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Artists Find Backers as Labels Wane

By BRAD STONE

There was a time when most aspiring musicians had the same dream: to sign a deal with a major record label.

Now, with the structure of the music business shifting radically, some industry iconoclasts are sidestepping the music giants and inventing new ways for artists to make and market their music — without ever signing a traditional recording contract.

The latest effort comes from Brian Message, manager of the alternative band Radiohead, which gave away its last album, “In Rainbows,” on the Internet. His venture, called Polyphonic, which was announced this month, will look to invest a few hundred thousand dollars in new and rising artists who are not signed to record deals and then help them create their own direct links to audiences over the Internet.

“Artists are at the point where they realize going back to the old model doesn’t make any sense,” Mr. Message said. “There is a hunger for a new way of doing things.”

Polyphonic and similar new ventures are symptomatic of deep shifts in the music business. The major labels — Sony Music, Warner Music, EMI and Universal Music — no longer have such a firm grip on creating and selling professional music and minting hits with prime placement on the radio.

Much of that has to do with the rise of the Internet as a means of promoting and distributing music. Physical album sales fell 20 percent, to 362.6 million last year, according to Nielsen, while sales of individual digital tracks rose 27 percent, to 1.07 billion, failing to compensate for the drop. Mindful of these changes, in the last few years marquee musicians like Trent Reznor, the Beastie Boys and Barenaked Ladies have created their own artist-run labels and reaped significant rewards by keeping a larger share of their revenue.

Under the Polyphonic model, bands that receive investments from the firm will operate like start-up companies, recording their own music and choosing outside contractors to handle their publicity, merchandise and touring.

Instead of receiving an advance and then possibly reaping royalties later if they have a hit, musicians will share in all the profits from their music and touring. In another departure from tradition in the music business, they will also maintain ownership of their

own copyrights and master recordings — meaning they and their heirs can keep earning money from their music.

“We are all witnessing major labels starting to shed artists that are hitting only 80,000 or 100,000 unit sales,” said Adam Driscoll, another Polyphonic founder and chief executive of the British media company MAMA Group. “Do a quick calculation on those sales, with an artist who can tour in multiple cities, and that is a good business. You can take that as a foundation and build on it.”

The third Polyphonic principal is Terry McBride, founder of the Vancouver-based management firm Nettwerk Music Group and manager of Barenaked Ladies.

The Polyphonic founders, who have provided the company with \$20 million in seed financing, say they plan to invest around \$300,000 in each band. The company will then guide musicians and their business managers — who will function a little like the band’s chief executive — to services like Topspin, which helps manage a band’s online presence, and TuneCore, a company that distributes music to online services like iTunes, Amazon and Napster.

The partners say they have been thinking about such a venture for several years. They recently tried to raise money for the company from venture capitalists in Silicon Valley, but met with initial skepticism.

“Returns on entertainment products when portfolios are small are typically very erratic,” said David Pakman, a partner at venture capital firm Venrock, which passed on the deal. Mr. Pakman doubted that Polyphonic and similar firms could produce the kind of returns on investment that venture firms typically look for.

Polyphonic, which will be based in London and in Nettwerk’s offices in New York and Los Angeles, says it plans to approach private investors again after it has proved its model works.

The new company will have plenty of company in exploring new ways for artists to maintain control over their creations.

Marc Geiger, an agent at William Morris Endeavor, who tried a similar venture in the late 1990s called ArtistDirect, is now developing a program for musicians at his agency that will be called Self Serve. Mr. Geiger said he was not ready to divulge the details yet, but said that Self Serve would provide tools and financing for artists to create businesses independent of major recording labels.

Even the major labels themselves are demonstrating new flexibility for musicians who do not want to sign the immersive partnerships known as 360 deals, in which the label manages and profits from every part of the artist’s business.

In late November, for example, EMI took the unusual step of creating a music services division to provide an array of services — like touring and merchandise support — to musicians who were not signed to the label.

“We all know the role that the record label has traditionally played needs to change,” said Ronn Werre, president of EMI’s new division. “There are artists that want to have more creative control and long-term ownership of their masters, and they may want to take on more of the financial risk. To be successful we need to have a great deal of flexibility in how we work with artists.”

Artists who have produced their own music and contracted with EMI to run parts of their business include the R&B singer Bobby Valentino and Raekwon, a member of the Wu-Tang Clan.

Mr. Message said that “there are many artists who still want to go with labels, which do still have abilities to really ram home hit singles.”

Bands who take the Polyphonic route, he said, will need to have considerable entrepreneurial energy. For example, they might stay after concerts to “go to the merchandise store and sign their shirts and talk to fans, because they know they are right at the heart of their own business,” he said.

Bands that have taken this approach say it can be arduous. In 2007, after releasing three records with independent labels, Metric, an alternative band from Toronto, finally got several offers from the big record companies. But the band declined to sign after concluding that the labels were asking for too many rights and not offering enough in return.

With help from a grant from the Canadian government, the band cut its own album in April, “Fantasies,” and started selling it directly to fans on services like iTunes, where it has scaled the popularity charts.

“It certainly has not been easy,” said Matt Drouin, Metric’s manager. “When I get up at 6 a.m. the British are e-mailing me. When I go to bed at 2 in the morning the Australians are e-mailing me. It’s an extremely empowering position, but one hell of an undertaking.”