

## A New Business Model for the Music Industry

J. Donald Tillman

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Right now, the music industry is going through a massive change. The global economy has become huge, technology has made tremendous advancements, and the business model that the record labels have developed no longer works. A few months ago, [Paul Graham](#) at venture capitol firm [Y Combinator](#) announced his [Startup Ideas We'd Like to Fund](#). It's good reading, of course, but I find it significant that this is the number one position on the list:

**1. A cure for the disease of which the RIAA is a symptom.** Something is broken when Sony and Universal are suing children. Actually, at least two things are broken: the software that file sharers use, and the record labels' business model. The current situation can't be the final answer. And what happened with music is now happening with movies. When the dust settles in 20 years, what will this world look like? What components of it could you start building now?

The answer may be far afield. The answer for the music industry, for example, is probably to give up insisting on payment for recorded music and focus on licensing and live shows. But what happens to movies? Do they morph into games?

Paul Graham is not the first to note that the record industry is a trainwreck, but he has described the problem very concisely. Perhaps he likes music.

Well, I would like to step up to the plate. With this article I will describe some of the problems that have caused the record industry to fail, as well as a simple solution that defines a new model for the industry, and one that has a good potential for both business success and cultural advancement.

### Back to the Fundamentals

The music industry has become lost because they've wandered way too far from the whole point of their existence. So first we need to direct the discussion toward the fundamentals: The record industry delivers music, and music is culture.

And culture is very important. Culture is the hallmark of a civilization, the intellectual achievement of a society. Culture is a measurement of the growth of a people and an offering from the current to future generations. Music, literature, and art are all part of it. Any of us has the opportunity to make original contributions to our culture, and we all have the responsibility to preserve the culture.

American society has been responsible for the development of numerous genres of music over the last century and a half; gospel, blues, jazz, swing, bebop, barbershop, folk, country and western, rock'n roll, rhythm and blues, folk rock, bluegrass, American song, Broadway, the list goes on and on. It's a remarkable accomplishment and should be appreciated and praised. Has any other nation contributed such a wealth of in dimensions of quantity, creativity and diversity? I can't think of any.

Any successful business model for the record industry will have to recognize culture as well as the business economics and the technology, and find a way to have weave them together in a mutually beneficial way.

## Record Labels

There used to be six major record labels, but now they've merged to four;

- **Universal** (France, 32% of US sales)
- **Sony/BMG** (Japan/Germany, 26% of US sales)
- **Warner Music Group** (USA, 15% of US sales)
- **EMI Group** (UK, 10% of US sales)

(It was almost three, as EMI attempted to purchase Warner in May 2006, but the bid was rejected.) The smaller independent labels make up the remaining 18% of US sales.

CD sales have been plummeting for all the record companies. ( *Sales of Music, Long in Decline, Plunge Sharply*, Wall Street Journal, March 2007.) Tower Records filed Chapter 11 and closed its last US store in 2006, Musicland / Sam Goody filed for Chapter 11 in 2006, Warehouse Records is out of business.

Also in 2006, Alain Levy, the CEO of EMI, announced that "**The CD as it is right now is dead.**"

And at the same time, FM Stations have lost audience, and have never had so much competition (satellite radio, internet radio, an iPod on shuffle, etc.). And neither MTV nor VH-1 has shown a music video in years.

So that's pretty awful.

## Music Suffers

At the same time the music has suffered. Popular music, in the current day, absolutely sucks.

Sure, any old fart can complain about the kids these days and their lousy excuse for music. My dad certainly did. And probably his dad before him. And yes, I *am* middle aged, so anything I say about the current music trends can be trivially dismissed as the annoying complaints of a dottering old fool. And of course any postmodern deconstructionist worth his salt could jump in here and claim that it's not possible to judge any music to be better or worse than any other. But those are only dismissive barriers to a serious discussion. So, I'll provide objective measurements.

Objective Measurement 1: There are effectively no virtuoso musicians today. By that I mean, it has become difficult to name any musicians who have entered the music scene and received national attention in the last 4 or 5 years and broadened the horizons of a musical instrument with their skills. In the 50's, 60's and 70's you could pick any musical instrument and ask any music fan to name some virtuosos and they could easily rattle off a dozen. For guitar in the early 70's especially, you could even do it in alphabetical order: Allman, Beck, Coryell, and so on, to Zappa. Today it's hard to name any. Not just for me, for any young music listener, for any instrument.

Likewise it's hard for any young music listener to name any truly outstanding songwriter, composer, arranger or lyricist that has entered the music scene recently, any genre.

And that's truly sad. With no virtuoso musicians there is little inspiration for young music students.

Objective Measurement number 2: The popular music of today, the *Top 40*, is no longer reflected by local bands and musicians. In previous decades, with almost every genre of popular music, you could visit local venues and find local bands and musicians playing and writing that same type music, whether it be folk, pop, rock, blues, jazz, or whatever. Today it's very difficult to find any local bands that sound remotely like Madonna, remotely like N'Sync, or remotely like Snoop Dogg. The disconnect between the music industry and the local musicians has grown to the point where they've become worlds apart.

So yes, there are objective ways to measure and grade the level of cultural relevance of the music industry. And

the current system is a trainwreck, culturally as well as financially.

## Shifting Business Model

The cultural disconnect is a side effect of the record labels moving from a model where they discover local musicians, recognize their talent and nurture their careers, to a model where the record label attempts to manufacture trends based on the data from focus groups. The former is a bottom-up approach, the music of the people as it were, while the latter is a top down approach, where the musical trends are dictated by the record labels.

It's easy to blame the situation on crass capitalism. Sure, why not. Yet, record labels in communist and socialist countries haven't exactly been delivering the cookin' toons. And the capitalist record companies today aren't exactly turning a profit, so they're failing at being capitalists.

I think it's more the case of an attempt at crass capitalism that backfired horribly. The record labels went from being conduits of musical trends, to being ahead of musical trends, to attempting to dictate musical trends, which pretty much isolated them from the very music they were supposed to be a conduit for. Witness the huge number of CD re-releases of historically and culturally important albums that were thoroughly botched by the use of the wrong master tapes, incorrect equalization, wrong takes, missing liner notes, ugly or missing artwork, unreadable printing, or even cases where the album was never released on CD.

(My favorite humorous example was the CD release of Jimi Hendrix' *Electric Ladyland*. This was an important album by an important musician, it received wide acclaim and was a major seller, being Hendrix's only number one album. It was a double album on vinyl, and in a stunning display of incompetence, was released as a two CD set, with sides 1 and 4 on the first CD and sides 2 and 3 on the second. Polydor might as well have printed "we have no freaking idea what we're doing" on the cover.)

*Update:*

*Sigh... more than a few readers have written in, telling me they didn't get the joke. I first thought that perhaps I didn't tell it very well, but then I realized that the years have been flying by, and that many music fans reading this may not have ever seen an Automatic Turntable (also called a Record Changer). Automatic Turntables used to be quite popular, and were able to play a stack of vinyl record sides without manual intervention. Wikipedia has some details [here](#).*

*So two-record sets were often pressed to be played stacked up on an automatic turntable, with sides 1 and 4 on the first disc, and sides 2 and 3 on the second. And the listener would place the records in a stack at the top of a long spindle, play sides 1 and 2 through, flip the pair over, and then play sides 3 and 4 through.*

*Electric Ladyland* was just such an album. So that's the joke; by placing sides 1 and 4 on the first CD, the record label demonstrated both that they didn't understand the sequencing of the original album, and that they didn't understand the playback technology of their product.

*Deconstructing this a little more... Some multiple-disc vinyl albums were pressed to be played a disc at a time (sides 1/2 on the first disc, sides 3/4 on the second) and some were pressed to be stacked for automatic turntables (sides 1/4, sides 2/3). In practice, the choice of which to use was dependent on how sequential the flow of the album was. But another consideration was that automatic turntables were generally of inferior quality compared to manual turntables, and didn't treat the discs as gently. And the owner of a manual turntable is faced with a significant amount more labor going from side 1 on disc 1 to side 2 on disc 2 of an album pressed for stack play. So if the record label believed that the target audience was more audiophile oriented or otherwise preferred manual turntables, they might be less likely to press the album stack sequenced.*

## The Good News

It's not all doom and gloom though... in fact I see a very bright future. Starting about now. Seriously. And that's what this article is about. Let's look at some of the pluses...

Digital technology, including Moore's Law, has lowered the cost of creating music, manufacturing and distributing music, and listening to music. The barrier to entry for the independent musician has never been lower. The amount of music available is much greater. While FM radio is tanking, as a market, more people are listening to more music in more ways than ever before. Alternatives to radio have sprung up in the form of satellite radio, internet radio, an iPod on shuffle, etc.

Apple's iTunes is a great example of a new music business model that successfully leverages the technology. They've gone from startup to becoming the nation's number one music retailer in roughly six years.

We need more of that.

## Downloads are Pretty Remarkable

Downloading the bits, like with iTunes, or purchasing album downloads from Amazon, has numerous advantages that are worth examining:

- The music goes directly to iTunes/iPod, which is quickly becoming the preferred playback medium.
- Delivery is fast. An order of magnitude faster than driving to a store, two orders of magnitude faster than mail order.
- The customer never receives a damaged product that needs to be returned. No CD's with manufacturing defects, no cracked CD cases, no cases with the little CD hole clippies broken. And likewise no vinyl with manufacturing defects, no records warped in shipment, and no surprises with the wrong record inside. Much fewer customer complaints and lower cost of customer support.
- Manufacturing cost is effectively zero.
- Distribution cost is effectively zero.
- Shipping cost is effectively zero.
- The retailer can stock an almost infinite number of titles at almost no cost and doesn't have to worry about keeping some minimal number of units of each title in stock, and doesn't have to reorder or restock. Compare that to a brick-and-mortar store, where stocking a large number of catalog items is costly, time consuming and annoying, and one has to worry about overstocking or returning overstock.
- The record company doesn't have to deal with returned unsold product from the distributor. Remember "cutouts"?
- Actually, there is no stocking distributor (the middle warehouse step between the record company and the retailer) at all.
- Downloads encourage a much wider diversity of music.
- The barrier to market entry for new, independent and unsigned musicians is significantly lower.
- The economics of [The Long Tail](#) tell us that in an internet operation, where the shelf space is effectively free and infinite, the distribution mechanism can not only handle a wide diversity of niche titles, but the sum of the sales those niche titles (and thus profit) can rival the big hits.

So that's unbelievably good; almost the entire cost of doing business goes to near zero. Downloads are certainly the future of the music industry, at least for the next decade. And I'm not going to suggest messing with that.

As an aside, I'd like to point out that digital music download retail process was proposed by Frank Zappa in his autobiography (*The Real Frank Zappa Book*, 1989, pp 337-340. Yet another reason the man was a genius.)

## What Vinyl Did Right

But downloads are not perfect. Downloads abstract the music down to just the bits, which is great from a

manufacturing, distribution and delivery aspect, but the result is... just bits. There's a problem with that; music is not just bits. Music is culture, and culture is full of context and references.

And the vinyl product packaging addressed the context of music very well, and provided a ton of opportunity for presenting that context. Examples include:

- The front cover art
- Writing and performing credits
- Liner notes
- Lyrics
- Stories, poems, comedy, prayers, cartoons
- Clues about the bass player's untimely death in a car accident
- Photographs of the musicians, and anything else
- Biographies
- Copyright, legal notes, record company contact information
- Anything to accompany the listening experience

The front cover art alone provides a substantial canvas of artistic expression, being a visual representation of the music inside, an iconic symbol identifying the album, a presentation to the potential customer, and a visual prelude setting expectations to the listening session. (Heck, it used to be that one could buy an album based solely on the cover art and have a reasonable chance of being pleased with the music contained within. No guarantee, of course, but the odds were not bad.)

The size of the album cover is large enough for a significant art project. (There are smaller art works framed and hanging on walls.) The aspect ratio of the cover is a little awkward, sure, though not terribly limiting. The production of the album cover is open to just about anything within the physical limitations of a print shop; techniques such as unusual inks, textured surfaces, embossing, silver layers, gloss coating, and so forth are not problems. The Rolling Stones alone have given us a 3-D lenticular screen, an octagonal cover shape and a working zipper fly. Coffee table books that compile collections of album cover art are always a joy.

Gatefold album covers (the ones that open up) were initially used for packaging double albums, but became popular for single albums because it multiplied the area available for the album art. As a side effect, it lent an aire of quality to product. And yes, provided a place to roll up a spliff.

The inner sleeve (the "dust jacket") is also a canvas for artistic expression. And the label on the disk itself. And even colored vinyl. (Indeed, there's no possible equivalent to colored vinyl in the download world.) And in a few cases, scribbles on the lead-out groove.

The vinyl album package also provides the opportunity for what I call *discoverables*, treats for the purchaser hidden within the album. Here are some well-known examples:

- Fictional newspaper (Jethro Tull)
- Panties (Alice Cooper)
- Rolling papers (Cheech and Chong)
- Naked Joni Mitchell (Joni Mitchell)
- Faux 8x10 color glossies (Beatles)
- Large poster (Pink Floyd)
- Concert booklet (Yes)

The vinyl album package also contains plenty of opportunity to present the record company's marque or style. Who can't miss the prominent display of RCA's "Living Stereo" banner, Deutsche Grammophon's enormous seal, ECM's elegant photography or CBS's logo in the upper left corner? The cover art can easily identify the record company to even the most casual shopper. That becomes a significant marketing advantage when the customer is unfamiliar with the artist but has developed a fondness for other artists on the label.

The inner sleeve is also an opportunity for the record company's marque. Atlantic Records usual filled their inner sleeve with advertisements for other albums. ECM and Windham Hill would use high quality plastic inner sleeves as an indication of a quality product. And of course the label on the disk itself. Historically the label has been entirely the record company's trademark (ie., no artwork specific to the album or artist, except for the text). And also there are clever A-side / B-side label pairs, like the apple and sliced apple on the Beatles' Apple label.

So that's another disadvantage of delivering a stream of bits; there's no place for the record company's brand. The record label becomes anonymous and invisible. And quite possibly unnecessary.

## CD Packaging is Less Than Optimal

While the CD medium succeeded at providing a pretty high fidelity sound in a small package at a reasonable price, the CD packaging has failed in many areas. The front cover is a tiny fraction (less than 15%) of the area of the vinyl album so there's really no room for any artistic statement. For re-releases of vinyl albums, the original cover art doesn't usually survive being mapped to such a small form factor. Liner notes, credits, lyrics, etc. are all pretty much unreadable in a tiny typeface, especially for those of us with aging eyesight. One could argue that it doesn't matter anyway because the CD booklet is too difficult to ply out of the front cover plastic piece. CD jewel cases crack way too easily, require specialized shelving (they don't even look nice on a shelf), and there's no room for discoverables.

There has been a bit of a revolt against the plastic jewel CD cases recently as more and more CD releases are using cardboard Digipak cases. These are easier to open, they don't crack, and they look much nicer on the shelf. Frederick Moyer has fancied that up a bit and [patented](#) a high-end CD package that's a cross between a Digipak and a cloth-covered hardbound book (available on his "Chopin" album from [JRI Recordings](#)). It's a nice package, but it's still the size of a traditional CD.

The longer playing time of the CD and the track selection mechanism both seemed like a good idea when the CD was first introduced, but it turns out that those features ran counter to the theatrical nature of the playback medium. (Huh? Let me explain...) The physical limitation of the playing time on an LP side is actually a cultural advantage as the album is naturally sequenced as a theatrical event. "Side 1" of the album is "Act 1" of a show, "Side 2" is "Act 2", both are 15 to 30 minutes in length. Flipping the record between Side 1 and Side 2 is effectively an intermission. If it's a double album, that's equivalent to a four act play. Or a three act play with a encore. Each album side, or act, has a beginning, a journey, and an end. And the song sequencing of many albums fits that in an artistic way. The theatrical flow of an album doesn't really translate to a CD, and worse, doesn't translate to the user interface of the CD player. For instance, any Beatles fan knows "Being For the Benefit of Mr. Kite" as the end of side 1, not as track number 7. "Within You and Without You" is the opening of side 2, not track 8.

So CD's have been a step down (or more like a tumble down the stairs) in providing cultural context.

## The New Music Format

It is important to recognize that music customers are not all the same, and we must consider at least two classes of music shopper. One is the casual listener who wants to purchase a quick download of a song or an album at a low price in a convenient way. The second is the more serious listener, the fan, the music nerd, the collector. The two classes of listeners have different needs, they have different relationships with the music, different expectations, and are likely to apportion their hard-earned entertainment dollar in different ways.

For the casual listener, nothing can beat the Apple iTunes or Amazon download, and I'm not going to suggest messing with that. But for the more serious listener a new music format is necessary. And it's a book.

No, seriously, a book. The size and shape of a typical hardcover book, roughly 6-1/2 by 9-1/2 inches, but thinner, perhaps 3/8 inch. The book would be either hardcover or soft, manufactured exactly like an actual book in any of the traditional ways, but with one or more CD's (or SACD's, or DVD's), each stuffed in an envelope page in the



rear. (A simple envelope is far superior to a plastic dish with CD hole clippies breaking off.)

If the music customer orders a Book Format album, they get:

- A presentable collectable book-like product they can read and cherish
- Easy storage, looking handsome in any bookcase
- More room for cover art, 2.7 times the area of a CD
- Carries any content for cultural context; any quantity of liner notes, credits, photos, drawings, stories, poems, prayers, etc.
- Room for discoverables
- Plenty of opportunity for record company branding
- The included disc could be a CD, a SACD, a DVD, or any combination
- While the disc will serve as a playback medium in CD players, or for ripping to iTunes, it also serves as an archival medium covering hard disk crashes, lost files, transferring the music to new computers beyond the download's DRM limitations, etc.
- The disc would provide compression-free audio, higher quality than the compressed download bits
- The disc could include material beyond what is available by download such as alternate takes, bonus tracks, alternate mixes, video, sound samples, etc.
- Depending on the manufacturing specifics of the binding, you could even roll a spliff in it

An obvious beneficiary would be classical music. Vinyl releases of operas, for instance, usually included a libretto and performance photographs. The Book Format album could provide this beautifully, and it would be a far more civilized form factor than 12 inches by 12 inches. Vinyl releases of baroque music sometimes included the printed music for the pieces, especially for organ music, cantatas and trio sonatas. The Book Format album would shine here also, and would be a welcome companion to the listening experience.

Re-releases of culturally significant albums (Beatles, Coltrane, Dylan, etc.) in Book Format albums could include all sorts of analysis and commentary, putting the work in historical perspective.

And it would be a great format for Children's music.

Some boxed set CD releases already include a booklet, so that's close, but the booklet is severely constrained by the tiny CD form factor. Looking at my shelf here... I have John Coltrane's "Complete Atlantic Recordings" on Rhino, 7 CD's and a booklet, but the booklet is crippled with tiny printing, tiny photos, tiny album cover images and a binding that falls apart. This collection would be infinitely better in as a Book Format album. King Crimson's "The Great Deceiver" is 4 CD's and a booklet (a fantastic read!), but it too is an awkward 14.5 cm by 30 cm (5.7 inches by 11.8 inches, CD width, more than 2 CD's height). This was so that the package could fit in a record store's long-style CD bin, but unfortunately that leaves it unsuitable for a listening room bookshelf. Ironically, while you want the album to spend almost all of its lifetime in the latter location, it won't get there unless it fits in the former.

Book Format albums would be collectable in many ways books are collectable. The production quality would be such that the customer would be proud to display them in their bookcase. A series of releases would look handsome together, so that the customer might be inclined to purchase more albums from the series (Beethoven Symphonies, Bach Cantatas). Friends and visitors can explore an album collection. And parents can introduce their children to good music in very much the way they introduce their children to good books.

The Book Format album would be more expensive than the download price, probably something between the current price of a physical CD release and the price of a softcover book (which aren't too far apart at this point). And it would provide value for the customers who are more involved with the music and want more than just a download.

Technologically it's a piece of cake. It's a book, and printers, publishers, and booksellers have absolutely no problem dealing with books. And many technical books published today include a CDROM in an envelope.

What about competition between the download format and the book format? In the interest of serving the music we should not be weaseling the music fans the way record companies did with multiple re-releases of CD's, penalizing the fans who bought the early releases with paying again for the same music when better quality releases came out. A more trustworthy relationship is required here. If the customer purchases a Book Format album they get the download stream included so that they can enjoy the music while the book is being delivered. Likewise, if the customer purchases the download stream and want to upgrade to a book, they can for an incremental cost.

Given that music downloads are so convenient and inexpensive, I don't see Book Format album's dominating a music collection, but rather reserved for the more cherished material. And they would make great gifts.

## How to Make it Happen

If I were running a record label, I would declare the CD packaging a dead format, move the entire catalog to Book Format and downloads, and make a fortune. Unfortunately, I don't run a record label, so I'm going to just publish this here. And I'll try to contact some actual record labels (the ones with music I happen to like!) and direct them here.

There are practical issues, of course —it takes some time, effort and expense to work up a title in a new format, it would be important to make a grand entrance and have a number of titles hit the market simultaneously and there's going to be considerable back stock of old CD's. I'd start with the titles that have the most to gain given the projected sales, the benefit from the packaging, the number of CD's in back stock, etc. Some titles will never merit the cost or effort of a Book Format edition, perhaps due to their popularity or the nature of their content, so those will be available as downloads only once the back stock of old format CD's runs out.

The public acceptance of Book Format albums is pretty much assured because... books are popular and always have been. Recall that the most successful internet business ever is Amazon, and they achieved that by selling books. (It's fascinating how the most successful internet business sells Gutenberg-era technology. Especially considering that books are the very thing that computers were supposed to replace.) And in the brick-and-mortar retail world, Barnes & Noble and Borders are doing well (while Tower, Warehouse, and Sam Goody are gone), so Book Format albums could be sold at traditional book stores easily enough. Note that books and Book Format albums require significantly less square footage of retail space than CD's.

And at this point the record companies will need a new product and a new business plan to survive into the next decade. Record companies are supposed to promote their artists, but the payola arrangement with FM radio stations is no longer relevant as FM radio stations are no longer relevant. And MTV hasn't broadcast a music video in years. And since record labels have a long history of contractually screwing musicians, there isn't a big incentive there. The only reason record labels have been in the news recently is because major artist have been leaving them (Radiohead, Nine Inch Nails, McCartney, Madonna). So it's not looking good.

Downloadable bits have so many cost and efficiency advantages over physical CD's, and CD packaging is so unsatisfying, that physical CD sales will continue to dwindle. With downloadable bits, as sold through Apple iTunes or Amazon, the record company has a significantly smaller role to play, and is invisible to the customer (no marquee, no font cover style, no label, etc.).

So I think the Book Format album is probably the only way record labels are going to survive.

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[Small tweaks and updates November 20, 2008.]

[Automatic Turntable update November 10, 2010.]

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*Email: don -at- till.com*

*Web page: <http://www.till.com>*