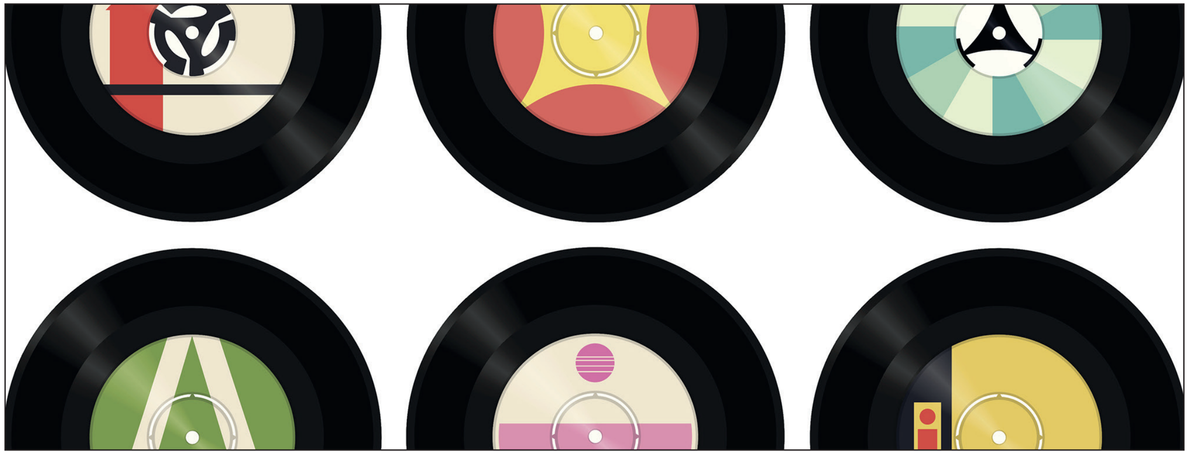
The record label of the future? The story so far

The death of the record company has been predicted many times in the last fifteen years, as the recorded music industry saw its revenues slump in the early days of the physical-to-digital transition, and as online and social channels made it easier for artists themselves to get their tracks onto the download and streaming platforms, to sell their music direct to fans, to communicate directly with their core fanbase, and even to raise finance via crowd-sourcing or pre-order campaigns.



Yet, in 2017, most artists still work with a record company – or a business that looks rather like a record company – in one way or another. And – with a few notable exceptions – most new artists are still doing record deals that look very similar to the contracts being signed in the 1990s, the main difference being that the label is likely cut into revenue streams other than sound recordings; which means that today the label is actually getting more rather than less from their deals with new acts.

That said, the artist / artist manager / label relationship has definitely evolved, and continues to change. Indeed, this three-way business partnership, while still likely key, especially for new artists, could as yet evolve much further, and much more rapidly, as the streaming market matures, as the music industry finally capitalises on the direct-to-fan relationship, and as artist management firms become ever more sophisticated. Which means that while the record label will still be an important business partner, its role and remit may change significantly.

As Music 4.5 gets ready to consider what 'The Record Label Of The Future' might look like, CMU Trends reviews where we're at, the companies already adopting new approaches, and what this all means for DIY artists and the role of the artist manager.

THE ROLE OF THE RECORD LABEL

For the artist, the record company traditionally played two key roles, as an investor and a service provider. Most new artists need a cash injection at some point, so that they can focus on their music full-time and gig widely enough to build a decent enough core fanbase, and to fund a marketing campaign that will reach a more mainstream audience.

While more established managers may be able to provide some seed funding themselves, and an advance from a music publisher can provide useful early finance, traditionally it is the record company that is most likely to make the first big investment.

In terms of services, the label may provide all or any of the following: artist development, content production, CD and vinyl manufacture, physical and digital distribution, marketing and PR, business-to-business marketing to sync and other licensees, and the management of the artist's recording rights. The record company may have in-house teams for all of these, or may provide the budget to pay external suppliers.

While conventions can vary from country to country, sometimes because of local contract or copyright law, in the UK the record company will usually want two things in return for its investment and services. First, exclusivity around the recorded content strand of the artist's career, for a certain period of time or number of releases. Secondly, ownership of any sound recording copyrights created under the deal, usually for life of copyright. The label will then be the copyright owner, while the artist is due a share of any revenue the rights generate subject to contract.

The latter part of the deal means that, while on one level record companies are investors in and service providers to artists, on another level they are large scale copyright owners, the investment/services part of the business pumping a constant stream of new rights into the catalogue side of the business.

The tensions that have emerged in many artist/label relationships over the years have often occurred as the artist stops dealing with the investor/service provider part of the label and starts to primarily deal with the copyright owner bit, which may owe the artist royalties, but might not be super-efficient in reporting or processing the money, and explaining how the artist's music has been exploited.

In many ways, the traditional record label model is a good one. Commercial entities routinely make risky investments – both in terms of cash and services – into unproven artists, in the hope that the act's recordings – which the label now owns – will become valuable down the line.

In return, the artist gets a cash boost and a marketing push that will hopefully kickstart their other revenue streams, such as publishing, live, merch and brand partnerships, none of which the label traditionally controlled. Once the artist has fulfilled their first deal commitments, they can negotiate a more favourable deal with the same record company, move over to a rival, or proceed without a label.

Though in another way, the traditional label model is a bit odd. The record company is a primary investor in the artist's business, but is only cut into one revenue stream, and therefore will usually prioritise the recordings side of the artist's career, even if there is more money to be made elsewhere.

While in theory the services the label provides are another benefit of the deal, the label being involved in artist development, distribution, marketing and so on, is also a way for the record company to exert control over the artist and their music, so to reduce the risk of its investment. Which means some artists come to resent the very services the label is providing free of charge and which are meant to help them grow their wider business.

These oddities – coupled with the tensions that often arise between the artist and the label's royalties department – have sometimes meant that some managers see labels not as key long-term business partners, but as useful pots of money that come with the double downside of the artist having to [a] basically sell the rights in their early recordings and [b] tolerate the interference of the label in those recordings.

However, that more negative viewpoint flows, if you can get as much money and marketing out of the record company in the short term, you can launch the artist's career and then cut the label free at the first opportunity.

All of which means that – while in some ways the traditional label system is a good system, enabling commercial investment in brand new talent on a level not generally seen in other cultural industries – it certainly isn't perfect.

EVOLVING LABEL DEALS

The 2000s saw the value of recorded music worldwide slump, partly because of online piracy, partly because of the profit-margin on CDs got cut by loss-leading retailers, and partly because the labels initially struggled to grasp the commercial potential of digital. As a result the record companies made less money, which in turn meant they had less money to invest in new artists.

This had two key impacts: labels started to invest in artists a little later in their careers, and many labels started to ask for a cut of some of the artist's other revenue streams – eg publishing, live, merch, brand partnerships – which had traditionally sat outside the artist's record deal. Some artist lawyers and managers initially pushed back on the move to so called multi-revenue stream, 360 degree or ancillary revenue deals, though with the majors and many indies too, for new talent they became the norm.

At face value, this shift to multi-revenue stream deals was a backwards step for artists, in that they were now having to give up more in return for that all important cash injection and marketing push. Though it also meant label deals were now up for renegotiation. And this occurred just as a new set of tools became available to artists and their managers, including digital distribution with no long-term commitments, direct-to-fan platforms that cut out retail and allow cash-flow-assisting pre-order campaigns, and all the social media channels that can be used for marketing.

Meanwhile, some labels and distributors, aware that their core revenue streams were in decline, started to diversify, the former starting to offer their services standalone as well as tied to traditional label deals, the latter – which had always offered the option of distribution without a label – also moving into offering marketing, rights management and other services.

For savvy managers, there were suddenly a number of new options rather than just the traditional record deal. Though – while the conventional record label was no longer the only service provider in town – there remained the issue of investment.

For established artists who didn't necessarily need a big cash injection, or who had other options for raising finance, these innovations were of immediate benefit. But for new artists still looking for someone to write a sizeable cheque, a more traditional record deal, locking services to investment and assigning rights to the label – only now giving the record company a cut of another revenue stream as well – were often the best option. Or, perhaps, the least bad option for a new artist.

Of course, one of the issues with the classic record deal was that the artist's primary investor was only cut into one revenue stream, meaning the label would always skew things towards recordings, sometimes to the detriment of other aspects of the artist's career, even if it became clear that recordings were never going to be the cash cow.

Therefore there is an argument that a multi-revenue stream deal between artist and label could address one of the issues with the old model. Though in the main, managers remained hesitant of involving the label in too many aspects of their artists' businesses, partly because of legacy trust issues, but also because they doubted whether the record company had the required skill sets beyond the recordings business.

Yet all of this still remains in flux.

Good managers arguably have more power now than before, partly because there are more options, partly because they are building their own infrastructure, and partly because some – especially younger – managers have found new ways of successfully launching new artists with no one ever writing a seriously big cheque.

At the same time, good labels remain key business partners, as service providers as well as investors. If a good label can properly get involved with an artist beyond just selling records, that could help the artist build a bigger business, to the benefit of all partners.

Hence it feels like the big shifts in the artist/manager/label relationship could be yet to occur, and while the shape of the average record company could as yet evolve, especially as new indies enter the market specifically designed for this new approach.

THE NEW MUSIC COMPANIES

Many conventional labels and distributors have innovated in the last fifteen years as the artist/label relationship has evolved, by negotiating new style artist deals, launching new 'label services' divisions, and offering new kinds of services for artists. Meanwhile we have seen start-ups enter this space and innovate as well.

Two firms particularly noted for their efforts to launch a new kind of record company – where service provision rather than rights ownership is core – are Kobalt and BMG. The former began as a service provider on the publishing side of music, before replicating its approach in recordings.

The latter was launched by Bertelsmann, a long-time player in the music industry, to specifically re-invent what it meant to be a music rights company, the media conglomerate having sold off its previous publisher and label to Universal and Sony respectively.

Both businesses have sought to over come some of the issues that occurred with the old record deals, such as the locking of investment to services, the requirement of assignment of rights, and the tensions that occur between artist and label when it comes to the payment of royalties down the line.

Indeed, for both BMG and Kobalt, the latter has been a key priority from the off. Says BMG's EVP International Artists, Alistair Norbury: "The BMG approach to record deals is inherently fairer to artists and more transparent than the traditional record deal. We designed it to be so. There was little point in creating a new BMG if it was going to be the same as the old companies. What that means in practice is no hidden deductions, transparency about costs and a strong preference to revenue sharing deals".

Paul Hitchman, President of Kobalt Music Recordings, also lists his company's "very transparent accounting" as one of the key innovations. Meanwhile there is the removal of copyright assignment from the deal. "The main difference with our label service deals is that the artist retains ownership of their rights, as well as most of the revenues", he adds. And the artist isn't locked into long-term exclusivity either. "Our deals are for a specific project, like an album or EP, and for a relatively short term".

Of course, artists could always do 'distribution deals' with record companies, which wouldn't involve assignment, would see the artist paid a much higher cut of any income, and could often be done on an album-by-album basis. But those deals would traditionally involve the label providing fewer services and much less investment.

Both BMG and Kobalt, though, offer most of the services of a record company as part of their deals, as well as more favourable revenue share arrangements and the option of a cash investment. This means that, unlike the old distribution deals, these arrangements are an option for new artists as well as established acts.

That might seem a bit risky on the part of BMG and Kobalt. Though the key for both companies seems to be flexibility and transparency in the deal-making process. The idea is that each deal can be structured to each artist's specific needs, with the aim of removing any unnecessary services or expenditure that would add to the costs and risk for both parties.

With the commitment to transparency, the hope is that managers won't suspect the label of sneaking extra kickbacks into the contract, or holding onto royalties as long as possible down the line, and therefore won't insist on so much upfront, assuming that their artists will actually earn off their recordings in the near future.

Once both parties' interests are more closely aligned, the hope is that the record company's upfront costs are reduced, and that it will have a higher hit rate – in that it will make back its time and cash investment on more of its artist deals – so that the successful deals won't need to subsidise so many loss-making arrangements.

Says Hitchman of his new talent investments: "We have provided early stage funding for dozens of developing artists over the last twelve months, and we will be stepping that up further in the year ahead. The model remains the same– the artist retains ownership of their rights and there is no long-term lock-in. Some of the artists whom we have provided early stage funding to are now working with us on their debut albums, with significant further funding from us".

Stressing the importance of flexibility and transparency in making deals of this kind work, Norbury says: "Our preference and our strong advice to artists is that a low advance revenue share deal is most favourable to them, but if they do insist on a more traditional deal which may involve a trade-off of some kind, then our job is to come up with something they're comfortable with. What we won't compromise on is our commitment to fairness, transparency and service".

However, even with the ability to enter into more bespoke deals with each artist – so to better manage upfront expenditure and hopefully ensure a higher hit rate – the owners of traditional record companies might see BMG and Kobalt's undeniably more artist-friendly approach as being a rather risky business from the label's perspective.

Of course both BMG and Kobalt are relatively young music companies seeking to grow their respective market share – especially when it comes to recordings (both having bigger more established interests in music publishing) – and therefore they may be able to justify more risky investments. Though other labels – major and indie – should be closely watching their approach, because what some currently call the 'label services business' could, in fact, be the future label business.

Though if it is, while the approach of BMG, Kobalt and others already playing in this domain offers artist managers more options, and more flexibility, it also arguably puts more pressure on management.

Because while many managers never liked the control the label sometimes took over their artist's early careers after a record deal had been done, sometimes it was the label taking control that assured the artist success. For the manager, with more power comes more responsibility.

Both BMG and Kobalt agree that their models work best with more proactive management on the artist's side. Says Norbury: "One of the biggest changes in the industry over the past years has been the changing role of the artist manager. Many of the brightest young executives in the business now choose management over working in a music company and managers are generally more proactive than they have ever been. That is a trend which fits well with the BMG approach. Our biggest successes have all been in part due to strong proactive management".

Hitchman concurs. "In talking to managers we find that most are more pro-active today than they have ever been, whether they are working with a traditional label or with label service partners. Increasingly managers are picking up many of the responsibilities that might previously have been considered the label's, particularly in the early stages of artist development. What we have done is create an infrastructure, global network and expert team that managers can plug into so there is no limit to what they can achieve independently with an artist".

ARTISTS AS ENTREPRENEURS

Whatever the future of the record label, artists and managers will need to be ever more entrepreneurial. Though the good news is that perhaps the biggest impact digital has really had on music is the ways in which it enables the entrepreneurial artist.

Says Ananay Aguilar from the Centre For Research In The Arts, Social Sciences and Humanities at the University of Cambridge: "Entrepreneurial artists have always had to leverage their contacts, organise their concerts, negotiate with managers and promoters, find alternative outlets for their music and so on. But before the digital age artists had to write letters and print promotional material. The greatest advantage of the digital era is the global reach of their work".

Though realistically, while we talk about the 'DIY artist', even with the full portfolio of digital tools available, few artists will ever do it all themselves. It's just that they might build a team of advisors and assistants rather than immediately looking to hand over all the work to a label, or even a manager.

As artist and entrepreneur (via Stornoway and Tigmus respectively) Tom Hodgson puts it, each new artist should think of themselves as a business. "If you view a musical act as a kind of company in itself, then it follows that the bigger the company the more staff it will need" he says.

"I know from experience the logistics involved with juggling the demands of touring, releasing music, press, not to mention rehearsing and writing new material. As an artist grows they will need to take on people to help manage the business side of things if they want to be able to concentrate on their core job of making music".

Perhaps the biggest challenge for a new artist – or the manager of a new artist – is working out which digital tools to utilise at the outset, when money is tight, and time is sparse too, meaning even free digital or social channels aren't necessarily an option.

Hodgson reckons that at the very start there needs to be a little bit of trial and error, which is where understanding the analytics side of the digital platforms is important, so artists and managers can see what is working. "First and foremost, artists need to find their look and sound and develop that into its most concentrated form", he explains. "This will help build an audience – using tools like Instagram and Snapchat – who will more easily get what the artist is trying to say".

For the reasons discussed above, all the best digital tools in the world won't ultimately replace a good label – or label services partner – though these tools are only going to improve with time. Which should strengthen an artists' negotiating hand when doing their label deals, or possibly even allow them to work without a label partner long-term, depending on the scale of their ambition.

Notes Aguilar: "The larger labels are the ultimate gatekeepers of the most influential media, so if an artist's aim is to have global mainstream attention, then signing with a label is inevitable. When doing so, it's key to have enough bargaining power to get the best deal. Alternatively, some artists choose independence over global attention and are able to create a team that suits their own needs".

Either way, labels of the future need to ensure their services offer more than what the latest digital channels provide, and flexibility and transparency is key here too. Says Hodgson: "Online tools for artists will absolutely improve. Developments in technology have been at the core of all major changes in the industry and I think we're currently in a period of upheaval. Whether or not the need for a label declines will depend on the efficacy of these new tools against the varying needs of artists".

He continues: "The prevailing arrangement between artists and labels will most likely be the one that strikes the right economic balance. Artists across the spectrum need to be remunerated properly and transparently. Labels need to opt into new technologies that make the economics of recorded and live music data-driven and transparent. Otherwise they may well find that artists increasingly turn to alternative – ie technological – means of recording, performing and distribution" ■

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