



Prince, with the word "Slave" written across his face is shown performing in New York's Rockefeller Plaza in this July 9, 1996 file photo. Recently a number of superstar acts are rejecting traditional multiyear album contracts with major record labels in favor of deals that offer bigger dollars and more creative freedom. (AP Photo/Richard Drew/FILE)



## Do Superstars Still Need Record Labels?

By ALEX VEIGA – Oct 12, 2007

LOS ANGELES (AP) — Prince freed himself from record labels years ago. Paul McCartney, Radiohead and Nine Inch Nails have followed. Now the Material Girl appears to be kissing her big-name record company goodbye for a cool \$120 million.

Could U2 be next? Justin Timberlake? Coldplay? Do superstars even need traditional multiyear album contracts when CD sales are plummeting and fans are swiping tons of music for free online, or tuning in to their favorite bands via YouTube, MySpace and other Internet portals?

"There's a prevailing wisdom that many established acts don't need a record label anymore," said Bruce Flohr, an executive at Red Light Management, which represents artists such as Dave Matthews Band and Alanis Morissette, and ATO Records, home to David Gray, Gomez and Crowded House, among others.

"This is the new frontier. This is the beginning of a new era for the music business," Flohr said.

Executives at the four major record labels would not comment on the record for this story. But several noted privately that their companies are still the best at artist development, promotion and physical distribution of their product — something even big acts can't entirely do without.

The four majors are Warner Music Group Corp., Vivendi's Universal Music Group, EMI Group PLC, and Sony BMG Music Entertainment, a joint venture of Sony Corp. and Bertelsmann AG. They accounted for more than 88 percent of all U.S. music album sales this year.

Still, some headliners are becoming convinced they have the clout to change the rules.

Madonna is said to be close to signing a recording and touring deal with concert promoter Live Nation Inc. after turning down an offer from her longtime label at Warner Music Group Corp.

Under terms of the new 10-year deal, Madonna, 49, would receive a signing bonus of about \$18 million and a roughly \$17 million advance for each of three albums. Live Nation also would have to pay \$50 million in cash and stock to promote each Madonna tour.

Warner Music just couldn't afford to pay that much to re-sign Madonna, Michael Savner, an analyst with Bank of America, said in a research note.

Meanwhile, Radiohead created a stir — and plenty of publicity — when the British rockers disclosed last week they would bypass signing a new deal with a record label and make their new album available online, letting fans decide how much they wanted to pay to download it.

Earlier this year, Paul McCartney signed with Hear Music, a startup label launched by coffee retailer Starbucks Corp. and Concord Music Group, rather than going to a major.

Even the Eagles are going it alone with their upcoming album, "Long Road Out of Eden." The group, which has sold more than 120 million albums worldwide, will release the album exclusively through Wal-Mart stores.

The trend had Nine Inch Nails frontman Trent Reznor exulting over being "free of any recording contract with any label" in a recent post on his Web site.

"I have been under recording contracts for 18 years and have watched the business radically mutate from one thing to something inherently very different, and it gives me great

pleasure to be able to finally have a direct relationship with the audience as I see fit and appropriate," he wrote.

Music industry insiders say the bids for independence only make sense for the most popular acts or those with devout fans who fill concert seats, buy T-shirts and seek out their music.

"These artists are in the position to basically set their own rules and set their own course," said Ted Cohen, managing partner of media consulting firm Tag Strategic and a longtime record label executive.

Meanwhile, social-networking sites and Internet distribution are making it possible for lesser-known and unsigned bands to boost their profiles and sell CDs.

"The game used to be really simple," Flohr said. "You get your record played on radio, you get your face on Rolling Stone (magazine), and you get on 'Saturday Night Live.'"

"Now, it's you put your video on YouTube, you get your MySpace page happening, you do your deal with Facebook, you tour ... all these things add up, hopefully, to a successful record."

Some established major acts are using the same tactics as their new albums post lackluster sales but their concert tours keep selling out.

The strategy doesn't help record companies. The industry has seen a 14 percent drop in the number of CDs sold in the U.S. compared with the same time last year, according to Nielsen SoundScan.

Sales of digital tracks online are up 46 percent over the same period, but have yet to offset the industry's losses during the past decade.

To adapt, the major labels are trying to cut deals with artists that go beyond album sales and encompass income from concert tickets, T-shirts, music publishing and other sources.

New bands with their eyes on superstardom still need the deep pockets of the major labels to pay for the promotion, marketing and distribution necessary to get heard above the din of countless other acts.

Even superstars can use the boost.

Take Prince. Famous for scribbling "slave" on his cheek during a bitter dispute with Warner Bros. Records in the early 1990s, he has released most of his music over the Internet during the past 10 years while striking CD distribution and marketing deals with different major labels to get copies of his albums in stores.

Radiohead has said they want to get their latest album in stores in a few months and are said to be shopping for a possible major label distribution deal, if not a multiple album contract.

And it's widely expected that Live Nation will have to strike a distribution deal with an established label to handle promotion and get Madonna's upcoming albums in stores.

In theory, that could lead Live Nation back to Warner Music, home of Warner Bros. Records, where Madonna signed as a new artist in 1984.

"It comes down to, do you need a label? Possibly not. Do you need the expertise that a label traditionally brought? Absolutely," Cohen said.

Despite the turmoil in the industry, the major record companies continue to exert considerable influence in the marketplace.

Major labels are not likely to disappear or become irrelevant, although the role they play might change as digital music overtakes CDs and other physical formats, Flohr said.

"I don't think this is the death of anything," Flohr said. "I actually think this is the rebirth of all of us."

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