, they still think of all downloaded music as being somehow not quite right and more than likely stolen. When it is pointed out to some of the record company representatives that there are groups that voluntarily allow their music to be downloaded from their own sites, these same representatives seem completely befuddled. Indeed, they and their employers fear the internet as a threat to their domain rather than embracing it as a tool with which they can engage their customers.

Currently, record companies expend large amounts of advertising money on their top acts while expecting their lesser acts to subsidise the so-called top of the roster. In many cases, bands now sign to a label for reasons of ego. How long will this continue?

The old reasons for seeking big company distribution, production and promotion are no longer relevant. A record company seeking to succeed in today's environment would do well to ask itself what it can do for musical artists both new and old. What exactly can a record company do to support an artist which will be of sufficient value to the artist so that in exchange, the artist would be willing to relinquish control of his creative work?

Alas, they are at it again all over Europe, suing their own customers for downloading tracks. There may be as many as 2000 plus lawsuits at the time of writing. Their claim is that illegal downloading is costing them a lot of money. Their feeling is: "x billion tracks were illegally downloaded last year, each of which could have been sold for x pence, therefore the music industry is x pounds worse off." The other classic is - "we sold x fewer CDs last year, which we reckon is down to **P2P** (Peer to Peer is software which allows users to directly access the hard drive of another user who wants to give them access. Users wishing to find a piece of music use various scanning programs to find the proper computer with the desired track.) therefore P2P is costing us x pounds/dollars". The BPI's conclusion is much more based on scientific research. They claim that file sharing has cost the music industry up to £1.1 billion in the last three years compared to legitimate industry sales of approximately £6 billion over the same period. This £1.1 billion figure was based on a sample of 3,317 12-74 year olds in Great Britain and their music buying habits. The data showed that illegal downloaders did spend less on music and this was extrapolated to the whole population. The cynic could still suspect though that is a figure based on worst assumptions, made to impress.

Many in the industry are claiming that all the money which should have been

paid out in the illegal tracks would have otherwise ended up in the bank accounts of the record labels. If only peer to peer sharing did not exist, there would be no crisis in funding the development of aspiring artists and young bands. This is ludicrous in the extreme. In fact, it could be pointed out that many people illegally download tracks to hear what an album is like and then go out to buy the said album. Most of the time the tracks they are getting on P2P are low quality MP3, to facilitate easier transfer even on those not on broadband connection, as opposed to full quality album tracks. (The reduction to MP3 is general 10-1. In other words a full track is 60mb per and an mp3 is 6mb or even smaller, not conducive to great sound. Every reduction in size reduces the sound dynamics which becomes apparent on a quality stereo.)

Its all cyber

Those not wishing to go through the formal process of getting into Apple's **iTunes** or wait for their tracks to show up on the sea of other services can sign up for **Musicane**. With this service, an individual or band can sell their own MP3s for whatever price they wish with 60% of the amount going to the artist. There is a free option as well as an option for \$20 a month which allows one to sell up to 250 mb of MP3 (more or less 50 tracks depending on size). The creators of the music receive 70% of the sale amount. The good thing about this service is that it makes it possible for a band that is not well known to sell their MP3s at a lower price than can even be had on **iTunes**. This gives the band an option of having a lower entry price point that might encourage those who do not know the band to give them a try. **Musicane** is sponsored by **Epiphone**, a leading guitar manufacturer and is recommended by **Garageband**. There are other such services but not many come with such good pedigree. The site is professionally designed and maintained; it is easy to use and blends seamlessly in the "Garageband" way of getting music to the public. Sites like **Musicane**, **Garageband** and **MySpace** have excelled at making themselves user-friendly; realising that not all musicians are also IT professionals.

There are other music related companies that are jumping on the ease of use/low or no entry fee model. A site called **Spreadshirt** allows an individual or band to design merchandise and sell it through the site for no upfront charge. As with **Garageband** and others such sites there is a premium service which allows for higher spec merchandise to be sold. Nonetheless this allows a band access to the highly lucrative and essential band merchandise market for nothing up front. As with **Musicane** the site is recommended by **Garageband** for bands that have music on the site.

It should be noted that there are two music resources for musicians called **GarageBand**: one is called **GarageBand** and the other is a program from Apple.com that ships with its iLife suite. **Apple** and **Garageband**, the website, have come to an agreement so that they can both use the name without any problems. This is a logical outcome since it is rather safe to assume that many of those keen amateurs and even professionals who post music on **Garageband.com** use **Garageband** the program in their quest to produce music. From garage to **Garageband**, then to **Garageband.com** is an

interesting progression and a very modern one. This allows a musician to record, produce and distribute the music to potential fans without ever having to rely on anyone else. There is no manager, middleman or record company meddling in the output. It is from creation to listeners in two steps.

With a decent Mac or PC, a good microphone, **iTunes** and **Garageband** or Logic anyone can record, mix, master and produce a playable CD to distribute. If one does not require a physical copy, one can produce music and sell the digital copy online with little or no cost of distribution. It is clear this is what record companies fear. What the record companies must do to retain their customers and their markets is to invest in methods which evolve with the creators and producers of music as well as with the customers. It is probable that the era of the regional record deal is dead. Record companies will need to make deals for worldwide distribution of an artist's product to make it worthwhile to the artist. Most artists will not have the patience nor wish to incur the legal costs to make deals for every possible area in the world when they can make a deal with a site like **CD Baby** and distribute anywhere in the world for little or no cost.

Websites with enough space to host tracks are relatively inexpensive to design, build and maintain. A web address with the band's name can cost less than £10 per annum. Adding the site to search engines is easy and free for even the most inexperienced online artist. There is a even a growing trend of bands and artists starting their own labels to distribute their own music and also that of their friends and colleagues. Costs are low enough for all aspects of music production that owning one's own record company is within the reach of mere teenagers with a few extra bob and some techie talent. The simple realisation that only very few acts will find their way into the CD bins of record shops is a liberating experience that drives the artist to try new things to get his music out there.

There are bands in the UK that are doing tours of the US and being signed to labels in the US based solely on the online buzz from their fans and supporters. Tours are being put together based on the interest and fan-base of bands that are based in the UK and have never set foot in the US. There are American, English, Japanese and European musical fans who will literally go anywhere – virtually - to cater to their taste in new and intriguing music. Anyone with any knowledge of the internet will know that is not uncommon for music sites to average over a million unique pairs of eyes per month. That is far higher than even the most popular of weekly or monthly music magazines.

It is easy to find music sites, worldwide that will review new music from a band. No longer do a few select magazines control the destiny of musicians. If there is a genre, there are dozens of sites that will review that sort of music. A respected review site for the English speaking music fan is www.blogcritics.com. The site rather than be run by a magazine empire or another media group is a large collection of bloggers, some with writing experience, some without, who review what they want to review for the site. There are editors and a general level of quality but it is quite possible for a major release to be reviewed by a variety of writers thus giving a wide range

of opinions and takes on the release.

What's to be done?

In the U.S. distribution is no longer the sole domain of record companies, bands can actually do it themselves with very little expense and reach millions via the internet and satellite radio.

Disintermediate the record companies

Bands do not even have to launch themselves formally with the advent of such services as **Garageband**; a full service music hosting site with either free basic service or its full service premium one, its lesser more basic cousin **MySpace** and many others. **MySpace** goes for a cheap and cheerful approach with access and web space for songs free; however, even with Murdoch's recent investment, the service can be sporadic at times and the player therein is rubbish even on the best of broadband connections. For very little money, or in the case of **MySpace** none, a band can have their music streamed over the internet for anyone to hear. They do not even need a web-designer to do their page as the service website has everything they need right there. These websites are consolidators; consolidating all the new music on the internet into one place that is easily searchable and user-friendly. All a band has to do is find a name (more difficult than you think), record some music and slap the tracks up there for the American and worldwide public to ponder.

Target new digital sales channels – ringtones, mobiles and taxis

There is also a potential market for up and coming bands to sell their music in the form of ringtones – the ringing sound of a mobile phone. In March 2006, mobile operator 3 announced that it was selling over 200,000 tracks a month. And according to the Official UK Charts Company, nearly 7% of all single tracks were purchased through mobiles. Another US site, **iSound.com** hosts music free like the other two and offers a premium paid service with more features, additionally making it possible for bands to sell ringtones of up to three of their songs with their free package. The method is the following: a band uploads the track and the site turns them into ringtones, hosts the tones and pays the band via **Paypal** or some other online payment system. The site loads well and is currently offering a battle of the bands competition with \$12,000 dollars of prizes including the release of an album for the winners. Ringtones and other accessories, such as screensavers, video and back screen images are huge business in the UK with their distributors making millions and millions of pounds a month via both subscription and one payment models where the user pays for each download separately (which is more expensive). Screensavers on phones are exactly the same on one's home computer; its an image that comes on to save the screen from wearing out when left on for a long time (a good example is the famous flying toasters on PCs). Back screen images are those that appear when the phone is on as a background behind all the icons on the phone. Now all the major networks

sell phones which allow one to watch streaming or downloaded video on the phone as one were watching on the TV at home. With the advent of phones that have more memory, better and bigger screens, battery life and features this will be a growth industry. Making in-roads into such services is a good money earner for bands, websites and record companies.

In addition, Anglo-Italian electro-dance outfit *Planet Funk* released their new single 'Stop Me' on 8 May exclusively via phone company 3's music platform, meaning it will be the UK's first 'mobile only' single. The band apparently has had some success staging similar exclusive mobile only releases via 3's Italian network.

There are also new developments that lead to possible outlets for music such as **Cabvision**. **Cabvision** gives taxi passengers the option to watch television while travelling in a cab much like seat back entertainment on aeroplanes. There is a choice of viewing and it would be easy to add a channel (audio) to play music from acts who wish to be included.

End the BBC's monopoly of the airwaves

To be sure, the music listening public needs a way to listen to every category of new music. But the UK doesn't have this in all the forms available. For instance a trip to any major U.S. city will offer a listener a myriad of radio stations catering to every subtle nuance in musical taste, for example "traditional Country" or "new Country", "classic", "alternative" or "heavy" rock or the multitude of different forms of "urban music." In the UK there is little or no choice in radio especially for listeners who like their music heavier with lots of guitars. In the UK, one is restricted to one station for all sorts of non-pop rock in the form of XFM. In contrast, Maine, a U.S. state with (a mere) 1.3 million people in Northern New England has two non-pop rock stations (one more modern, the other classic) both broadcasting at 100,000 watts resulting in both stations being transmitted over a geographic area the size of the British Isles. A critical step for the breakout of the UK music industry from its convalescence must be to end the BBC monopoly of the airwaves and accelerate the radio spectrum's rollout.

In the US, one can now receive Sirius or XM satellite radio and digital services which offer an even bigger choice of digital radio stations. There are similar services in the UK on both Sky and digital radio but there is far less choice of stations than in the US. Also, you can listen to music on broadband now with its penetration and its practical limitless supply of music stations for every nuance of one's musical tastes. But alas, Broadband reception sufficient for good music listening are not available in some urban and many rural areas in the UK.

Rediscover live music

There is clearly a strong and vibrant live scene in the UK with bands playing in venues up and down the nation every night of the week. These days front-rooms of homes are even used as bands put on Internet only gigs for their

fans. There is a festival for every type of music one can think of and many festivals that cater to almost every taste. Festivals provide a clear route to access a large number of interested people very quickly. The pub music scene is healthy as well and will probably become even more vibrant as the pubs seek a way to make up for the loss of custom from the forthcoming ban on smoking. There are those who believe that live music is doing rather well because of the dearth of good material on television. There is indeed a great deal of new music to be heard and found if record companies were only willing to go find it. One suggestion would be for record companies to follow their customers, or the people who used to be their customers. Go to the festivals, to the live venues. Learn what the customers like to listen to and offer this music to them for purchase. This is the type of market research that works in other industries, you might expect the music industry to employ similar methods.

One thing that is lacking is support from radio for live music. While radio stations do mention big acts and festivals, i.e. those that have massive marketing budgets anyway, they do not as a rule mention live gigs that are going on at all. Quite why radio does not do more to plug live gigs has always been a mystery. If radio were to mention local concerts more, then people would be more aware of how vibrant the UK scene really is at the moment. While there is a lot to see out there many people really have no idea what is going on in the live music scene every night. Thus audiences aren't always what they should be and it reflects in the closing of venues up and down the country. It would be a good idea to encourage radio both national and local to have a gig listing short each day detailing what is going on and where. This would be a major boost to bands both local and small while providing information that is sometimes hard to come-by either in print form or on-line. Any mention of live gigs on air, especially during peak times would give a wider potential audience to those bands slugging it out on the small room circuit. For many bands the recognition of hearing about their gig on the radio would be a major boost to both their and their fans morale. And there again, is this not perhaps an example of radio simply following the same path as the music industry with their general inattention to the live scene.

Groups and must embrace the new distribution technology

And so, what are we recommending to the act which is not getting attention and is willing to work for themselves?

For a start, there is **CD Baby**. This is a service based in Portland, Oregon, which makes it easy for anyone with an album to distribute their music worldwide for roughly £30 in total upfront costs. The act sends the physical media, CDs, to **CD Baby** (initially 5 CDs to start) and for the insignificant price of the custom if simple webpage, CD Baby will distribute the CD worldwide. **CD Baby** includes detailed instructions to musicians on how to use their site and features excellent follow up customer service. And, unlike the arrangements with many record companies, the percentage return on sale price to the act is generous. For digital distribution, recently added to their menu of services, the act or artist receives around 91% of the selling price of

the track/album – compared to 5% or less from large record companies. **CD Baby** does indeed send material all over the world; including naturally to Britain, certainly one of their largest outlets for music. Bands in the UK who have heard the horror stories of small labels trying to get any quality of distribution in the UK are flocking to the service. Digital outlets receiving material from **CD Baby** include **iTunes**, **Yahoo Music**, **MSN Music** and many other. The full list is available on **CD Baby's** website (listed the end of the paper).

This service is not a complete success yet but it is early days and early adopters like my own band, *Growing Old Disgracefully*, are helping **CD Baby** work out the kinks in the system. Digital outlets do not seem to have an enthusiasm for putting up new acts they have never heard of. Some of these sites are rather hard to search for more unknown acts. In fact I am yet to find any of my band's tracks on any of the services linked by **CD Baby** 6 months after getting involved in digital distribution.

There are a whole myriad of other services to distribute music worldwide for acts based in the US for both digital and physical media distribution. Record companies have taken notice and are known to monitor top sellers at places like **CD Baby**, **Garageband** and **MySpace**. It would not be the slightest bit surprising to see a band plucked from UK obscurity by an American or other foreign record company after being found on one of these services. There is no service similar to **CD Baby** in the UK.

Record companies must stop fighting the internet

Things are changing, but very slowly. British record companies need to stop complaining about the internet and broadband so they can develop their own ways to use it for its full potential. Their trade bodies need to end their paranoia about all the money "lost" by illegal downloading as well. They need to realise that the reason record sales are down is that the music buying public believes, at least partially, the record companies are releasing rubbish. You would be hard pressed to find any music fan that does not believe CDs are highly over-priced considering the price of their production. The real fix for these companies is to seek music that will attract existing and new customers through a variety of media, including the internet.

Never has this fact been better illustrated than with the news that a song, "Crazy" by *Gnarls Barkley*, not even released in hard copy yet has made it to number one by downloads alone. Granted the song was plugged on Radio 1, and used in an advert, but it is still the first time a single that has not been released in the shops has made it to number one. Last year for the first time, digital downloads on places like **iTunes** were taken into account for number one singles. Downloads have reversed the downward trend of single sales. The beauty of downloads is that you pay £.89 for just the track you want instead of £3.99+ for the track you want plus other tracks not good enough to be singles on their own, not to mention the superfluous packaging and promotion.

The power has moved away from record companies and into the hands of the consumer and the producer of content. The record companies must cease to patronise and fleece both parties if they want to survive. Investment in online delivery systems needs to be increased if they plan to join today's world. Record companies need to provide a value added to both their consumers and their artists rather than continue to be a source of frustration and annoyance. If record companies use their clout to make it easier for both parties to get what they are seeking, they will prosper.

British record companies need to step out of their old pattern and begin to accept that the musical world is changing around them, regardless of their efforts to stall change. Consumers all over the world have more choice than ever before and are demanding a wide variety in their music. Record companies and other sources who deliver choice and access to consumers will do well in the emerging modern climate. One look at **iTunes** whose sales average 50 million tracks downloaded per month provides a good example of what can be done. Apple is currently in talks to have **iTunes** made part of the software in in-flight airline entertainment systems so that passengers will be able to download tracks using frequent flyer miles while they are stuck on an aircraft. Airlines are requesting that future airplanes have iPod docs and/or USB installed in aircraft seats. Sadly, this has no doubt been put on hold by the new restrictions on hand luggage brought in since a recently foiled terrorist plot.

Extend EU copyright protection to equal that of the USA

Record companies would do well to join with artists lobbying the European Union for an extension of copyright protection. Musicians wish to raise the period from 50 to 95 years, similar to the new US law thanks to the effort of the late Sonny Bono, part of the duo *Sonny & Cher* and late Congressman from the State of California. It is not obvious why copyright protection is much shorter for music than that of books; life of the author plus 60 years. Logically, record companies would prefer not to have to pay royalties any longer than necessary but helping those keen on the change would give them some good public relations to the much loathed recording industry. This step might be particularly effective considering the penchant for certain types of artists, like hip-hop and dance music, to sample both lyrics and music from previous hits. It would not take much for recording industry to help lobby the EU to extend the same rights to artists as they get in the US; it is merely a matter of will.

Recording labels must specialise - not diversify

And more to the point of accentuating our strengths, we could perhaps avoid seeing the mistakes of record companies like Sanctuary who are pushing an "urban label", a label that specialises in rap and hip-hop, despite coming from a heavy rock background. Sanctuary Music is still suffering from this unwise business move. As choice spreads in the music business, it is harder and harder for companies to be a label for all choices and specialisation is a natural development of this trend. It is becoming clear to the major music companies that if they do not offer what the listening public wants to hear,

their customers will go elsewhere and very quickly.

For the success of U.K. acts, for the success of U.K. music companies, and the satisfaction of music listeners everywhere, we certainly hope that all the parties can move into new arenas energetically and leave to the past the old strategies which are no longer successful.

It may be a case where record companies will be forced to understand that they will need more acts making less money apiece to continue to be successful. Choice for the consumer should not be a bad thing for companies in the music business. Choice in music, just like choice in any other product is a good thing for producer, consumer and distributor. Surely, the music companies can each chose what they do best and get on with it. There is no reason why there should be as many losers as there are currently. The new reality is that everyone can win. The game has changed completely.

Conclusions

The British music business both record companies and radio must come to realise that because of broadband, satellite and digital broadcasting, consumers have far more choice than they ever have. The cost of recording, releasing and distributing music has never been cheaper. For instance, it is entirely possible to record, mix, package (500) and sell a CD for £3,000. This includes recording and mixing the music in a professional studio and professional packaging of the CD. While egos drive every band to want to sign a record contract, in many cases, it is now not necessary at all to have one to become known and appreciated. At this point, one could almost argue that a contract with a main line record company may possibly be a hindrance to the success of an act. If one knows one is not going to be played on radio or be distributed in most shops anyway, why does one need a record company to restrict the distribution method which would result in a lower percentage of sales going to your band?

The record companies no longer have a monopoly on sound technology and studios for music recording. It is no longer a question of access to such technology in a studio but whether or not one has the talent and patience to use the software to its fullest extent. In fact, at the front end, another thing that is affecting record companies and their act pulling power is the wide availability of music production systems like **Logic**, **CuBase** and **Garageband**. **Garageband** even now comes standard as part of Apple's iLife series with new computers. **Garageband** is not as advanced as the high-end **Logic**, however it allows musicians to record, mix separate tracks for each instrument and voices similar to the results in a well-configured sound studio. Many musicians, amateur and professional use this piece of software to record demos and even final tracks in the comfort of their own homes. **Logic**, on the other hand, is used in leading studios. For all that, with a computer of the right specifications, and not that high, one can use **Logic** and a manipulation program like **Pro-Tools** to produce, mix and master professional level songs for release.

A path trodden elsewhere and notably unsuccessful, is to demand local content rules for radio and television similar to Canada and France. As a national strategy this necessarily leads to musical stagnation and introspection in the market, and leads to lower sales. While the U.K. music business as a whole has been in touch with government over pirating and illegal downloads, they do seem to have resisted the temptation to sue their own customers to the same extent as in the US or Europe. They do rather seem to be content with a bit of complaining and going after the bigger players in the illegal duplication market such as the triads and drug gangs rather than picking on 13 year old children in their bedrooms. I spoke to several representatives of both record companies and trade organisations who are keen to avoid the bad press that was suffered by Recording Industry Association of America in US who attempted to sue a school girl for downloading 'Baa Baa Black Sheep' from an illegal server.

The bottom line is that music consumers are voting with their wallets. They are spending money on live gigs where they can get greater choice, on ringtones and other forms of music output. The assumption that all the money that goes in P2P would necessarily be spent on albums and singles is just completely unrealistic. This kind of reasoning shows how completely out of touch the BPI (British Phonographic Institute) and other such organizations are in the end. Despite the fact that the BPI continues to claim they are suing their own and potential customers to save the "British music industry" or, indeed the "European" one talking to another audience, their claim is completely outside reality. These suits cause extensive ill will toward the music industry, do little to stop downloading, and waste customers and artists money on such a Quixotic quest.

So where do we go from here?

There are forms of music in which UK groups excel and the U.K. music industry should identify and hone these genres to compete with distinction in the world market. There are genres in which the UK has a hard time competing against the American output such as hip-hop. However in dance music, Americans look to the UK for the new and trendy. A bit of research would clearly show the astute record companies where British acts could crack markets and where they cannot.

In the face of revolutionary technological change, it is far from clear how the music industry will appear in a decade, either in the U.K. or anywhere else in the world. For big recording companies, it is truly a question of adapt or fail and so far, they are failing. Music creators and listeners meanwhile are leading the way. Unlike the record companies, they are changing with the technology - fast. UK musicians and record companies have long proved themselves to have the talent and ambition to be better than their foreign rivals. It is this author's earnest hope that they heed this paper's advice and that this continues.

Policy Recommendations

1. End the BBC's domination of the airwaves. Monopolies do not serve the growing demand for choice and variety that the digital era demands.
2. Extend EU copyright protection to equal that of the USA – from 50 to 95 years. It is not obvious why copyright for music should not equal that of books; the life of the author plus 60 years.
3. Intellectual property protection to be extended so that sampling must be rewarded with royalties

Industry Recommendations

1. Recording artists must embrace new technology; **MySpace**, **Garageband**, **Soundrat**, **Logic**, **CD Baby**, **iTunes**, **Musicane**, **Spreadshirt**, **iSound.com**, **CuBase** and not be afraid of disintermediating the record companies by recording and distributing themselves
2. Musicians must explore the new channels for digital music; ringtones, mobiles, taxis
3. Recording labels must rediscover live music – it is an excellent customer research resource
4. Record companies must stop fighting the internet – downloading music is here to stay and they must adapt
5. Record companies must specialize not diversify.

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Price: £10

ISBN – 10 0-903499-25-8
ISBN-13 978-0-903499-25-5
EAN 9780903499255

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ISBN 0-903499-25-8



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