

NEWSLETTER

An Entertainment Industry Organization



The Retail Climate: Uncertainty, Mergers and Diversification

by David Hirshland

50th Anniversary

The President's Corner

Teri Nelson Carpenter

October's dinner meeting provided us with a view as to what is currently happening in "O, Canada". David Baskin of the CMRRA and Paul Spurgeon of SOCAN had us laughing a good part of the time but were still able to present many updates as to mechanical collection and music licensing in Canada. They were quite a show.

We honored Steve Winogradsky, Moderator for the October panel and a Past President of the CCC, who spoke of his experience with the CCC. Steve served two terms as President and continues to support the CCC by remaining very active with the Board of Directors.

It's that time of year, and the CCC is celebrating the holidays with our annual Holiday Party. Last year we sold out, and it was a great time for all. So we encourage everyone to make your reservation early and send in your check as soon as possible. I know all who attended last year would say that this was certainly the Party of the Year!

Tonight, we have a panel discussion on "Record Retail" presented by one of our newest board members, Darryl Franklin, from Interscope Records. Darryl is an engaging personality who is well versed on the subject of tonight's discussion. He has put together an impressive panel. We welcome Darryl to the CCC board and wish him well with his first panel.

The big news in the music industry this month of course is about the five majors shrinking to three. No one seems to seriously doubt this will happen as BMG and Sony announced joint venture discussions had begun and Warner Bros and EMI moved inextricably toward some kind of merger. Amidst all of the speculation as to what exactly this will mean for the business - with the Los Angeles Times, among other publications, declaring it rather apocalyptically a last ditch attempt at survival - there are of course numerous functioning record companies (sales are up for this period compared to a year ago), artists are touring and record stores are selling product. And even though several of these labels will announce or have announced a fresh round of layoffs, the Christmas season is upon us and everyone, especially at the retail level, is hoping for the best.

There have been several high profile stories recently about how retailers are shifting their focus to accommodate the tastes of baby boomers who are apparently less wont to go on-line and download free music than their children (see accompanying article). Even more dramatically, retail outlets, especially the "mom and pop" variety are increasingly offering products other than recorded music to lure customers, from the obvious - DVDs and

electronic games - to the unexpected - toys and candy. The idea seems to be that if they can't beat the Best Buys of the world they should join them. The ironic twist of course is that Best Buy sells CDs at a discount, unfairly low, record retailers claim, in order to sell bigger ticket items such as appliances. Traditional record stores, on the other hand, are simply seeking new ways to get people to the racks to pay a bit more than they would at the appliance stores.

An article in Billboard last week by Chris Morris on this subject emphasizes that retailers are simply finding it impossible to make money merely selling CDs. With programs such as Universal's JumpStart the independents in particular face a double-edged sword. They recognize the need to offer product to the consumer at a reduced price but see their margins consequently disappearing. Given this reality with selling major label product, many of the independent stores have formed coalitions to buy independent product at better rates than they could get acting alone. These coalitions also seem to allow the "mom and pops" to move more quickly than the major chains at providing harder to find product. In a way it seems like the equivalent of a class system may be playing itself out: the major labels stocking the major chains who

(Continued on page 3)

At Sea With MP3's, Boomers Buoy Struggling Record Industry

By Chris Nelson

Beyonce Knowles and 50 Cent have two of the best-selling albums so far this year. Nonetheless, when Borders Books & Music recently redesigned the layouts of the music sections in its more than 420 superstores, the CD's from these and other young hit-makers were booted from prime browsing display space in favor of albums from the likes of Rod Stewart, Sting and Barbra Streisand.

The rearranging proved prescient, as the release of the latest Billboard top 200 albums chart demonstrated. While Clay Aiken, runner-up in the most recent "American Idol" contest and no hipster himself, took the top spot with his debut album, "Measure of a Man," Mr. Stewart finished second with "As Time Goes By The Great American Songbook Vol. II."

New releases from Ms. Streisand and the Eagles also landed in the Top 10. All told, artists over the age of 40, like Bette Midler, Van Morrison, Michael McDonald and Simon and Garfunkel, held 11 of the top 50 spots in the Billboard chart. In the same week last year, seven baby boomers finished in the Top 50.

The growing success of albums by older artists and of singers like Norah Jones, who appeal to less cutting-edge tastes offers some solace to an industry mired in a three-year sales slump. Record executives are desperate for any hopeful sign, even if it comes from people with more wrinkles than tattoos.

The record labels have placed most of the blame for the decline on the file-sharing networks on the Internet, and have sued or threatened to sue hundreds of people for illegally distributing free music online.

But the older audience, typically more affluent consumers who grew up buying their music on vinyl LP's, seldom uses the free file-sharing sites, according to Forrester Research. And because they account for a growing segment of the record-buying public, labels are increasingly tailoring their releases and their marketing, particularly on television, to reach them.

"Adults like music, too, and they're underserved," said Will Botwin, the president of Sony Music Entertainment's Columbia Records, which released the albums by Ms. Streisand and Ms. Midler. "And they're starting to get served."

It's not as if the historically strong youth market is melting away. The biggest-selling album of the year is expected to be the rapper 50 Cent's "Get Rich or Die Tryin'," according to Geoff Mayfield, Billboard's director of charts.

But adult buyers are increasingly making their presence known in the industry. Last year, shoppers over the age of 40, who tend to gravitate to graying artists, bought more than 35 percent of all units sold, according to the Recording Industry Association of America. Ten years ago, they accounted for 22.6 percent of all sales.

Some of the sales spurt can be attributed to a staple of the music industry the never-ending repackaging of golden oldies. The Eagles have already released two volumes of greatest hits, not to mention a boxed set. But that did not stop Time Warner's Warner Strategic Marketing label from releasing a double CD of "The Very Best Of" on Oct. 23. The album sold 162,000 copies, and finished third in its first week on the charts.

Elvis Presley's "Elvis 2nd to None" and "The Essential Simon & Garfunkel" also made strong showings on the chart. But shoppers are also buying albums of vintage stars recording tried-and-true songs. Mr. Stewart, a long way from his "Da Ya Think I'm Sexy" days, now croons classics like "As Time Goes By" and "Bewitched, Bothered and Bewildered" (a duet with Cher), and sold 212,000 copies of his new album in the first week. (His 2002 volume of standards leapt from 95 to 46 on this week's chart and has sold 1.8 million copies so far.) Ms. Streisand's "The Movie Album," Mr. McDonald's "Motown" and "Bette Midler Sings the Rosemary Clooney Songbook" also follow the concept.

"It is a voice matched with material where they know every song on the album, they are well-chosen,

and there is a chemistry and magic that is appealing to the public," said Clive Davis, chairman of BMG's RCA Music Group, whose J Records label produced both of Mr. Stewart's collections.

Even better for the music industry, these fans actually pay for the music. "We feel like we're losing less sales to file sharing" on albums by older artists, as well as those by younger artists who appeal to baby boomers, like Ms. Jones, John Mayer and Josh Groban, Mr. Botwin, of Columbia Records, said.

"From Discs to Downloading," an August report by Josh Bernoff, principal analyst for Forrester Research, bolsters Mr. Botwin's file-sharing thesis. The report found that while one-half of consumers ages 22 and younger use file-sharing software, only one in nine people ages 23 years old and older do so.

The recent success of some television advertising campaigns for new albums is also likely to inspire copycats. Until recently, the major labels rarely used television advertisements to drive music fans to stores, content to leave the airwaves to the direct marketing purveyors of schlocky compilations like K-Tel.

That began to change in 1999, when the Universal Music Group created UTV Records to sell compilation albums and single-artist retrospectives through television advertisements. The new label has issued compilations from Tom Petty, the Bee Gees and Kiss.

"The adult market is out there; they just have to be marketed to," said Kevin Gore, executive vice president for sales and marketing at Warner Strategic Marketing. Aggressive television advertising campaigns, like the one for the Beatles' "1" compilation in 2000, can turn what would have been a modest-selling album 10 years ago into a chart-topper today, he said.

Warner Strategic Marketing began airing spots for the Eagles' "Very Best Of" on networks like CNN, MSNBC, MTV and VH1 a month before the album was

released.

Television marketing has broadened both the types of artists labels can push, as well as the consumers they can reach.

In the past, the labels turned to radio and MTV to drive music sales, said Bruce Resnikoff, the president of Universal Music Enterprises, part of Vivendi Universal. But as radio stations narrow their playlists of songs, fewer artists can reach fans over the airwaves.

It is equally hard to get musicians, particularly older ones, on MTV. General television advertisements allow labels to reach older potential buyers, Mr. Resnikoff said. Label executives hope that when older fans see an ad for an Elton John disc on NBC's "Today" show, they will pick up the disc while shopping in Wal-Mart, Best Buy, Target, or Barnes & Noble, the stores they frequent more often than record stores.

The growing importance of older fans has led to this month's arrival of a music magazine called Tracks. Leaving the younger set to magazines like Rolling Stone, Blender and Spin, Tracks plans to cater to the musical tastes of adults over 30.

All these signs of a surge are contributing to a long-awaited feeling of optimism in the music industry. The latest Billboard chart represents the seventh week in a row that weekly sales in 2003 have bested sales in the corresponding week last year.

But any rejoicing may be premature. Even with the recent spurt, sales in 2003 are still off 6.2 percent from the comparable period in 2002. And if the record-buying habit is not passed down to a generation raised on Napster, the current troubles of the music business will seem as mild as Barry Manilow.

"It would be dangerous to say, O.K., the kids have gone away and all that's left are the adults," said Billboard's Mr. Mayfield. "That hasn't totally happened. And we ought to get scared if kids do lose interest in paying for music."

© *New York Times*. Reprinted with permission.

UPCOMING MEETINGS

December 8

Holiday Party: Don't Miss It!

Jan 13

Music for "Reality TV"

Feb 17

"An Evening With...(A Special Guest)"

Mar 16

Part 1 of our Publisher Series:
"Return of the Foreign Sub-Publishers"

Apr 20:

Part 2: "U.S. Indie Publishers"

May 25

50th Anniversary Celebration

MEMBERSHIPS

The price of an individual membership is only \$55 annually. Enjoy each dinner seminar at the special member rate of \$28 (the non-member rate is \$35). We also offer Corporate Memberships for \$250 annually. Corporate Sponsors can send up to 10 people to each dinner seminar at the member dinner price. In addition, each member can bring a guest at the discounted member rate. A Corporate Sponsor can save \$60 per meeting, with a potential savings of \$480 for the year.

SPECIAL EVENTS

The California Copyright Conference, in association with UCLA Extension, is preparing its first annual Music Educational Summit. The Summit is aimed at college students in music business programs, law students with an interest in the entertainment industry, and entry-level professionals in the music industry. Featuring two keynote speakers, the day's events will include a series of panel discussions on specific areas of the music industry, including copyright basics, music publishing, record deals, and music for film & television, culminating in a mock negotiation involving all these areas. The date and location will be announced soon.

Retail Climate

(continued from page 1)

then do battle with appliance stores while the independents offer the alternative titles.

Of course the reality is not all that simple. All retailers need a piece of the shrinking pie to survive and that pie has to include big sellers as well as obscure gems. As far as the attempt to lure the boomer generation, according to one industry veteran, Koch International's Vernon McNemar, it is not going to be easy for retailers to change their ways. "The whole industry has pushed in the direction of aiming for the 18 to 25 demographic for years and the baby boomer types are essentially disenfranchised and doing their shopping at Amazon or Borders and Barnes and Noble rather than Tower." The traditional retailers simply "don't know how to market to them" and to make it more difficult "not much radio is aimed to baby boomers to allow them to discover new music." McNemar does see a bright spot in all this for independent labels and distributors such as Koch. With consolidation at the majors there are more opportunities for artists such as Carole King and Jimmy Buffett "to do their own thing" and make potentially more profitable distribution deals.

So next time you're in your favorite record store you might want to take a good look around. Can you in fact get more of your Christmas shopping done than you have in the past by picking up a greater variety of stocking stuffers and is this the kind of approach that might just save an industry in peril? At the very least there is a shift going on out there and it has always been essential that the industry pay attention to what's going on at the street level. Stay tuned.

**California Copyright
Conference
PO Box 57962
Sherman Oaks CA 91413
(818) 379-3312
www.theccc.org**