LABELS AT WORK:
THE MUSIC BUSINESS IN THE DIGITAL AGE

#LABELSATWORK
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The Digital Revolution

Over the past two decades, digital, Internet and mobile technologies have revolutionized the way we create, find and enjoy music. Walking down the street, riding the subway, or sitting at a desk, the shift from stereo equipment to screens is so ubiquitous we take it for granted. For many in the music industry, the changes have made for a bumpy ride. But these innovations have also opened up nearly limitless possibilities. Artists can create in new ways and reach fans with tools that weren’t even imaginable just a few years ago. Music lovers can share what we’re listening to with our friends, family and colleagues in real time, turning them on to new favorites the instant we find them ourselves. Record collections are going virtual. And new streaming services have stretched our car stereos far beyond five AM/FM presets.

The findings in this report are based on publicly available data and data obtained from major record labels. It is limited to the US market. All decade numbers are from 2003-2012.

Reinventing the Music Business

Major record labels are still focused on what we do best: finding great artists, helping them reach their creative potential, and connecting them to fans. The difference is that we’re embracing new digital tools to do a better job than ever before. We’re essentially venture capitalists for music: investing in the great, unknown artists of today so they can become the superstars of tomorrow.

We’ve built digital networks to wire the 21st Century music business, digitize recordings, and connect seamlessly to retailers and services selling and streaming digital and mobile music. The result is a new, leaner, more nimble music business – one that gives our artists broader reach, creates new ways for them to earn a living from the work they love, and empowers fans to find and enjoy more music in more ways than ever.

We’re still evolving, but a quick glance over the last decade or so proves that we’re on the right track.

- Over 2,500 digital services licensed and operational today.
- $13.4 billion spent by major labels to find new artists and help them reach an audience.
- $20 billion spent by major labels on artist and songwriting royalties.
- Artist royalties paid by major labels increased over 36% as a share of major labels’ net sales and gross licensing revenue.
- Songwriting royalties paid by major labels increased 44% as a share of net sales revenue.

RIAA represents the three major labels in the U.S. – Universal Music Group, Sony Music Entertainment, and Warner Music Group – and their wholly-owned affiliate labels such as Capitol, Republic, Motown, Columbia, RCA, Epic, Elektra, Atlantic, Warner Bros., and many more.
INVESTING IN TALENT

In the last decade, major labels have spent $20 billion in artist and songwriting royalties. And by helping craft hits that reach broad audiences, we help generate billions in additional royalties paid to performers and songwriters by performance rights organizations like SoundExchange, ASCAP, BMI, and SESAC. ASCAP and BMI paid $1.9 billion to songwriters and publishers in 2013 alone.

Songwriting royalties have skyrocketed as a share of net sales revenue1 – increasing 44% during the last decade.

In the last decade, artist royalties have increased more than 36% as a share of major labels’ net sales and gross licensing revenue.

1 Less streaming and subscription revenue.
Through all the changes in the music world in recent years, we’ve tried to protect what’s most important: artists.

While major label revenues have dropped $2.3 billion since 2001, the royalties we pay artists have held steady, dropping only $134 million.
Major record labels are making enormous investments to find and cultivate artists. In 2011, record companies worldwide invested 16 percent of their revenues in A&R, which handles talent scouting and artist development. That investment tops other R&D-intensive industries including pharmaceuticals and biotech, computer software, and high-tech hardware.

These are risky investments, since so few songs or albums end up as hits.

- Out of 8 million digital tracks sold in 2011, 7.5 million sold less than 100 copies.¹
- 80% of albums released in 2011 sold less than 100 copies and 94% sold less than 1000 copies.¹
- In 2011, only one-half of one percent of all albums that sold even a single copy sold more than 10,000.¹
- Most record companies recovered their investments in only one out of every five or six new albums.²

¹ Nielsen SoundScan
² Elberse (2013)
It’s a tough job, but someone’s got to do it. While many play an indispensable role in the music ecosystem, there is no doubting the value of record labels who find great artists and work to put them on a global stage.

In the last decade, the major labels spent $13.4 billion to find new acts and help them develop their sound and reach an audience. That’s tens of thousands of hours on the road, scouring bars and honky tonks, and thousands more online listening for the next underground sound. We connect great musicians and help them collaborate on creative new projects. We gather the producers, engineers, and technology it takes to bring a song to life. We design album launch campaigns and tours to build the kind of fan base that launches a career.

Working hand in hand with our artists, major labels provide the creative and financial fuel that generates hits. Virtually the entire music ecosystem is built atop the foundation of this initial investment, supporting not just artists and labels, but anyone whose job depends on music.

HELPING ARTISTS FIND THEIR SOUND — AND THEIR FANS
HOW RECORDINGS HELP SEED THE MUSIC ECOSYSTEM

ARTISTS & SONGWRITERS

TALENT SEARCH ARTISTIC DEVELOPMENT DIGITAL INFRASTRUCTURE PRODUCTION MARKETING

RECORD LABELS

CONCERT HALLS/ARENAS DIGITAL RETAILERS RECORD STORES
ON-DEMAND DIGITAL MUSIC SERVICES VIDEO PRODUCERS
TICKET SERVICES YOUTUBE BARS/RESTAURANTS CABLE RADIO
TV & MOVIE SOUNDTRACKS PUBLISHERS CONSUMER ELECTRONICS ROADIES/TOURING COMPANIES
SATELLITE RADIO INTERNET RADIO AM/FM RADIO

how recordings help seed the music ecosystem
EMBRACING NEW DIGITAL TECHNOLOGIES AND SERVICES

We celebrate the success of licensing new digital services whose revenues and listeners are growing at incredible rates. And we believe that artists and fans should benefit the most from this skyrocketing growth.

Major record labels have inked agreements with scores of new digital music services. We’ve also supported the Digital Performance Rights Act and the Digital Millennium Copyright Act, which give digital services easy licensing of the music they need, while making sure artists receive fair pay for their work.

At last count, there were over 2,500 authorized digital services that pay royalties to our artists.
There are more places than ever to download, stream, listen and buy music online than ever before. We’ve broken it all down at whymusicmatters.com.
BREAKING THE PROMOTIONAL MOLD

Just like we’re embracing new digital platforms, labels are also pioneering new ways to market artists that would have been impossible just a few years ago.

**Daft Punk – Random Access Memories**

Sony knew it needed a global campaign to match the ambitious scale of Daft Punk’s Random Access Memories. It also faced limited funds and its artists were two robots who didn’t do interviews and don’t tweet.

Building on Daft Punk’s inspiration in film and album premieres from the ‘70s and ‘80s, Sony created a ‘larger than life’ campaign that coordinated giant billboards in major global cities with TV advertising blocks showing a short mysterious teaser of the riff from Get Lucky. Fans started to share the teaser all over the Internet, including one who created a 10-minute version. Daft Punk gave their first performance in the middle of the Australian outback, raising buzz to a fever pitch.

The album was released across all formats simultaneously. Random Access Memories was the biggest ever pre-ordered album on iTunes at that point. It hit number 1 in 97 iTunes stores — while simultaneously breaking the record for the most streamed album of all time on Spotify.

**Katy Perry – PRISM For Katy**

For Perry’s third studio album, PRISM, Capitol Music Group didn’t build a traditional promotional campaign that would have focused on a single release date. Instead, they used several different campaigns – making the best use of Katy Perry’s natural ease on Twitter and other social media – to promote several strong singles on PRISM.

Katy released short teaser videos to celebrate the release of the first single: Roar. In one video, Katy spelled out the lyrics to Roar in emoticons, and the video generated almost 70 million views. The official video
was promoted using a classic 1930s-style Hollywood movie poster and a series of online teasers. The video went on to be viewed around 360 million times on YouTube alone, while Roar topped the charts in 97 countries.

A promotion with MTV and Pepsi gave fans the opportunity to unlock song titles, lyrics and snippets from the album by tweeting #KATYNOW. They could also listen to previews of the tracks Dark Horse and Walking on Air and vote which they wanted released early on iTunes.

The second single Unconditionally was backed by the promotional campaign #KatyUnconditionally that invited fans to share an Instagram of what unconditional love meant to them and upload it with their story and location to appear in an online PRISM map of the world.

**Hunter Hayes and the YouTube Orchestra**


The label contacted YouTube and designed a video campaign featuring his song Everybody’s Got Somebody But Me recorded with label-mate Jason Mraz. Rather than film in Nashville, Warner arranged to shoot in Los Angeles at YouTube’s own creative space, the YouTube Hangar. This enabled the label to pull together a range of the ‘YouTube Stars’ who post their own versions of hit songs onto the platform together and invite them to perform with Hayes and Mraz.

Stars like Tyler Ward and Kina Grannis submitted their own versions of Hayes’ song and Warner Music Nashville along with Hunter created a mash-up of the results. It brought together Hayes, Mraz and all the ‘YouTube Stars’ to create a one-shot music video featuring all of them, dubbed the ‘YouTube Orchestra’, for the mash-up track. The individual ‘YouTube Stars’ released their own versions of the track and then the ‘YouTube Orchestra’ video was released ahead of the official music video, reaching an entire YouTube audience online in their own terms and connecting Hayes to millions of potential new fans who might never have seen a more conventional launch campaign.
CONCLUSION

The music business has changed and record labels are continuing to evolve along with it. But we haven’t forgotten what’s important: finding great artists, helping them realize their visions and connecting them with broad audiences.

As we embrace new technologies, we’re focused on making them work for artists and fans. And we’re dedicated to supporting new digital platforms to grow the pie for everyone in the business, starting with the artists whose careers are our mission.

With so much change, the future may be uncertain. But no one ever thought this business was easy.

We know one thing for sure: the challenges ahead will have one hell of a soundtrack.