

Music insider shatters model of digital distribution

November 4 2010, By Alex Pham

The music industry may be bellyaching about how tough times are as revenue continues to sink like a rock for traditional music companies, but don't tell that to Jeff Price.

From Price's vantage point as chief executive of TuneCore Inc., business couldn't be better.

"Unit sales are up, not down," Price said. "That means people are buying more [music](#), not less."

That's sweet music for TuneCore, which makes money by charging fees to distribute music to online merchants such as Apple Inc.'s [iTunes](#), Amazon.com Inc.'s MP3 store and [Microsoft](#) Corp.'s Zune.

Less than five years after Price launched it, TuneCore has become the world's largest distributor of music, as measured by its volume of releases. The New York-based company pumps out 15,000 to 30,000 new songs each week, more than most major record labels release in a year. And it achieves that without scouting and signing [artists](#), operating a recording studio or cranking up the marketing and promotion machine typically part of a traditional recorded [music label](#).

Established musicians such as Jay-Z, Trent Reznor and Aretha Franklin use TuneCore's services, as do lesser known artists such as Dave Days and Liam Sullivan.

The story of how TuneCore became a key part of the [digital music](#) ecosystem parallels the rise of the digital music business, once the shock of widespread piracy began to wear off and executives began to question every assumption they had about the industry.

For Price, the day of reckoning came in October 2005 when his small New York record label, SpinArt Records, which featured such artists as Pixies and Echo & the Bunnymen, started to go under. In anguish, Price laid off employees and told his artists that he was unable to pay them.

A few weeks later, a friend named Gian Caterine asked Price to help get his songs on iTunes, which does not deal directly with musicians but goes through distributors to get music into its digital store. As the owner of a label, Price was able to post Caterine's rock album on iTunes.

Price later found out that companies charged artists between 10 percent and 15 percent of an album's digital sales for what he did for free for a friend. Record labels also digitally distribute their artists' music, but they, too, charge a percentage of sales rather than a flat fee.

"As a musician, I make and record all the music, drive hundreds of miles to do concerts, eat ramen and sleep on floors. And here these companies were charging up to 15 percent of my sales in perpetuity, just for sending a file from one server to another," Price said. "It really upset me that people were getting ripped off like that."

So he set up a website that charged artists a flat fee to distribute their songs. That meant Jay-Z paid the same amount to post his music on iTunes as someone recording in their suburban garage: \$9.99 a song.

When TuneCore launched in January 2006 it disrupted a tradition of taking percentages of sales, which can mean thousands of dollars for a song by a major artist.

"I was kind of stunned it existed," said Jim Guerinot, who manages Nine Inch Nails, No Doubt, The Offspring and others as owner of Rebel Waltz Inc., a management company in Laguna Beach, Calif. "When I found out about it, I said, 'Wow. You've got to be kidding.' Jeff completely changed the way you did business."

Guerinot, who was one of TuneCore's first customers, now uses TuneCore exclusively to distribute all of his clients' digital music. He and his clients like the fact that TuneCore, unlike record labels, doesn't demand ownership of music rights.

While TuneCore also doesn't front money or market bands in the way a label would, its service is part of a burgeoning digital toolset that allows artists to be more self-sufficient, bypassing the labels and turning to Topspin Inc., for example, for online marketing and TuneCore for digital distribution. In July, the latest month reported, at least eight of TuneCore's top 10 artists had no major record label contract.

TuneCore isn't the only outfit that distributes digital music for artists. Companies such as CD Baby, Ioda and Orchard also sell distribution services alongside other offerings for do-it-yourself musicians. But TuneCore is perhaps the most well-known in the pack.

Its success isn't just about doing business with the likes of Reznor, the frontman for Nine Inch Nails. It's also about people like Dave Days, a 19-year-old pop musician in Los Angeles who isn't represented by any labels.

Days, who markets his music on YouTube, has sold more than 250,000 singles on iTunes alone, using TuneCore. While iTunes takes a 30 percent cut of every song sold, TuneCore collects only its flat annual fee - \$9.99 a song, \$19.99 an album - no matter how many times the music is sold and for as many online stores as artists select. TuneCore collects

the revenue from iTunes and elsewhere on behalf of musicians, allowing artists to withdraw the money whenever they want for no additional fee.

"TuneCore is one of the things that makes it possible for me to make a living as a musician," Days said. "I upload my songs, and they're available for the whole world to buy."

In June, Days sold 28,845 songs at about 99 cents a pop. After the 30 percent cut from iTunes and others, Days netted just over \$20,000.

Last year, TuneCore disbursed \$30 million to its artists. This year, Price forecasts that number will be \$65 million to \$75 million. Many of his highest grossing artists aren't top 40 bands. They're do-it-yourself musicians like Days.

As a result, TuneCore has positioned itself directly in the mainstream of one of the music industry's few growth curves: digital distribution.

The number of album releases more than doubled in the last five years, soaring to 97,800 in 2009, from 44,500 in 2004, according to research group Nielsen SoundScan. A greater portion of the albums are digital-only - 56 percent in 2009 versus just 10 percent in 2004.

And more digital releases mean more money for TuneCore, which generates an estimated \$10 million to \$20 million a year in revenue. (The privately held company does not disclose its financial details.)

It's not in the same league as, say, Warner Music Group Corp., which posted \$3.2 billion in revenue in its 2009 fiscal year. Then again, TuneCore didn't lose \$100 million, either, which Warner did last year. While not profitable, TuneCore also has not fully exhausted the \$7 million in venture funding it raised two years ago.

"There is an infinite number of people with bands who would like to legitimize their music by selling it on iTunes through a company like TuneCore," said Eric Garland, CEO of BigChampagne, an online media measurement company. "As long as there are people out there with musical aspirations, Jeff's business is going to be great. It's just an endless river of \$10 bills."

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