

THE CONTRIBUTION OF 360 DEALS TO THE RECORDED  
MUSIC INDUSTRY

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## **ABSTRACT**

The present dissertation reflects on the contribution of 360 deals to the recorded music industry. This contractual form has been arising in order to easily recoup the investments provided by record labels to the artist and to explore other new revenue streams.

The framework of the study is supported by the current state of the industry and an overview of the previous research concerning the recorded music market. Record labels have been struggling for the past years with the decrease of recorded music sales. The digital era has allowed a massification on music consumption, as the Internet has provided easier access to music, whether through new legal platforms but also through illegal downloading.

A qualitative approach was carried out in order to comprehend the new concepts and challenges faced by the recorded companies. Six personal interviews with music executives were conducted, according to a structured guide elaborated, based on the literature review. Combining this data, some previous propositions were made in order to explain the current state of the industry and how 360 deals are being implemented in the industry, namely in Portugal, and its benefits and implications.

This thesis shows exploratory directions, such as: the 360 deals are playing an important role on monetizing the investments from record labels, as the industry does not have to rely exclusively in recorded music sales anymore, participating active or passively on other income sources provided by this contractual form and, at the same time, diminishing the risk attached to the investment made.

**Keywords:** 360 deals, recorded music industry, revenue streams.

**JEL:** M31 - Marketing

**JEL:** L22 - Firm Organization and Market Structure

## **RESUMO**

A presente dissertação reflecte a contribuição dos contratos 360 para a indústria discográfica. Esta modalidade contratual possibilita que os investimentos providenciados pelas editoras discográficas aos seus artistas sejam mais facilmente recuperados, bem como para que seja possível a exploração de outras fontes de receita.

O âmbito deste estudo é fundamentado através do estado actual da indústria discográfica, bem como por investigação feita acerca deste mercado. As editoras discográficas têm enfrentado grandes dificuldades devido à diminuição da venda de música. A era digital permitiu que o consumo de música se massificasse, dado que a Internet garantiu um acesso mais fácil à música, seja através de novas plataformas legais, mas também através de descarga ilegal.

Foi feita uma abordagem de estudo qualitativa, de forma a compreender estes novos conceitos e desafios enfrentados pela indústria discográfica. Foram feitas seis entrevistas a profissionais da área da música, de acordo com um guião estruturado, elaborado a partir da revisão de literatura. Combinando esta informação, foram definidas proposições de forma a explicar o estado actual da indústria e perceber de que forma os contratos 360 estão a ser implementados, nomeadamente em Portugal, bem como as suas vantagens e limitações.

Esta tese demonstra que os contratos 360 têm um papel importante na monetização dos investimentos feitos pelas editoras discográficas, não tendo a indústria de depender exclusivamente da venda de música gravada. Assim, esta modalidade contractual permite que a editora participe activa ou passivamente noutras fontes de receita, diminuindo o risco associado ao investimento feito.

**Palavras-chave:** contratos 360, indústria discográfica, fontes de receita.

**JEL:** M31 - Marketing

**JEL:** L22 - Firm Organization and Market Structure

## **EXECUTIVE SUMMARY**

The present dissertation reflects on the contribution of 360 deals to the recorded music industry. As the industry reflects an increasing need of monetizing the investments, a new contractual paradigm has been arising in order to easily recoup the investments provided by record labels to artist and at the same time to explore other new revenue streams which once were granted exclusively to the artist.

The framework of the study is supported by the current state of the industry and an overview of the previous research concerning the recorded music industry, separated in two sections. In the first section, it is further analyzed (1) which are the players in the recorded music industry, types of companies (major record companies and independent labels), the relationships that are established between the two, (2) how the research and development (“A&R”) is key for the development of the industry, (3) the traditional value chains and players involved to create and sell recorded music, (4) the impact of the Internet on music consumption and development of new digital platforms and (5) an overview of the Portuguese market, in order to enhance its specificities. In the second section, it has been enhanced how (6) the 360 deals are seen a new contractual form for the monetization of the record label’s investments and (7) the importance of new revenue streams contemplated on this deal, such as brand partnerships and live entertainment.

As a result of this analysis, it has been concluded that record labels have been struggling for the past years and recorded music sales have been decreasing for the past decade, with small signs of recovery. The digital era has allowed a massification on music consumption, as the Internet has provided easier access to music, whether through new legitimate legal platforms but, on the other hand, through illegal downloading. As the market is not remunerating record labels like it did in the past, resulting in a lower monetization of the investments made on the artists, the industry has to reinvent itself and has recently started to seek new revenue streams that once were granted to the artists. As record labels finance the artist to get exposure and success, through a 360 deal the record label is receiving a percentage of other revenue streams, as those would not be generated if there was no upfront investment made in advance.

A qualitative approach was carried out in order to obtain a deeper comprehension of the new concepts and challenges faced by the recorded companies. Six personal interviews



with music executives were conducted, according to a structured guide, based on the different sources included in the literature review. Combining this data, some previous propositions were made in order to explain the current state of the industry and how 360 deals are being implemented in the industry, namely in Portugal, and its benefits and implications.

This thesis show exploratory directions, such as: the 360 deals are playing an important role on monetizing the investments from record labels and the industry does not have to rely exclusively in recorded music sales anymore, participating actively or passively on other income sources provided by this contractual form. In order to diminish the risk attached to the investment provided by the record label, new artists are now being signed under this contractual form. Although this process is still under development, especially in the Portuguese market where record labels are still participating passively on exploring these revenue streams, the industry is moving into participating actively on exploring other areas than recorded music.

## **1. INTRODUCTION**

### **1.1. Purpose of the study**

The main purpose of this dissertation is to characterize the 360 deal, enhancing how it may benefit the record music industry in monetizing its investments in artists and the challenges attached to the implementation of this contractual form.

The recorded music industry has been facing major difficulties over the past years. The sales of recorded music in physical format have been decreasing and the sales in digital format aren't compensating the loss of the physical sales.

As a result, it has been verified the need of changing the contractual form between record labels and music artists (previously focused on the sale of recorded music in physical and digital format) to a broader extension of revenue streams. The emergence of the 360 deals between artists and record companies materializes this current need, allowing these companies to participate in other revenue streams generated by the artists, such as image rights, brand partnerships, live shows, merchandising, among others. Although in early stages of implementation, the trend on the market reflects an increasing adherence to this contractual form between record companies and artists. Therefore, this dissertation analyses the generic proposition that record companies are changing the contractual form for signing their artists and, at the same time, diversifying their revenue streams.

In order to understand what the real impact of this contractual form is, a qualitative research has been developed with six interviewees through personal interviews, whose professional experience is relevant to provide information regarding this new evolution on the contractual relationship between artists and record labels.

Although it is verified an increasing trend for the industry to operate, partially or in full effect, to this contractual form, only a small part of the record labels are participating actively in exploring these additional income sources, especially in the Portuguese market.

## 1.2. Structure of the thesis

The present dissertation is composed by five chapters:

- **Introduction:** This chapter includes the context of the generic proposition which is going to be analyzed in this dissertation;
- **Literature review:** In this chapter, it is provided an overview of the recorded music industry on its dimension, structure, value chain and sources of income. It is also analyzed how the Internet has contributed for a diversification of recorded music consumption. Lastly, the description of what the 360 deal is, its main differences and advantages compared to a traditional contract and also an exploration of two revenue streams contemplated on this deal: brand partnerships and live entertainment;
- **Framework and research methodology:** This chapter includes the research propositions that shall be analyzed in the ‘results’ section;
- **Results:** In this chapter, the main findings in regard to the research propositions will be explained followed by the main exploratory conclusions for each proposition;
- **Conclusions:** In this chapter there will be presented the main conclusions of this study, limitations and topics that may be studied in future research.

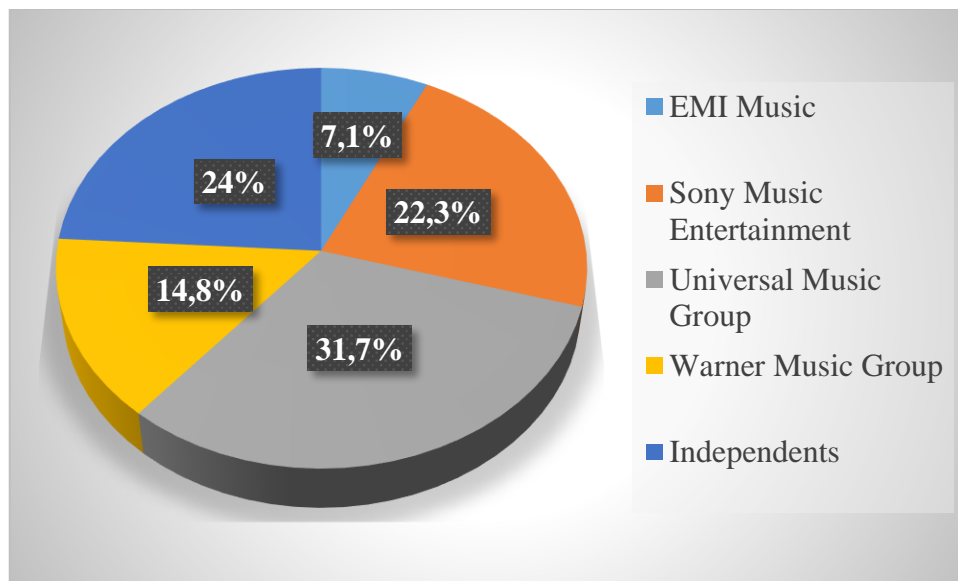
## 2. LITERATURE REVIEW

### 2.1. The Recorded Music Industry

#### 2.1.1. Dimension and structure

The recorded music industry is defined as an oligopoly, a market in “which a few firms dominate. When a market is shared between a few firms, it is said to be highly concentrated. Although only a few firms dominate, it is possible that many small firms may also operate in the market” (Economics, 2013). It is composed by four major record companies<sup>1</sup> (“majors”), accounting for around 75% of the market – Sony Music Entertainment, EMI Music, Universal Music Group and Warner Music Group – and independent labels<sup>2</sup> (“indies”). In 2012, the players on the market had the following market shares:

**Figure 1 - Recorded music industry's market shares<sup>3</sup> in 2012**



Source: Music & Copyright (2013)

<sup>1</sup> Record companies own a variety of record labels. For the purpose of this dissertation, the terms “record company”, “record label” and “label” mean the same, as they will always refer to the company, whether it integrates different record labels or not.

<sup>2</sup> A record label not owned by one of the four major record companies. Independent labels may have their recordings distributed by one of the big four major record companies and still be referred to as “indies” (Hull, Hutchison & Strasser, 2011).

<sup>3</sup> Universal Music Group has recently bought EMI Music. For the purpose of this dissertation, both companies will be considered as separated, as the statistics for 2012 do not consider this acquisition.

Even though the recorded music market worldwide is highly concentrated, both major record companies and independent labels have strong relations. It is a common practice for major record companies to be involved with independent labels through taking over contracts and buying independent labels when they find the artists on that same label are becoming successful. When labels are bought by a major record company, the independent company may be able to keep working under its own label, having a certain independence to develop its own work on finding talent in niche markets, where major record companies don't have the same level of understanding (Leurdijk & Nieuwenhuis, 2012). In fact, major record companies have always relied some of their research and development of artists on independent labels – “65% of the major's (record companies) sales of catalogue albums – music that is at least 18 months old – comes from artists originally signed by independents” (The Economist, 2004).

In the recorded music industry, research and development for talent is reflected through A&R – Artists and Repertoire. Record companies have invested US\$4.5 billion worldwide in A&R and marketing, representing 16% of the total industry revenues in 2011 – a higher percentage when compared to other industries, such as Pharmaceuticals & Biotechnology (15.3%) or Software & Computer Services (9.6%) - even when only a small amount of acts who get to be signed to a label achieve commercial success, reflected on a ratio of five in one. In an interview to the International Federation of the Phonographic Industry (IFPI, 2012: 9), Nick Gatfield - Chief Executive on Sony Music United Kingdom - refers to A&R as “the lifeblood of the business (...). No other industry even begins to take the level of R&D risk that we do” and despite the contingencies on the market, “nothing has changed in terms of our level of investment in artists” (IFPI, 2012: 9) and one in four of labels' rosters is a new signing.

In the era of the Internet, A&R teams are now able to spend less time physically looking for acts with music potential, as they can monitor the Internet for new acts. This represents a shifting from a ‘seed stage’ to a ‘later stage’ investing in artists, which results in a process more focused on attracting stable emerging artists rather than unproved artists (Bhatia *et al.*, 2001).

The IFPI (2013) identifies the four traditional sources of income in the recorded music industry:

- Physical revenues - Includes sales of all physical formats, including CD, vinyl and cassettes. CD sales ordered from Internet retailers also account as physical sales;
- Digital revenues - downloads, mobile products and subscription income:
  - Downloads: Includes audio single tracks, full albums and music videos;
  - Mobile: Includes mastertones, ringback tones, dedications and voicetones;
  - Subscription: subscription’s services’ premium tier and income from bundled subscriptions (e.g. part of an ISP/mobile operator tariff);
  - Ad-supported income: ad-supported streams and video-on-demand services.
- Performance rights - revenues from music licensing companies for licenses granted to third parties for the use of sound recordings and music videos in broadcasting (radio and TV), public performance (nightclubs, bars, restaurants, hotels) and Internet uses;
- Synchronisation revenues – royalties<sup>4</sup> from the use of sound recordings in TV, films, games and adverts within a certain territory.

In 2012, global recorded music sales totaled US\$16.5 billion, reflecting an increase of 0,2% comparing to 2011, showing the consolidation on the digital sales, diversifying revenue sources and continuing to invest in new talent.

**Table 1 - Global Recorded Music Trade Revenues (US\$ Millions)**

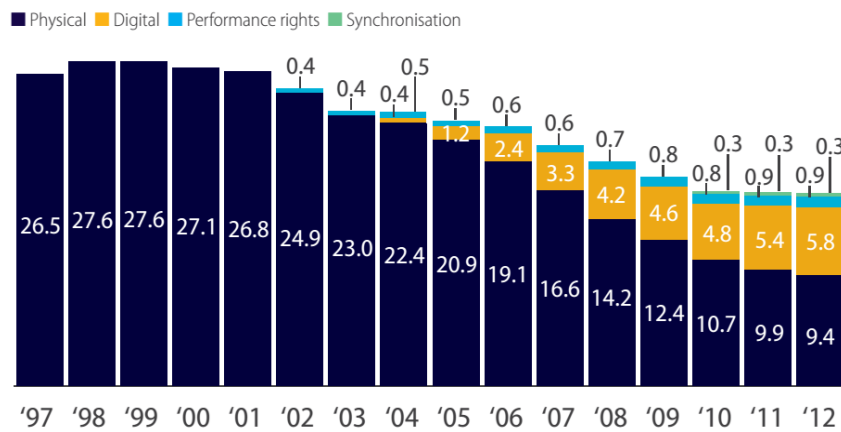
	<b>2011</b>	<b>2012</b>	<b>% change</b>
Physical	9,893	9,403	-5,0%
Digital	5,371	5,798	+8,0%
Performance rights	862	943	+9.4%
Synchronization	330	337	+2.1%
<b>Total market</b>	<b>16,456</b>	<b>16,481</b>	<b>+0.2%</b>

Source: IFPI (2013)

<sup>4</sup> “Payments to writers or performers due from the sale of copies, performances, or other uses of their works” Hull *et al.* (2011).

The digital revenues from music sales, which accounts now for 35% of the global music sales, have been increasingly growing since the beginning, reflecting on an 8% growth comparing to 2011. Despite the steady decrease, the physical format has accounted for 57% of the global music sales in 2012 and it still is the format which contributes the most for the global recorded music sales.

**Figure 2 - Global Recorded Music Sales 1997-2012 (US\$ Billion)**



Source: IFPI (2013)

### 2.1.2. Value chain

Having major record companies a consolidated position on the market, they often establish distribution deals with independent labels, so indies can focus on specializing themselves on searching and finding music potential on new artists, while majors will amplify the release with marketing and intensive commercial exploitation (Calvi, 2006a). Therefore, major record companies focus on a massive exploitation of their national and international catalogues, establishing themselves on the most relevant and profitable territories, debuting local artists and promoting international artists (Calvi, 2006b). The dominant economic model of major record companies rely on the “star system”, aiming to focus on a concentrated few stars, as the success of some artists is enough to make up for the incurred losses with the rest of the catalogue (Moreau, 2009).

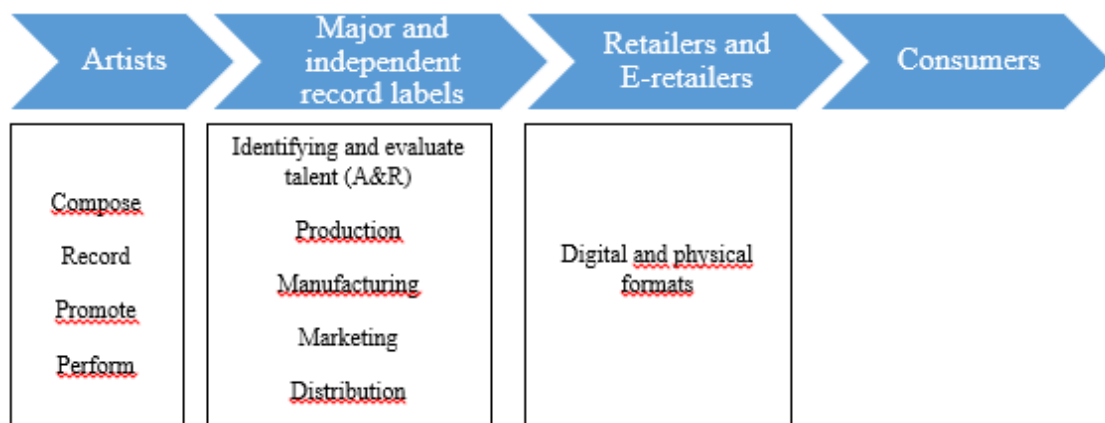
Alexander (1994) stresses the idea that the network of distribution in the music industry is very concentrated. This evidence results in a limited access to distribution from small

independent record companies, who tend to be product innovators, as they usually rely on major record companies for distributing their products. As a result of this domination on the market and need from the independent labels, Lopes (1992) also reflects on the dominance on avenues of exposure, such as radio and TV. These media gatekeepers have significantly limited space to radio airplay for independent releases, providing “significant inducement for independent musicians and labels to enter the fold of the major record companies” Lopes (1992: 68).

The distribution channels and the division of labour in the music industry have been generally stable over the past years: artists take care of music production, record companies promote and distribute the record to consumers (Graham & Burnes, 2004).

The following scheme shows the traditional value chain for the record companies:

**Figure 3 - Record companies' value chain**



Source: Leurdijk & Nieuwenhuis (adapted, 2012)

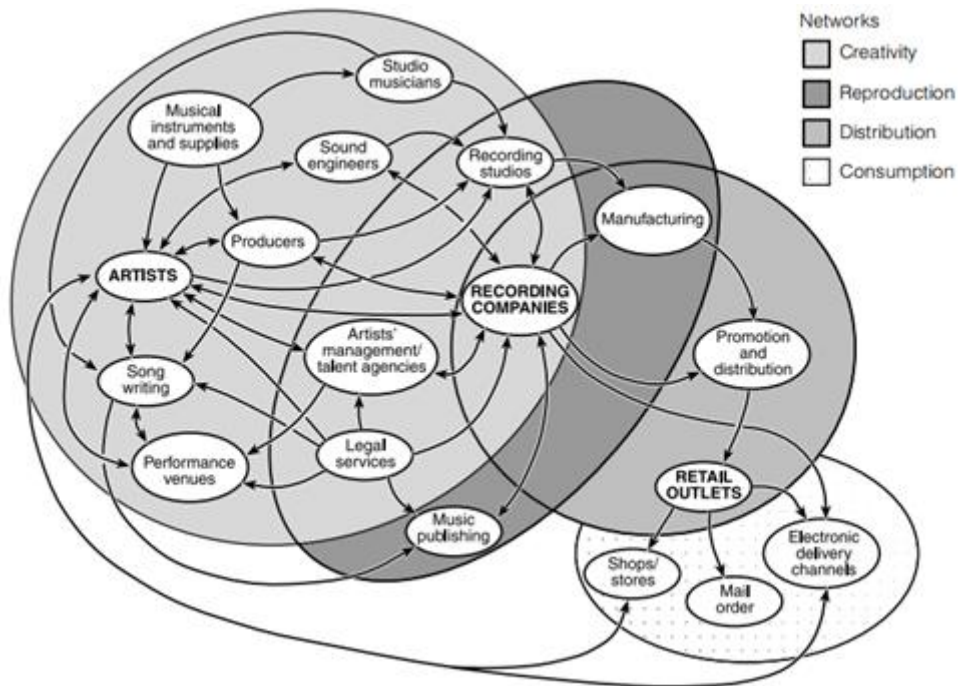
Major record companies rely of a high vertical integration of activities and resources, having a sequential logic of activities in a linear value creation process. (Graham *et al.*, 2004). On the other hand, independent labels have the need to create strategic alliances with major record companies (Mol *et al.*, 2005), as majors have been able to reach economies of scales in areas such as recording, reproduction and distribution of the records (Burnett, 1996).



However, the process to have recorded music in the market is complex and record labels are heavily involved in most of the process. Leyshon (2011) identifies four different networks within the value chain of the recorded music industry, stressing “its complex and often messy organisational structure” (Leyshon, 2011: 60). The author highlights how record companies participate in the different flows within most of the following networks:

- **Networks of creativity:** Centres of musical knowledge with the required technical competences to be able to compose, perform and record music. These networks play an important part on influencing the ways in which music circulates. Record companies are also active in networks of creativity, as they provide the initial contracts and money needed to hire specialised workers such as record producers, sound engineers and recording studios, in order to produce a music content output.
- **Networks of reproduction:** Based upon mass production emphasised on economies of scale, record companies have their own manufacturing affiliates in strategic regions of the world. This results in savings for the company and orders efficiency;
- **Networks of distribution:** The copyrighted product as an output is delivered from distribution companies to retail outlets or mail order companies. The distribution process is highly concentrated and largely controlled by major record companies, sharing 85% of the distribution market.
- **Networks of consumption:** This network is made of small independent specialist shops and the recorded music departments of retailers, e-Retailers and department stores. This network is highly lucrative, as music retailers may take margins of 25% of sale price.

**Figure 4 - Musical Networks**



Source: Leyshon (2001)

### 2.1.3. The role of the Internet in music consumption

As a result of the large domination on the market throughout the 70s, 80s and 90s, major record companies had an important control on music talent and consequently what consumers would listen to (Spotts, 2010). In the cultural industries, in which the recorded music industry is part of, the value of the cultural goods derives from subjective meanings, as there is no particular evaluation method to compare people's tastes. By enlarging the opportunities for consumption, the level of uncertainty leads to a large range of differentiation choices and allow new generations to different ways of consumption, such as downloading music or surfing a library's digital archives (Molteni & Ordanini, 2003).

The growth of Internet and increasing use of digital technology in the distribution of music have resulted in significant transformations in consumer's behavior. The CD technology (compact disc), which has been dominant during the 80's and 90's, is no longer the only way to purchase music. The rise of the MP3 format, a digital audio compacted archive which can be stocked and reproduced in high quality in computers or

portable devices, is seen as the main driver on the evolution of music consumption (Castro, 2007). Record companies weren't aware on the impact of the MP3 in the recorded music industry, as they were informed about this technology very early in the process, but weren't interested on it. Once the MP3 format became widespread at the end of the 1990s, CD sales were still growing and record labels thought that putting digital files online could be an encouragement and instrument of piracy on peer-to-peer sharing networks (P2P) and not a potential market of online sales. As broadband Internet access was transforming online music on a market of interest to mainstream consumers, the inertia of record companies allowed other actors to take control on distribution of digital content (Moreau, 2009). In 2003, Apple Computer launched iTunes online music service, with a vast library of songs from different artists and labels. The songs could be purchased individually and were priced at US\$0.99 each, users were now able to listen to a 30 seconds preview of a song for free and organize their music libraries into customized folders in their computers. In August 2005, Apple as already sold more than one billion songs only in the United States of America and established itself on the legal music purchase market, accounting for 82% of legal sales in the U.S.A. (Choy & Perez, 2007).

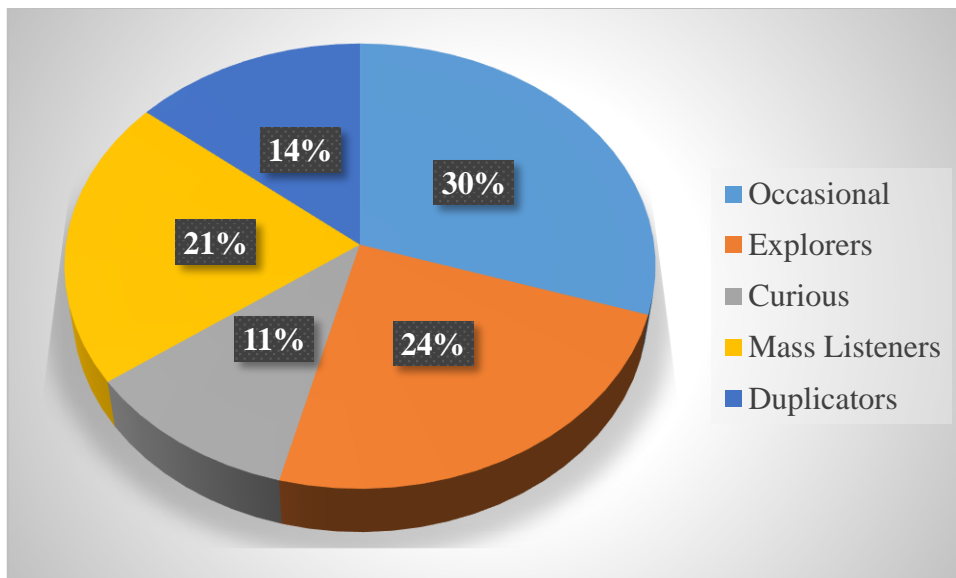
For the past years, the music industry has been attempting to reduce illegal pirating of music through legal and technological approaches, such as embedding anti-copying codes in CD's and suing individuals who were trading copyrighted files on music websites illegally, making consumers feel like criminals (Choi & Perez, 2007). Piracy is generally seen as a key-driver for the industry's current performance - The Recording Industry Association of America (RIAA, 2013) considers that "digital music theft has been a major factor behind the overall global market decline (...), so theft on this scale has a noticeable and devastating impact", while the IFPI (2013: 5) states that "fighting piracy is a top priority (...) in 2013".

Back in 2003, when the digital music market started to take shape, Molteni and Ordanini (2003) provided a generic categorization on the five profiles of illegal music downloading users:

- *Occasional downloaders*: Moderated interest in accessing, exploring and searching P2P and MP3 websites. These users are mainly interested to enjoy through legal purchasing;

- *Mass listeners*: High dependence on P2P websites and low degree of recording of files on CD's; The users consume music through mobile listening when they are involved in leisure activities and they are not interested on extending their knowledge on the music available. A large share of consumers will not be inclined to pay for downloading;
- *Curious*: High dependence of P2P websites and low interest on recording files on CD's or mobile listening. Music consumption as a download is a form of pure entertainment;
- *Explorers*: High interest on searching and exploring for new music and attitude of anticipation of future developments. These users use downloading as a way to improve or enlarge further purchases of music consumption and are interested on extensive catalogues and complementary services, *i.e.*, information about artists;
- *Duplicators*: High interest on recording downloaded files on CD's and downloading from MP3 and P2P websites. His download habits will replace the conventional and legal forms of getting recorded music. This consumer is not interested to pay for downloading and CD's.

**Figure 5 - Downloading users' profiles**



Source: Molteni & Ordanini (2003)

From the results above, although some of these profiles clearly show no intention to buy music legally, it seems like piracy isn't only a medium through illegal consumption: *Occasional listeners* and *Explorers*, which account for 54% of total users, are segments that would still buy music back then through legal means. The ease of downloading, convenience, access to digital music catalogues and free of charge stimulated users' curiosity and desire to discover and evaluate new music and artists.

In the era of the continued growth of the digital music market, a research by Aguiar and Martens (2013) on the measure of the propensity to consume music reflects the effect of illegal music consumption on the online legal sales of digital music. The results show positive and low elasticity of legal purchases with respect to illegal downloading. It means that, although there is trespassing of private property rights (copyright), most of the music consumed illegally would not have been legally purchased if illegal downloading sites weren't available to the sample, so digital music piracy shouldn't be a growing concern for copyright holders.

Besides different perspectives on the contribution of piracy for the development of recorded music purchase, Choy and Perez (2007) argue that online piracy has contributed to the creation of legitimate and innovative business models, who took advantage of the innovation offered by piracy, to create economic value. The IFPI (2013: 15) reports that there are currently 500 licensed digital music services operating in over 100 countries which provide "a greater diversity of legal services on a territory-by-territory basis than ever before". The same source claims the industry is able to "reach a wide range of consumers globally as these services are attracting distinct consumer groups and employing different pricing strategies". As a result, "accessing, purchasing and discovering music digitally has never been easier and more popular". The digitization on the recorded music business resulted in the development of the following business models (Leurdijk & Nieuwenhuis, 2012):

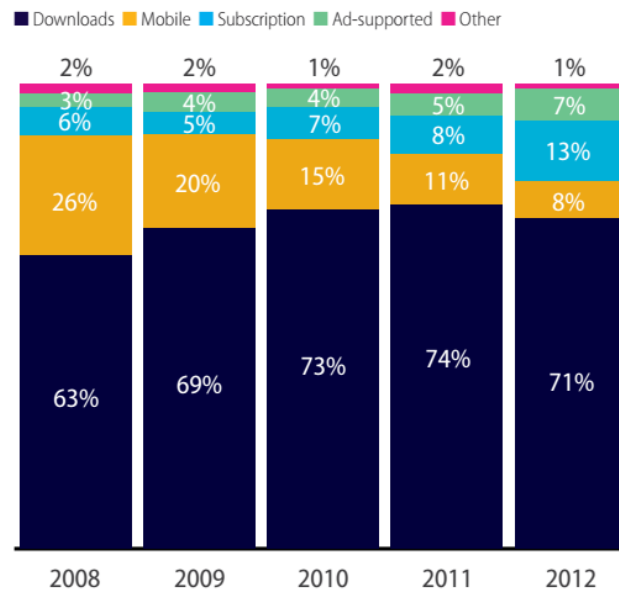
- *Single song downloads*: users download and buy individual songs at a fixed price per song (Ex: iTunes, Amazon);
- *Subscription*: users pay for limited download quota per month or other fixed period (Ex: eMusic; Portugal : Music Box);

## The contribution of 360 deals to the recorded music industry

- *Ad based model in combination with streaming service:* songs are streamed to listeners, also including ways to personalize playlists (Ex: Pandora, LastFM);
- *Ad based in combination with on-demand downloads:* users can download songs in combination with advertising (Ex: Spotify's freemium model);
- *Value based pricing model:* users determine the price they are willing to pay for downloads (Ex: some individual stores);
- *Different priced packages:* users get extra's such albums, book, signed copies, apps, etc. in addition to the online access to songs (Ex: Björk's "app album" Biophilia);
- *Bundling:* Access to music catalogue in combination with other media products, such as mobile phones, iPods or in combination with mobile subscriptions [Ex: Apple developed a limited edition U2 iPod version for sale, carrying the band's latest album at the time and also back catalogue (Brand Republic, 2004)].

According to the IFPI (2013: 7), the growing digital revenues were "the driving force behind the industry's positive result in 2012". Reflecting an "exponential growth in the take-up of digital music services", digital revenues represented US\$5.8 billion in 2012, an 8% increase on 2011. The download model still accounts for the majority of digital music consumption, while there is a growth subscription services, better monetization around music videos and growth in digital radio audiences. Revenues from subscriptions and ad-supported streams continued to increase in 2012, already accounting for a combined 20% of digital revenues globally.

**Figure 6 - Global digital music sales**



Source: IFPI (2013)

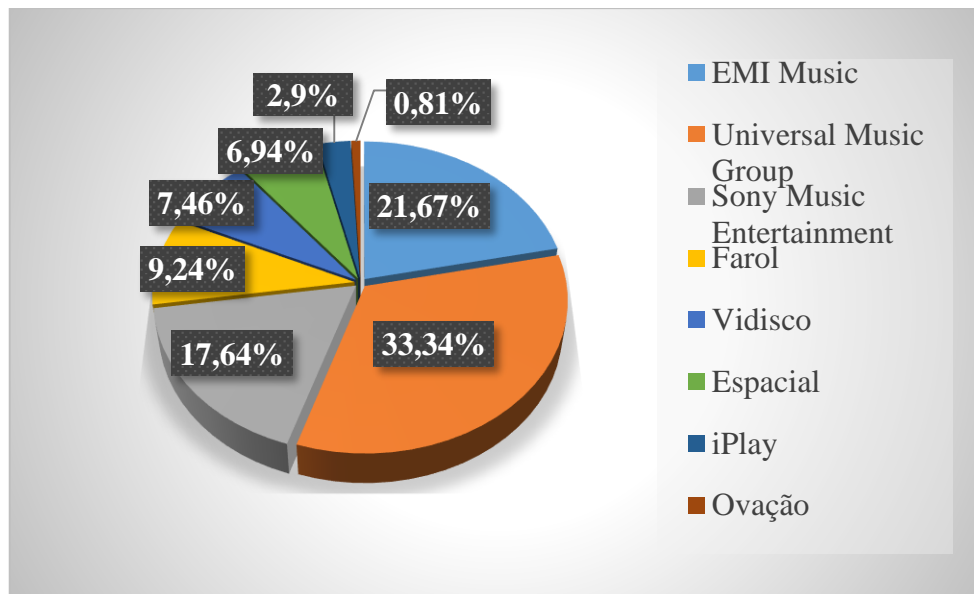
Although the digital revenues are tending to grow, they haven't been able to compensate the loss of physical sales so far, which may happen "because digital music downloads can be bought per song, allowing people to cherry pick and pay less than when they still had to buy the full (CD) album." (Leurdijk & Nieuwenhuis, 2012: 53)

To sum up, while piracy has led to a higher access to recorded music consumption, digital music has made record companies to embrace new distribution channels, diversifying product features and adopting more flexible pricing models to create different value propositions for specific target audiences (Bhatia *et al.*, 2001). Record companies have then come into accepting the business opportunities the Internet has allowed for the industry's future and realized there were people who were actually interested on paying for legal online music (The Economist, 2004), although the revenues from digital music can't still compensate the losses from the decrease of the physical format, therefore resulting in a problem of monetization of the investments made by record labels in recorded music.

#### 2.1.4. Portuguese market overview

According to the Associação Fonográfica Portuguesa<sup>5</sup>, the tracked record companies operating in the Portuguese recorded music industry presented the following market shares in 2012. These data was kindly provided by the A.F.P.:

**Figure 7 - Portuguese recorded music market shares**



Source: Associação Fonográfica Portuguesa (2013)

The Portuguese recorded music market is composed by three major record companies – EMI Music, Universal Music Group and Sony Music Entertainment – and five independent labels – Farol<sup>6</sup>, Vidisco, Espacial, iPlay and Ovação - accounting for 27% of the total market.

The physical format is steadily decreasing (which still accounts for 65% of total sales in 2012) and the digital format keeps growing (22% of total sales in 2012), which shows the same behavior as in the global recorded music market. As the opposite of the growth on the global recorded music market, the Portuguese market has been constantly decreasing in value, facing a dramatic drop on revenues since 2008.

<sup>5</sup> Associação Fonográfica Portuguesa is an organization whose main functions consist in protecting the rights of the Portuguese recorded music industry and dissemination of market statistics for their players. AFP is the Portuguese representative of the IFPI – International Federation of the Phonographic Industry.

<sup>6</sup> Warner Music Group has licensed its catalogue to Farol, as the company is not running any operations in Portugal.



**Table 2 - Recorded Music Revenue (US\$ million, trade value)**

<b>Year</b>	<b>Physical (US\$)</b>	<b>Digital (US\$)</b>	<b>Physical and digital (US\$)</b>	<b>Performance rights (US\$)</b>	<b>Synchro-nisation revenue (US\$)</b>	<b>Total (US\$)</b>	<b>Total % change</b>
2008	53.9	4.9	58.8	2.3	-	61.1	-9,6%
2009	46.2	3.7	49.9	3.6	-	53.6	-12.4%
2010	36	3.2	39.2	4.2	-	43.3	-19.1%
2011	25	4.7	29.7	4.3	0.3	34.3	-20,7%
2012	19.1	6.4	25.5	3.8	-	29.3	-14,6%

Source: IFPI (2013)

The following table demonstrates that the physical format is not only decreasing in value but also in volume. CD sales have been constantly decreasing since 2008, enhancing the reduced interest from consumers on this format. Regarding the digital format, the data evidences the increased interest on purchase of individual tracks, while digital album sales don't show any sign of growth.

**Table 3 - Recorded Music Sales Volume (million units)**

<b>Year</b>	<b>Physical</b>			<b>Digital</b>		
	<b>CD</b>	<b>Other physical<sup>7</sup></b>	<b>Total</b>	<b>Single tracks</b>	<b>Digital albums</b>	<b>Total</b>
2008	6.7	1.0	7.7	0.8	-	0.8
2009	6.3	1.1	7.4	0.4	0.4	0.8
2010	5.3	0.6	5.9	0.4	0.1	0.5
2011	4.7	0.5	5.2	0.8	0.1	0.9
2012	3.6	0.4	4.0	1.1	0.1	1.2

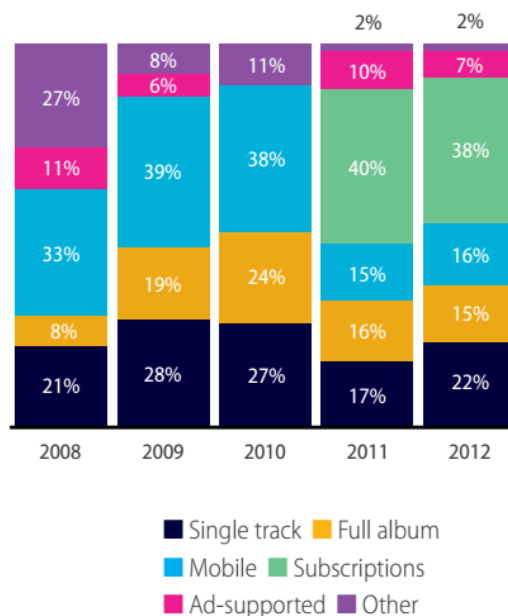
Source: IFPI (adapted, 2013)

<sup>7</sup> Includes CD singles, vinyls, cassettes, DVD's, Blu-Ray's and premium physical products (i.e. deluxe box-sets, collector's editions).

Eduardo Simões, President of Associação Fonográfica Portuguesa, considers that “the digital format is the only format growing, but its revenues are not enough for the growth of the Portuguese recording music market’s revenues”, stressing that the market “has all the (necessary) conditions, except for one, so the market can grow, which is an urgent regulation for what is happening on the Internet”, as he believes there is a “generation of consumers which calls upon piracy without any kind of consequences, so that prevents the (Portuguese) market of growing like the markets in other countries” (Diário de Notícias, 2013). Mr. Simões blames piracy as “the main factor, as it was something already identified before the economic crisis in Portugal” for the dramatic situation on the market, which has resulted in “all record companies (...) experiencing huge drops in music sales. This implicates the loss of direct and indirect jobs, closures, mergers and acquisitions, turning it into a poorer industry” (RTP, 2013).

Contrary to the dominance of the download in the global market, the digital Portuguese market shows there is a minor discrepancy between the different formats. Download (single tracks and full album) represents 37% of sales, a much smaller percentage once compared globally, although single track sales are the only format which have grown substantially (5%) in 2012, which reflects the higher interest on buying songs individually. Subscription services represented the higher percentage of the revenue in 2012, by 38%.

**Figure 8 - Global digital sales by format (Value)**



Source: IFPI (2013)

## **2.2. The 360 deals: a new relationship between artists and record labels**

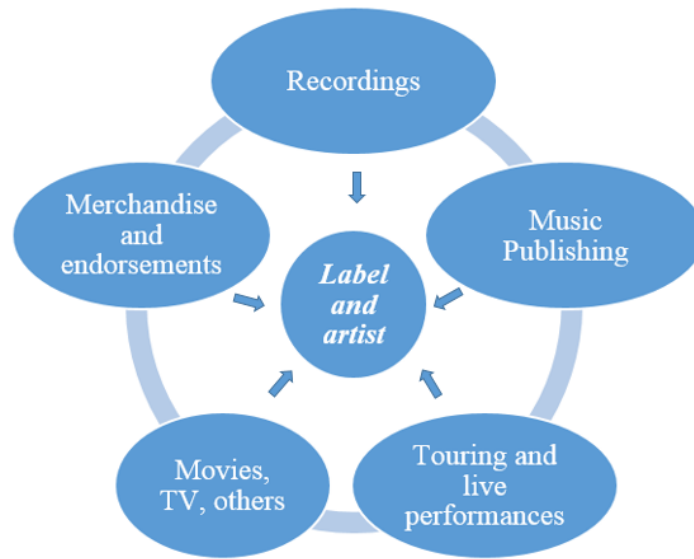
By the early years of the recorded music industry, the artist was contracted for recording albums and it usually involved payments in the form of an advance<sup>8</sup> and a royalty per disc sold. All the costs involved – recording, manufacture, marketing and distribution – would be fronted by the record company and some of these elements would be recouped against the artist's royalties. Many of these deals would not result in success and the record label would incur in losses. More recently, this situation motivated a change in the business relationship between the record label and the artist, where the ways of balancing the risks and rewards have become more diverse. For the last half-century, physical sales were considered the foundation of the record labels' business, so other revenue streams such as merchandise and sponsorship were secondary to the long-established album, considering that recorded music sales accounted for the great majority of record labels' income. (MusicTank, 2008).

Recently, it has been verified an evolution on the contractual paradigm of the relationship between artists and record companies. (Karubian, 2009). As labels have been focusing on strictly selling recorded music in the past, they now feel the need to attract revenue sources that go beyond the recorded music. In a 360 deal, record labels receive income from other sources of artist's earnings, such as live touring, publishing, endorsements and other revenue sources "never before available to them, rendering labels less reliant on music sales" (Basofin, 2010: 4), making the 360 deal represent a "chance to get a cut of something that can't be copied and shared over the internet" (Forbes, 2012). These different components of the artist's career incorporated in a single contract have been traditionally handled by various companies through separate contracts (Karubian, 2009). The artist is seen as a business partner and the record label will invest in other revenue sources that might help the success of a particular artist, so the initial investment on the artist's career gets easily recovered. (Williams, 2010).

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<sup>8</sup> "A prepayment of royalties or other earnings. For example, a recording artist may be paid a flat sum upon delivery to the label of a finished master" – i.e., an album - "in advance of earning any royalties from the sale of copies of the recordings" (Hull *et al.* (2011).

**Figure 9 - The 360 deal**



Source: Hull *et al.* (2011)

The level of participation of the record label on the revenues contemplated on the 360 contract may be “active”, if the record label provides or manages the rights associated to those revenue streams, or “passive”, if the label simply takes a portion of the artist’s revenue streams from outside deals between artists and other parties (Hull *et al.*, 2011; Gervais *et al.*, 2011). As a recent and flexible contractual model, record labels are still at different stages along the spectrum of having an active or passive participation, as “experimentation continues to be the key” (Wadsworth & Forde, 2011: 9). Some record labels are currently building up expertise in these areas, through acquisition and internal growth of services across new revenue streams contemplated on 360 deals, as a way to provide not only a “centre of excellence” which benefits the artist’s revenues but also record labels themselves (Wadsworth & Forde, 2011). Such process “may involve acquiring new companies in management (...) and producing more nonrecording activities – roles played more traditionally by marketing companies, management companies, brokers and agents” (Hull *et al.*, 2011: 5).

As the investment from the record label incorporates a much wider range of services, the relationship between labels and artists has turned into a flexible “partnership”, sharing revenue streams in a wide range of new activities. A partnership with broader rights

reflects an expanded role for record companies and recognition that the upfront payment required by artists is less likely to be recouped strictly from albums and singles sales (IFPI, 2012). By expanding their revenue sources on additional rights from the artists, not tied strictly to music but also to their “image rights”, record companies claim that the artist’s image is “created or at least enhanced by the work of the record company in producing and marketing the album” (Gervais *et al.*, 2011: 2), therefore if it was provided the financial investment to make the artist succeed and if that affects positively the artist’s ability to generate income in areas besides recorded music sales, then the label should be compensated for its efforts. However, labels are taking rights in property and services they have not historically much experience, so artists should be aware of what they are getting in return of sharing their revenue streams (Gervais *et al.*, 2011). Nevertheless, from a “strong resistance” to a deal where multiple rights are granted to the record label, artists and their representatives are increasingly accepting that this is the way to move forward (Wadsworth & Forde, 2011), as the 360 deal is becoming “the norm because what is still seen by some as ancillary income” – nonrecorded music revenues generated by the artist – “will become the principal income streams, at least until access to music is (...) fully monetized” (Gervais *et al.*, 2011: 5).

Karubian (2009) exposes the main differences between the traditional contractual model and the emerging 360 deal. Taking into account that the “360 deal is a new innovation, no contractual paradigm has been established” (Karubian, 2009: 426), so the different components on the contract may vary from deal to deal. Although there may exist some variance, “there is some parity among terms in 360 contracts that (...) signals general shifts in the allocation of revenue generated by music” (Karubian, 2009: 427):

**Table 4 - Comparison of terms in Traditional Contracts and 360 Contracts**

	<b>Traditional record contract</b>	<b>360 Contract</b>
Participation	Label “participates” only in the business of recorded music.	Label participates in areas beyond their previous focus.  Artist development, including “all revenue streams stemming from a musician (...)”.
Term	Short commitment: labels usually commit to only one album  Option to demand up to 5-7 album cycles for new artists.  Established artists have the leverage to demand shorter terms.	Longer commitment.  Labels are incentivized to increase the term, as the investment of the artist’s career may result in long-term dividends.  Newer artists may get longer terms; artists with more leverage can counteract the incentive.
Record royalties	Artist receives a percentage on the Published Price To Dealers (PPD): New artists: 13-16%; Mid-Level: 15-17%; Superstars: 18-20%.	Likely higher royalty rate allocated to artists, as the company is taking additional revenues in other areas.
Touring	Sometimes artists are provided with recoupable tour support.  The record company encourages artists on touring to increase record sales, as a way to publicize a new release.	The 360 model makes labels more supportive of tours, financially and with regards to patience with time, as longer tours may have long-term dividends and the artist gets to develop extra skills and develop a fan base.
Financial arrangement	Labels provide a sum of money (recording fund) as an upfront payment, so the artist can pay the costs of recording an album. The artist retains any excess money from recording funds and collects royalties once the label is recouped from the recording fund.	Artist receives bigger, unrecoupable upfront payment in return for granting the company access to various revenue streams.

Source: Karubian (adapted, 2009: 440)

### **2.2.1. New revenue streams**

As mentioned above, by having the artist signed under a 360 deal, the record label will collect other revenue streams from the artist's career other than recorded music. Image rights are a new component associated to the 360 deal, something which was not granted to record labels under a traditional contract. Therefore, having the possibility to explore new ventures with the artist's image rights, I shall analyse below the importance of the partnerships between brands and artists. Live entertainment will also be mentioned on this section, as it plays an important role on the music consumption and it is a lucrative source of revenue for artists.

Both components have been chosen to be analysed according to my personal experience in the recorded music industry and also by being the most important revenue streams mentioned by the interviewees on this dissertation.

#### **2.2.1.1. Brand-artist partnerships**

Music is an important issue for brand strategy. Music and brands are teaming up on generating and increasing new revenue streams together, as currently “brands devote around 5% of their advertising budgets to music and 41% of brand managers believe that music could be an effective way of building brand awareness.” (Business Wire, 2009).

Music has an essence of emotional and there are only a few other elements of a brand that have the power to be as responsive to people's needs for sensory pleasure and promises of delivery. People relate to brands in a very similar context they relate to people, as they form relationships based on personality, style, image and trust. Music is able to create yearning for a brand, self-confidence and security through ownership, defining a relevant, differentiated and credible value propositions and it may be a deciding factor as whether a consumer might buy a product or service. Although, it is not just the music that evokes the emotion, but the whole brand from that music entity (SongSeekers, 2003). Brands have always developed their logotype, their own specific colours and graphic profile that people associate with, but increasingly they are also aiming to know not strictly anymore how the brand looks like but also how the brand sounds, aiming to have a music profile with a defining tone in the way music is added to their existing graphic profile (Heartbeats, 2009). As a component of brand management with high emotive impact

across all target groups, music is everywhere and can be employed in many ways, from the logo's sound device over to the telephone's on-hold music, commercials and image films, radio advertising, trade show acoustics, backdrops at stands and in stores and homepages (Sayed, 2012).

Ringe (2009) reflects on the partnerships between brands and artists as an intention to increase brand popularity or to cultivate an image. The image cultivation may be divided in three categories:

- *Image creation:* Considering the novelty value of the brand once it is launched, its image is not yet consolidated with its target groups, therefore brand artists partnership offers the opportunity to build a unique brand image;
- *Image modification:* An existing brand image doesn't represent the intended image, so brand artist partnership can be used to move the brand image in the desired direction to the target groups;
- *Image stabilisation:* An existing and well positioned brand image requires continuous attention, so brand artist partnerships can help to support the brand image through associations with the artist.

By aligning its interests with music, brands are also becoming credible music tastemakers in an industry where music fans are keen to find new ways to interact with their musical idols. Rather than sponsoring a show or a synchronisation of a track in and ad like has been done in the past, brands are also looking to pursue long-term relationships with artists, looking three to five years into the future, as they realise the return on investment for brands in the music field has not been as high as it could have been (Marketing Week, 2010). Besides synchronization deals, sponsorship and endorsement with artists, brands are now looking up for new ways of aligning music and the creators (artists) behind the songs, exploring new key areas of additional benefits to music fans, such as offering V.I.P treatment and access, enabling fans to get closer to the artists and creating events that are able to deliver true escapism and creating unforgettable memories. The rise of "branded entertainment" is defined by a convergence between brands and the entertainment industry, as an attempt to combine the advertising message with a relevant entertainment content which would not exist without the input of the brand. The communication on an emotional level offers the recipient added benefits, resulting in a stronger brand bonding than through traditional advertising (Ringe, 2009). Therefore, brand's involvement in



music becomes less about playing a certain song and more about the passion, commitment and support they can deliver for music’s most enthusiastic fans (Music Week, 2010).

As a reflection on the interest brands have in music, the investments on this field have also grown. As a reference for investments from brands, in the United Kingdom, the 3<sup>rd</sup> largest market in recorded music in 2012 (IFPI 2013) spent a record over GBP £100 millions in music, an increase of 6.09% from 2011. The artist endorsement (the use of image rights and appearances of artists to endorse a specific brand, product and/or service) and event creation (creation of custom experiential activities), were two areas which had a higher investment in 2012 compared to the previous year (PRS for Music, 2013).

**Table 5 - Brand investment into music 2010-2012**

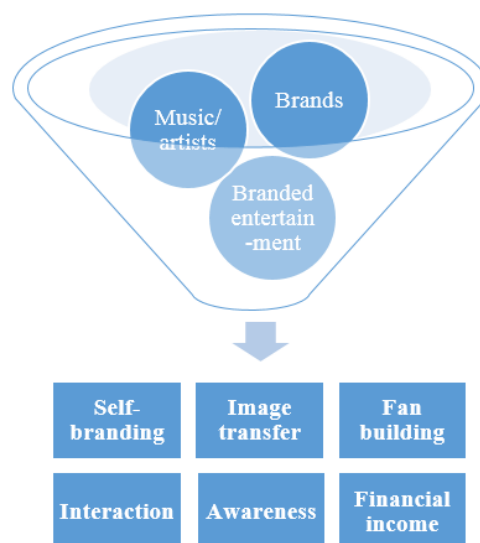
<b>Channel</b>	<b>2010 spend</b>	<b>2011 spend</b>	<b>% change</b>	<b>2012 spend</b>	<b>% change</b>
Live Music Sponsorship	£32.868.750	£35.111.875	6,82%	£33.160.425	-5,56%
Event creation	£8.125.000	£8.391.500	3,28%	£10.270.000	<b>22,39%</b>
Artist endorsement	£3.523.750	£3.526.250	8,37%	£4.684.750	<b>32,85%</b>
Digital	£7.273.000	£7.728.000	6,26%	£10.341.000	33,81%
TV	£21.840.000	£23.040.000	5,49%	£23.367.500	1,42%
Advertising support	£20.196.000	£20.993.500	3,95%	£22.987.000	9,50%
<b>TOTAL</b>	<b>£93.556.000</b>	<b>£98.791.125</b>	<b>5,60%</b>	<b>£104.810.675</b>	<b>6,09%</b>

Source: PRS for Music (2013)

From the side of musicians, a shift is also happening on their relationship with brands. In the past, artists who were seen partnering with brands were accused of selling out, but it has become a more acceptable method of increasing awareness and amplifying reach for artists (Marketing Week, 2010). In an interview to MIDEM (2013), Kristin Thomson enforces that branding opportunities need “to be weighed against artistic integrity and what your fans will perceive you as you start to get involved in different things, so artists and their management, the labels involved just need to think strategically about what it

means in their total, what people perceive them as doing. I do think there's a lot more opportunities out there. I think the combination of those different stakeholders (...) just make sense (...) and music has always been a part of peoples' experiences, so they are all converging". Brand partnerships are increasingly important to both artists and record companies, not merely as a revenue source, but also as way to position an artist and introducing him to a new audience, as it is key to see brand partnerships to "deliver value for (...) artists and there has to be a decent level of compensation all around. The credibility of the artist is the most important thing and it cannot be undermined" (IFPI, 2012: 24). By aligning themselves with brands, artists have a financial source of income and are able to increase awareness on their work, as music branding is able to widen their fan base. The association to the brand also provides the opportunity for artists to improve their own image in a positive way through the image transfer effect from the brand and strengthens the relationships between music fans and artists, as the interaction between the two also plays an important part on fan building (Jentetics, 2012). Additionally, if the brand appreciates the process of working with the artist and there's a visible return on the investment, there is an opportunity of developing a long-term relationship with the artist, ensuring a consistent income stream and additional marketing platforms and audience reach through the brands own consumer database (Henley Business School, 2013).

**Figure 10 - Music branding value for artists**



Source: Jentetics (2012)

Considering the important contribution that brands can have for artists, record labels are structuring themselves in order to connect with brands, being more proactive within the area of establishing brand partnerships and having dedicated departments and staff taking care of this area which is now considered to have significant importance (Henley Business School, 2013). As a reflection of the importance in the relationship with brands, EMI Records developed a dedicated unit, EMI Music Special Markets, who claims to “deliver music to (...) consumers in any form, at any time and in any place”, works with their clients in order “to create a custom branded product for their specific needs” as a way “to facilitate brand and lifestyle extension” in promotion, stressing that if the company wants to enhance brand awareness, inspire sales growth, or simply engage with customers, they can meet their goals through the creation of “targeted music programs tailored to (...) brands' specific demographic and strategic needs (EMI Music Special Markets, 2013). Universal Republic is also conscious about how the link with brands may take an important role on the artist's success, which is why the company even sets up exclusive showcases of its bands for prospective commercial clients. As for companies, the right song can increase brand awareness while, for bands, a corporate gig can mean the difference between their record being unnoticed or successful (Goodman, 2008). Compared with a decade ago, the record label's teams in charge of dealing with brands and synchronisations are now more involved in the daily tasks of marketing teams at a record label, as they may command the power to provide crucial profile and income to a launch campaign, rather than being seen as a secondary exploitation of income (Wadsworth & Forde, 2011).

To sum up, as music is a powerful tool on conveying emotional attributes of products and services and creating experiences in our lives, it is vital for each party in the collaboration to appreciate the value of each other's strengths with each partner at one another to work on a long-term collaboration and not on a single transaction, resulting in win-win benefits for both brands and the music industry (SongSeekers, 2003). Brands are no longer outsiders in music creativity and its involvement in music is becoming less about getting the rights to play a song in the music space and more about they can deliver to music fans. On the other hand, artists are also aware of the marketing value of getting strong corporate alignments and its crucial creative and financial contribution for music (Music Week, 2010).

### **2.2.1.2. Live entertainment**

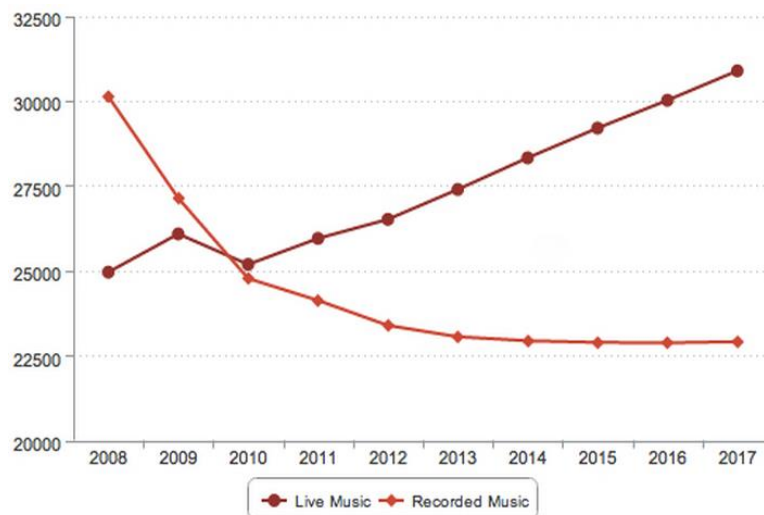
The importance of touring is constantly increasing for all types of artists, as concerts serve as another way to distribute their music and allow them to receive a higher percentage of the show's income than any other record royalty rate could be provided to them. In the last decade, two-thirds of artists' income came from their records, while concerts, endorsements and merchandise accounted for the other third. An evolution of the importance of the revenue streams has been visible, as the importance of concerts, along with endorsements and merchandise has grown considerably, making them the fastest and biggest growing revenue areas. Artists' recording contracts used to provide artists with tour support, as record companies used to consider concerts as a means to increase record sales – “a means to an end, not an end in itself” (Karubian, 2009: 418) – taking into assumption that recorded music was profitable. Now the opposite is taking shape, as recorded music is now a means of marketing an artist and a tool of increasing concert and merchandising revenues. As mentioned in the analysis of the 360 deal, this perspective is being reflected on the way record companies are working with artists, as they are shifting their focus to participating in more profitable ventures. Through the 360 deal, labels will collect a portion of the artist's touring revenue and may have the task to manage tour details, unlike in the traditional record contract, in which artists control the decisions regarding their tours and which promoter they want to work with (Karubian, 2009).

Although the experience of being at a concert has always been an important element of music consumption, the revenue from the live concert market has certainly not lost any importance (Ehmer & Porsch, 2008). Research by Montoro-Pons and Cuadrado-García (2011) on the demand for live concerts and recorded music demonstrates that recorded music consumption increases the probability of live concerts attendance, while the latter does not affect music purchases in a significant way. As in the past recorded music subsidized the live music sector, results show that the subsidization is working on the other way around: from live concerts to recorded music. This phenomenon reinforces the contractual moves labels are implementing with artists, in order to capture part of the revenue from the most profitable segment on the music market. Having the label control on different ventures, including live concerts and recorded music, it will also help to internalize the external effects that some activities in music generate: when these are conducted by different actors (usually promoters take care of the live business and labels

focus on selling recorded music), there may occur misaligned incentives. As a label promote a new release, unless it gets part of the revenue that will create (nowadays most of them related to touring), these incentives will play against promotion. By coordinating different activities on its own, labels will rule out any external effect problem.

In fact, it looks like there's a shift on interests from a product to performances and by no means represents the end of creativity in music. The experience in a live concert is not possible to copy, as products are, so a shift in the business model from the easily copied product (the song or album) towards the "hard-to-replicate" performance seems to be occur. Recordings often may function more as ads for live concerts than as money-makers by themselves (Raustiala & Sprigman, 2012). In fact, research by PricewaterhouseCoopers (PwC, 2013) on what people will spend at recorded music vs. live music played at concerts in the future confirms and evidences a shift on consumption, as recorded music revenues show no sign of growth, while live music continuously grow by 3% each year, reaching US\$30 billion in 2017 up from US\$26.5 billion in 2012.

**Figure 11** - Global live music vs. recorded music revenues, 2008-2017 (US\$m)



Source: PwC (2013)

### **3. FRAMEWORK AND RESEARCH METHODOLOGY**

#### **3.1. Model**

In order to complement the empirical study on the Literature Review section about the overview of the industry movements and evolution, as well as the state of art in research of the music as an experience, it motivated the study about the influence of the 360 deals in the recorded music industry and how record labels will manage the participation and contribution of new revenue streams in leveraging the artist's career. Also, it was taken into account the movements in the industry, as well as my contact with executive managers from record companies. Combining different information sources and the scope of my professional experience as a trainee in one of the major record companies, I intend to consider that the emergence of the 360 deals in the industry is an increasing contractual form to be used, as it allows the record company to decrease the risk of lost the investment made on the artist and provides different sources of revenue to recoup the initial investment, while it gets a more integrated control on the artist's career.

A sample composed by record companies' executives and people who work directly and indirectly for the recorded music industry will be questioned about the following parameters:

- The current state of the recorded music industry, in order to fully understand which are the main threats and opportunities in the market, as also to reflect on the evolution of music consumption;
- The need of a broader contractual form in the recorded music industry between record companies and artists, as the sales from recorded music have tended to decrease over the past years, which compromises the monetization of the investments made by record labels;
- The different ways that a record label may participate on the generation of revenues from the artist;
- The most important revenue streams contemplated on a 360 deal, in order to understand which areas are the most interesting for record labels to explore;
- The fitness between the 360 deals and music artists, in order to understand if such contractual form is suitable for all artists in the industry;

- The importance of brand partnerships with artists as a source of exposure and financing of the artist’s activities;
- The importance of record labels for artists in the digital era;
- The possible evolution of the format of a record label, as the 360 deals are contributing for record labels to gain expertise in nonrecorded music areas.

### 3.2. Research propositions

<b>P1</b>	The access to recorded music is becoming massified but not fully monetized.
Even though the digital format is steadily growing, it still doesn’t compensate the losses of the physical format (Leurdijk & Nieuwenhuis, 2012). The increasing access to recorded music by new business models and the lack of legislation to stop illegal downloading are contributing for a massification of recorded music consumption.	
<b>P2</b>	The 360 deal allows the record labels to receive and explore additional revenue streams from the artist other than recorded music.
Contrary to a traditional contract where the record label would only get revenues related to recorded music, the 360 deal provides a larger possibility of income sources.	
<b>P3</b>	Brand partnerships and live revenues are two fundamental revenue streams contemplated on the 360 deal.
The interviewees shall be questioned about which are the most important components of the 360 deal.	
<b>P4</b>	Record labels tend to play an active participation in the artist’s revenue streams.
As the record label increasingly integrates new services on its company, it is likely that the record label will move from a passive participation on the revenue streams to an active participation (Wadsworth & Forde, 2011).	
<b>P5</b>	The 360 deals are suitable for all kind of music artists.
Taking into account that through literature review it was not possible to find out whether such contractual form is suitable for all artists, it will be investigated if such contractual fits all the artists.	
<b>P6</b>	Brand partnerships represent an important source of revenue and exposure for music artists.
As the revenue streams from recorded music decrease, so does the investment provided by record labels to leverage the artist career. Therefore, brand partnerships shall be analyzed according to the benefits they may bring to the artist and record label.	
<b>P7</b>	The 360 deal is leading record labels to evolve to a new format with integrated services.
As a company with its core business in recorded music, how may record labels evolve in the future? How are they still going to be relevant for artists in the digital era?	

### 3.3. Data collection and research sample

Pursuing the objective of getting deep information about the challenges of the recorded music industry and their companies with a new contractual paradigm, the most appropriate research method to use for the subject of this dissertation was the in-depth interview. As a qualitative research technique, it is characterized by the conduction of intensive individual interviews with a small numbers of respondents, so their perspectives about a particular subject can be explored. In-depth interviews become useful when the interviewer wants to get detailed information about the thoughts of the respondents, offering a wider and complete reflection of a certain issue. The main advantage of in-depth interviews is that they provide much more detailed information than what could be available by using other data collection methods, such as surveys. (Boyce & Neale, 2006).

For the purpose of interviewing the elements of the sample mentioned above, an interview guide was designed to cover some of the important issues mentioned on the Literature Review section. An interview guide “helps make interviewing a number of people more systematic and comprehensive by delimiting in advance the issues to be explored” (Patton, 2002: 343). Regarding the type of questions to ask to the respondents, open questions were the most appropriated format to choose, as they “enable the researcher to understand and capture the points of view of other people without predetermining those points of view” (Patton, 2002: 21). The interview guide is attached on **appendix A**.

As a first approach, the universe of the Portuguese record labels represented by Associação Fonográfica Portuguesa were contacted by telephone: Sony Music Portugal, EMI Music Portugal, Universal Music Portugal, iPlay, Farol Música, Ovação, Vidisco and Espacial. Considering its role for the recorded music industry, Associação Fonográfica Portuguesa was also approached.

From those who were available to be interviewed – and given the focus of this thesis on 360 deals in the recorded music industry - I got to personally interview some music executives who work for major and independent record labels in Portugal who are currently signing artists under the 360 deal, the President of Associação Fonográfica Portuguesa (Portuguese Phonographic Association) and also an Assistant Professor of Music Business in Berklee College of Music (U.S.A) and former music business consultant through a Skype call due to geographical distance.



From the mentioned universe, those who were available for in-depth interviews – and therefore the sample for this study – are the following people:

- Andrea Johnson - Assistant Professor of Music Business at Berklee College of Music, Boston (U.S.A.) and former consultant for record labels;
- Eduardo Simões – President of Associação Fonográfica Portuguesa;
- João Teixeira – General Manager at EMI Music Portugal;
- Miguel Birra – New Business Manager at Sony Music Portugal;
- Paulo Junqueiro – General Manager at Sony Music Portugal;
- Susy Lorena – Label Manager at iPlay - Som e Imagem;

All the interviews are attached on **appendix B**.

## **4. RESULTS**

Although some of the respondents have the same opinion regarding some of the subjects, due to the variety of issues mentioned during the interviews, I will be mentioning some individual aspects, as I believe they are relevant to describe the different topics approached in this section.

Each topic below will be associated to one or more propositions defined in 3.2., in order to understand if such propositions are valid.

### **4.1. The recorded music industry and music consumption (Proposition 1)**

The majority of respondents have mentioned the current recorded music industry has been suffering and has undergone many changes over the past years. It has also been mentioned, although the industry is going into a difficult period and people are buying less music, it is now consumed more than ever.

The role of the Internet on the change of paradigm in the market and digital growth has also been mentioned by most of the respondents. The broadband internet connection has allowed internet users to easily access the contents that record labels once controlled and such unduly democratization turned into a trend, making consumers spend less money on the products that record labels sell and saving for other music products such as merchandise or live shows (Miguel Birra). Considering the limitation of laws against piracy, “there isn’t neither a legal or moral censorship to consume music illegally, as people know they are consuming it in a way that doesn’t remunerate artists, authors and producers” (João Teixeira).

The increased interest on recorded music consumption is also a reflection on the portability music has got with technological evolution, as it has never been so easy to listen to music in any place and so many devices (Paulo Junqueiro). The digital era has revolutionized also the way people consume music, as fast access to music is now more important than its ownership (João Teixeira). Consequently, the recorded music industry has been dematerializing itself and the physical market will become residual soon, not contributing for the industry’s overall performance (Eduardo Simões). New platforms have been arising that meet the specificities on how music is now consumed, such as streaming services. Described by the majority of the respondents as the most promising

service on the future of music consumption, these user-friendly platforms allow consumers to instantly access millions of songs and customize their preferences with a simple subscription of the service.

Regarding live music consumption, the interviewees have mentioned that this sector is not suffering of loss in revenues. Some respondents have enhanced the fact that live music consumption is related to living an experience, which is and has always been the supreme and maximum experience of consuming music (João Teixeira). Susy Lorena also notes that the live business is beneficial for the recorded music industry, as it helps promoting the artist and usually people listen to the artist's repertoire before going to a live show.

João Teixeira denotes two main reasons for the growth of this area:

- More companies and brands are investing in live music as part of their activations, as they realize while people are having good experiences with the brand their inner conscious relates to that same experience. By having more supply, there will be more investment made and consequently more demand from consumers;
- Artists have realized that their income was getting reduced. As record label's income has been decreasing, so has the income from artists. Consequently, artists were forced to increase the duration of live tours to maintain their lifestyle, as the income from recorded music is lower than in the past.

Eduardo Simões, as the representative of the Portuguese record labels, mentions that internationally the recorded music industry is seeing some frank signs of recovery, as some developed countries have taken effective measures for the protection of record labels and music exploitation through the Internet, especially on the limitation of piracy. However, the respondent enhances the fact that this is something that it is not happening in Portugal, where the "legislative inaction is absolute".

João Teixeira stresses the fact that music is part of the entertainment industry and some years ago the term 'entertainment' didn't mean what it means nowadays, as consumers have now access to a more varied choice of entertainment, but the budget available to entertainment didn't grow up as much as the entertainment variety, so music was one of the main things people have stopped spending money on. The same respondent explains

that in the past, due to the technological evolution and the transition of vinyl to compact discs (CD's), the recorded music industry “was artificially enriching, as it wasn't creating more artists but selling the same ones in different formats”.

Miguel Birra is the only respondent who mentions that, due to the democratization of the Internet, record labels have lost some relevance on the market regarding the dissemination of the information. Some years ago, the information regarding the artists and their releases was more easily channeled through the record labels than it is nowadays, the information is now spread everywhere and the media can easily approach artists and get unfiltered information about what they need. However, all respondents mutually consent that record labels will always be the ones who can provide the know-how and investment for artists to succeed, as their efforts will always result in an easier, faster and efficient amplification of the artist. Eduardo Simões defends that the digital era and its possibilities of “do it yourself” for artists have not changed one of the most important components in the role of record labels which is and has always been seeking, developing and exposing the artist's talent. Therefore, the respondent defends that the idea of self-promotion is “very theoretical”, as many autonomous artists got to have a lot of exposure through the digital space but ended up with very poor sales. Miguel Birra complements with the idea that those successful artists which are currently managing their career by themselves have previously been signed to a record label which has invested on them during many years, until a certain level of recognition and success. Last but not least, João Teixeira enhances that the “best proof of record labels being relevant (...) is that artists still come to us (record label)”.

Due to some specificities, it is important to enhance some aspects that some respondents mentioned regarding the Portuguese market and the current recorded music industry situation:

As an opposite of what is globally happening, Eduardo Simões stresses that the Portuguese recorded music market is decreasing in a two digits percentage every year. The respondent hints that it is fundamental to fight piracy in the Portuguese market, as the industry “can't continue with this lack of legislation and sense of impunity”.

Some respondents also have mentioned the amount of talent visible in the Portuguese market which has now overcome the language barrier for the exportation of music. Miguel Birra notes that the Portuguese consumer has become less Anglo Saxon and is

now consuming Portuguese music massively, justifying it by the fact younger generations aren't ashamed anymore to listen to Portuguese music, Portuguese musicians are increasingly singing their repertoire in English and Portuguese music is now more exposed. As a consequence on the higher interest on Portuguese music, record labels need to increase their investments in recording, marketing and distributing their artists on the market, resulting in a higher need of recouping the investments, which doesn't happen for all the artists. The respondent has also mentioned the current economic crisis, which has made consumers spend less money on the music products a record label sells.

As a result on the massification of music consumption and the problem of the drastic reduction on monetization of the investments made by record labels (João Teixeira), it is key for the recorded music business to "readapt and reinvent itself" (Paulo Junqueiro), "developing services which were not provided before and refreshing the offer they can provide to artists" (Miguel Birra).

To conclude, it is possible to verify that recorded music is now more consumed than ever, as the technological evolution resulted in easier and higher access to recorded music and also in the emergence of new platforms to consume it. On the other hand, the increase of illegal downloading on the Internet with no legislation to stop such phenomenon, reduction of spending in recorded music from consumers - and in the case of the Portuguese recorded music market, the economic crisis - have contributed for the reduction of revenues from recorded music and, consequently, to record labels and artists. Therefore, P1 is not rejected.

#### **4.2. The 360 deals: the need of a broader contractual form (Proposition 2)**

All respondents have agreed that the 360 deal has arisen from the need of new revenue streams besides recorded music on the recorded music industry. In the past, record companies used to be very lucrative - there were even only "very few businesses with higher revenues than record companies" (Paulo Junqueiro) - living comfortably from the reproduction and sale of music recordings. Therefore, the approach that record labels had on the market didn't reflect other business units than the ones contemplated on the traditional approach of focusing in recorded music (Miguel Birra). As a reflection of the decreasing recorded music sales and physical and digital piracy, record companies have

started to look at new opportunities of diversifying its revenues, as they realized they couldn't function as record companies anymore, but as music companies who provide integrated services to music artists (Paulo Junqueiro). The 360 deal is then seen as a natural progression of the industry, as record companies get the rights to get revenue streams that traditionally were held by the artist, having no more the need to rely exclusively on recorded music sales (Andrea Johnson).

Some respondents have also enhanced the fact that record labels have always been the ones who played an indispensable role as investment providers for music artists to start a career. João Teixeira considers that record companies turn artists' talent in "brands", as a reflection of the investments in labor and money made by the record label. Those "brands" attract different investments that sometimes are bigger than the ones the record labels get on the return of the investment. As "the career of an artist is made of records, live shows and all the aspects surrounding his work" (Susy Lorena) and the market doesn't remunerate record companies the way it used to do in the past, they are negotiating percentages on other revenue streams associated to artists, such as live concerts, brand partnerships, image rights, among others. Paulo Junqueiro also adds that if "a record label provides a good service to the artist, (he) gets all the advantages on sharing a percentage of the revenues with the company".

It has been mentioned that, although the 360 deals are a recent procedure in the recorded music industry and it is something in early stages, the number of artists signed under this type of contract are growing year by year (João Teixeira). Susy Lorena stresses the importance of this type of deal, as it may determine if a certain artist can or cannot be signed to a record label: the artist may be interesting to be signed, but if he isn't available for signing a 360 deal, then it may not be convenient for the record label to sign him. The respondent adds that all artists on her record label are now signed under a 360 deal, as the company realized this model is more profitable than having an artist signed under a traditional contract. João Teixeira adds that the percentages the record label is receiving under this contract aren't big, but as more artists are signing this type of contract and their careers develop themselves, the revenues are constantly increasing, believing that "they will have a very important role in the future".

Miguel Birra has mentioned that as a consequence of a "do it yourself" movement, artists have started to distance themselves from record labels, so the recorded music industry

had to figure out how to attract and be closer to artists again, proving record labels can leverage and be useful for their artistic careers. The same respondent stresses that the 360 deals have a gradual impact on the consolidation of a new identity which record labels are trying to develop for music artists, positioning themselves as the one “who can deliver interesting value propositions and manage their artistic career”, expecting artists to perceive them as “entertainment agencies who can provide services they don’t want to do or they don’t know how to do”.

To sum up, the ideas expressed by the interviewees match the supposition that the 360 deals allow record labels to get a percentage on the artist’s revenue streams other than recorded music (P2). As the industry moves from a period when recorded music income was enough for its sustainability to a paradigm where most of the artists are now signed under the contractual form of a 360 deal, the percentages of income from ancillary rights are becoming fundamental and increasingly important for the future of the industry. As the record label continues to be an investment provider for the artist’s career, percentages in other revenue streams are being negotiated, as those revenues wouldn’t be generated if the record label didn’t provide any investment in advance for the artist to attract other revenue streams, sometimes with higher relevance than the revenues generated by recorded music.

#### **4.3. Most important revenue streams contemplated on the 360 deal (Proposition 3)**

Under the supposition that record labels have a more diversified source of revenues with the 360 deal, the respondents were asked about which are the most important revenue streams contemplated on a 360 deal. They all commonly agreed that live revenues and image rights/brand partnerships are the most important stream on the 360 deal, to such extent that some record labels are even getting more revenues from these areas than the income generated from recorded music sales (Paulo Junqueiro). Susy Lorena highlights that such revenues “are the ones which are not in crisis and keep growing, while the other components of the industry are decreasing”, enhancing that such revenues only can be generated because of the investment that record labels make in advance for the artists. Besides the general agreement between the sample, some respondents stressed that “as more popular the artist is, the more likely he will be successful in all the revenue streams” and such importance of the revenues will also depend on the artist (Paulo

Junqueiro/Miguel Birra), his profile and the investment made by the record label (Miguel Birra).

Regarding live revenue streams, Eduardo Simões goes further on the subject by saying that these revenues “generate more money than recorded music sales” and for artists who are signed under this contractual form “that is where the biggest part of the revenue comes from”. Andrea Johnson reinforces the importance of such revenues by asserting live touring is a very important revenue for making up the overall performance of record labels, as recorded music sales collapse. Although, the same respondent observes that part of the increase in the revenue for live concerts has been verified because the average ticket price has gone up, which means consumers are not necessarily buying more tickets for live concerts but paying more for them.

Image rights are a new component associated to a 360 deal, which was not contemplated on the traditional deal between record labels and artists. The respondents who have mentioned such right reflect that image rights are described as “fundamental” and “useful” for the record label to manage, associate and consequently receive revenues from artist’s name and image in public performances, merchandising, sponsoring, brand partnerships and all activities that can be operationalized with the artist (Eduardo Simões/Susy Lorena).

In conclusion, live revenues and brand partnerships are the most important revenue streams contemplated on this contractual form (P3), as such income sources are sometimes higher than the income from recorded music sales. Live revenues have always been an important part of the artist’s revenues, as revenues from recorded music have been decreasing. As record labels are now allowed to receive revenues associated to the artist’s image (“image rights” are now contemplated on the 360 deal), they are a relevant source of revenue due to business opportunities that may occur, such as brand partnerships.

#### **4.4. The record label’s participation on the 360 deal (Proposition 4)**

All respondents are aware of the both levels of participation for the artists signed under a 360 deal and have been mostly unanimous on stressing that the tendency will be for record



labels to have an active participation on exploring the other revenue streams of their artists' careers.

Due to the flexibility of such contractual form and the fact that some of the components included on the contract vary from deal to deal, the participation the label has on the artist's revenues ("passive" or "active" participation) may or may not be defined in the contract. Some respondents have mentioned the contracts signed with artists bind the record label to have a certain role of participation on the revenue streams (Susy Lorena), whether others allow the company to have both types of participation or even no participation defined (João Teixeira/Paulo Junqueiro).

Eduardo Simões reinforces that the 360 deals allowed record label to have a more active participation, as it is not limited to sell recorded music. Such evolution on participation requires the record label to "adapt itself on the market and learn new know-how to explore the other revenue streams, as the marketing activities to promote live shows or other business units is not made in the same way as marketing recorded music".

Paulo Junqueiro enhances the fact that the participation from the record label will be done accordingly to its company structure, which will result on an active participation if the structure allows it to do so and vice-versa. João Teixeira adds that an active participation will require the record label to have a specific department or companies owned by the record label in order to explore the additional revenue streams, something which in his own opinion is not done in Portugal yet, but it is done so in other markets. In the meantime, the record label will be sharing the income from a certain business (passive participation), as the next step will have to result "not only (in sharing) a percentage but go into that business", receiving higher percentages due to the higher contribution and active role on exploring other revenue streams (active participation).

Andrea Johnson argues that the participation that the record label is directly reflected on the level of autonomy from the artist. The respondent distinguishes the difference between established and new artists, by enhancing those who have more control on their career (established artists) will more likely need direct connection with the record label for marketing and distributing the record, while for new artists they need someone who fully participates on their career by orienting them on which actions should be taken in the different areas contemplated on the 360 deal. Therefore, the respondent defends that the record label should have a passive participation for established artists as they know are

more aware on how they want to be marketed as and an active participation for new artists, as their knowledge of the market and partners to work with is generally scarce.

Despite which role the record label has on exploring other revenues, Miguel Birra stresses that its participation will be important either way, as “the label supports, communicates and creates the positioning of the artist on the market”, which will undeniably influence the way other revenue streams are explored.

As mentioned in the Literature Review section, Karubian, (2009) stresses that there might exist some variances in a 360 contract, as different components on the contract may vary from deal to deal, while Wadsworth & Forde (2011) mention that record labels are still at different stages along the spectrum of having an active or passive participation in the artist’s revenue streams. Therefore, it was expected that the feedback from the interviewees would provide different perspectives about the record labels’ participation on the artist’s revenues. The interviewees have been unanimous on mentioning that record labels are going to have an active participation on the exploration of the revenue streams (P4). However, it has been enhanced that the level of participation will depend on the structure of the company. An active participation will require that record labels have dedicated departments to explore these revenue streams, which is now a common practice in more lucrative markets and not something currently happening for all the record labels in the Portuguese market.

#### **4.5. Benefits and limitations of the 360 deal (Propositions 2 and 4)**

All respondents have agreed that the main advantage for record labels by signing music artists to a 360 deal is the possibility of receiving new revenue streams that were not granted on the traditional contract and easily recoup the initial investment made on the artist (P2).

Some respondents have mentioned that through a 360 deal, the record label has a central role on the development of the artist’s career, as the company has a higher commitment with the artist (Susy Lorena). João Teixeira enhances that if the record label has the rights to manage the different business fronts of the artist’s career, the company will be more connected and engaged to the artist. The respondent also claims that sometimes the different activities which were once provided by different companies were not

coordinated between the parties the best way possible, so if “we (record label) have all business areas integrated, we are able to better manage the artist’s career than if we only took care of a certain part of it”, as all activities will be controlled and planned by a single company which is interested on “making everything grow and at the same time take advantage of it” (P4).

Although this contractual form provides some benefits for record labels, the respondents have also identified some limitations. Considering most of the individuals from the sample work for record companies in Portugal, even though some of them are subsidiaries of multinational record companies (major record companies), the performance of the Portuguese market is directly affecting the structure of the companies. Therefore, some respondents have mentioned the company size is a limitation for the development of the activities within the company, as the operations in Portugal are done under a small structure. As a result of the small structures in the Portuguese industry and although the record label assures the rights for the different revenue streams, some of the components contemplated on the 360 deals have to be outsourced. Even though the outsourced partners are “always chosen according to the wishes of the record label and the artist” (Paulo Junqueiro), it leads to a higher dependence from record labels on working through partnerships with outsourced companies (Susy Lorena), loss of control and share of know-how (Miguel Birra), disabling the possibility of the company to provide a complete service as part of an active partnership with the artist (João Teixeira). Although the company size for the Portuguese record labels results in some constraints enhanced by the respondents, it has also been mentioned that record companies are now integrating into their structures some of the services contemplated on the 360 deals, such as Management, Live and New Business, as such structures are viable in more profitable markets, resulting in the record label to have an active participation on the artist’s revenues (P4).

As a result on the need of outsourcing some of the services, Susy Lorena stresses that the dependence on other partners may result in uncertainty of reaching the common objectives for both parties, as the activities from each party may be dependent on the performance of each other, i.e., the record label releases a significant amount of CD’s to the market, hoping that the live shows partner get to book many shows for a certain artist, leading to a higher demand for buying recorded music from the artist. If such thing doesn’t happen, the record label will incur in a loss of CD sales.

Although the component of investment has been mentioned by something easier to recoup due to the diversity of revenue streams granted on the 360 deal, Eduardo Simões notes that a wider investment than what was traditionally contemplated also brings higher risk for the record company, i.e., live concerts production: the artist may be successful on album sales, which will lead the record label to invest on live shows, even though some artists don't see their apparent success being reflected on ticket sales for live shows.

Considering the recorded music industry has been stable on procedures for a long period of time in the past, Miguel Birra also points that the first impact and negotiation of these type of contracts result in an initial resistance by the artists and their representatives (i.e., managers).

#### **4.6. The fit between the artist and 360 deal (Proposition 5)**

Miguel Birra provides an interesting categorization of music artists and their involvement on the 360 deals, which I personally think it is a good starting point to talk about the role of the artist on this contractual form. The respondent classifies the artists in three categories:

- *Baby acts*: These artists are those who are about to start a music career. These artists are aware of such contractual form and they are interested on knowing on more about it;
- *Developing acts*: These artists have already been signed under a record deal before. Considering their previous involvement with a record label, they are more conscious about the components of the contract, reflecting on the profits and losses more consciously and how the decisions made at the moment may influence the future of their artistic career;
- *Established acts*: These artists already have long and successful careers and have always been signed on a traditional contract.

Although it is a recent procedure on the market for record labels to sign artists under a 360 deal, most of the respondents have mentioned that artists are in general aware and

have a good reaction once faced with this contractual form. Even though it is becoming “a standard on the market” and “the majority of the artists are signed under this contract” (João Teixeira) now, the industry was previously formatted in a way that record labels only collected revenues from the artist regarding recorded music, as other sources of income were never considered – “people didn’t talk about the 360 deals and record labels didn’t even think on the possibility to have other revenue streams than recorded music” and so didn’t artists, who would be reluctant on sharing a percentage from other revenue streams. As artists understand the importance of record labels for the development of their careers, the share of income from other areas is now accepted and seen as something “established on the market”, otherwise “if (artists) don’t want to sign this type of contract, then they won’t even come to us” (Paulo Junqueiro).

Susy Lorena has also noted that artists were at first “surprised” about having a single company to provide integrated services such as management, agency, record label among others, as these services used to be provided by different partners separately. By having those aggregated on the same company – whether the record label is providing all the services or some of them are outsourced - it facilitates the artist and his career is more protected, as there is no need to look for different partners on his own for each aspect of his career, “so artists only have to focus on what they do best, which is music” (Eduardo Simões).

There is a general acceptance of the 360 deal by the artists, but the contribution and implications of this deal differ according to the type of artist, especially between *new artists* and *established artists*:

- *New artists*: As it has been mentioned before, most artists are now being signed under a 360 deal. Therefore, most of the respondents have said this contractual form will be applied in artists which are about to start (or are in early stages on) their music career. These artists will be generally pleased to sign this contractual form, as their expectations and motivations are high, they don’t have any history, they don’t know how a record label works and they won’t have much options to choose from, as new artists are normally signed under this type of contract (Miguel Birra). Andrea Johnson also believes the hype that currently these contracts have – as many successful artists are signed to a 360 deal, i.e. Jay-Z and Madonna with Live Nation Entertainment – and the larger investment provided

than on traditional contracts is contributing for new artists to accept this deal, even though they may not understand what it entails. However, the respondent reflects on the challenge for new artists to think in the long run once signing this contract: for artists which are not signed under this contractual form, the different components of their career are dealt separately and in a larger time period. Therefore, a new artist who is signed under a 360 deal will have to negotiate a long-term deal with all components at once, which constitutes itself as a “overwhelming” process for artists who will need to speculate in complete uncertainty about where their career is progressing to and if those are the rights decisions for the trajectory of their career.

- *Established artists:* The respondents who opted to mention the applicability of a 360 deal for an established artist were mostly defending the idea that this contractual form is not the ideal choice for someone who already has career longevity. However, the respondents have stressed that any possible advantages of signing this type of contract will depend on the evaluation of a specific artist and what is planned for his career on a long-term perspective (Eduardo Simões). The potential of such contract will have to be enhanced by the investments that are going to be done for the artist in order for the record label to receive other revenue streams. Such process may involve counterparts from the label, i.e., a higher marketing investment for a certain artist (Miguel Birra).

For Miguel Birra, the role of the artist has also evolved into a broader sense, as the term “artist” is not strictly associated with recorded music anymore. The respondent describes the new definition of artists as “characters” who happen to sing, but their career may also be associated to other ventures, such as TV presenting or Radio DJ, emphasizing the entertainment factor that record labels are pursuing.

In conclusion, there has been general consensus on the fact that 360 deals are easily targeted for new artists. Considering the record label is investing in someone who has not any historic nor previous indicator of success, the risk associated with investing in the artist will be counterbalanced by the record label having access to multiple revenue streams that the artist may generate during his career. As someone who is about to start a career, the inexperience and motivations on entering into the industry will most likely result in the artist to happily sign such contractual form. As for established artists, record

labels will most likely fail to convince the artists to sign such contractual form, as they have always been signed in a traditional contract. The share of revenues from the artist to the record label will depend on a careful evaluation and may involve incentives from the label, such as higher investment on the artist. Therefore, P5 may be rejected, as the 360 deal will more suitable for new artists.

#### **4.7. The role of brand-artist partnerships (Proposition 6)**

Following the importance mentioned by some of the respondents on brand partnerships (and artist's image rights as the element that allow record labels to explore brand partnerships) as one of the most important revenue streams contemplated on the 360 deals, it is important to enhance this component on its contribution.

Some of the respondents have mentioned that the grant of the artist's image rights to record labels is something very recent, as they didn't negotiate and didn't have such rights in the past, resulting in strictly using the artist's image associated to the recorded music's exploitation. Therefore, those who were interested on associating themselves to the artist's image would have to approach the artist's management, as it would be the only entity who could negotiate such rights with brands. Such figure has never dealt with brand partnerships in an active participation, as the brand would be the first to approach the artist in order to negotiate, following the studies of their advertising agencies on which artist would fit the brand the most (João Teixeira) and in case of needing the sound recording, the record label would be approached for a synchronization (João Teixeira/Susy Lorena). As managers have never explored this revenue stream through an active participation, record labels who have the artist's image rights are now putting more effort on doing it in a more active and professional way, presenting their artists to brands, right from the early stages of their career (João Teixeira/Paulo Junqueiro). Music has always been very attractive to brands and record labels now understand the potential of exploring such area, which is now being reflected in the creation of specific departments for managing and encouraging the relationship between the artists and brands, whether such action is taken through advertising agencies or directly to brands (Paulo Junqueiro). The process is now being taken more seriously by the record label and done the other way around: the label has now the role of developing market studies for their artists in order to evaluate the affinity that artists have with certain brands and its consumers. Therefore

the company will be able to fully justify how a specific artist fits a certain brand and explore further opportunities that may enhance mutual benefits for both parties (João Teixeira).

Eduardo Simões reflects on the evolution of the artist's predisposition for working with brands over the years, saying that no longer than 25 years ago, artists didn't even want their music to be synchronized in a TV ad, let alone partnerships with brands. Although, artists have now a different perspective on the subject, as a "change in mentality" made them realize that brands can be a "leverage of diffusion" and create opportunities for the development of their careers. Nevertheless, the respondent stresses the importance of the 360 deal for the record label on having an active role to explore such revenues, as "the image and name rights are one of the most protected rights that it exists" and it would be very difficult to explore them with other contractual form.

There was consensual agreement from the sample regarding these partnerships result in distinctive mutual benefits for the parties. Although the focus of this dissertation is in regards to the record companies, I think it is also relevant to briefly mention the brand's perspective at this point, as no partnership would be established without the interest of both parties. The different arguments enhanced by the respondents were grouped in combined motivations which shall be described below:

- **Motivations from brands:**

- *Long-term relationship with the artist:* Brands have always been interested on having track synchronizations on their ads but such phenomenon was always a "one-off thing" as there was no further participation and interaction from the artist with the brand and its fans. By exploring the music investment in more innovative and interesting ways, the artist gets to represent, participate and be part of the brand through the development of a long-term relationship between the artist, brand and its fans.
- *Association to music:* Brands are increasingly seeking artists to leverage their marketing campaigns and brand goals (Paulo Junqueiro), as they identify music as an important content associated to people's lifestyle and



a valuable combination. The usage of music associated with brands will result in higher recall rates, as the brand also associates itself to artists which have similar values, allowing them to create much more original and creative brand activations for their consumers and unique experiences associated with music (Miguel Birra). As a result, brands now understand that the emotional connection on amplifying its message for consumers is key and possible to make through the combination of music and artists (João Teixeira).

- **Motivations from artists and record labels**

- *Investment/Financial income:* As record labels' revenues have been decreasing over the past years, resulting in less amount of money to invest in the artists, brands can be a source of financing the activities of record labels, as "they may invest what the record label may not" (Susy Lorena), generate marketing savings for record labels - as they get their artists to be promoted through brands – or contribute for the financial objectives of the company, as the industry by itself can't generate the same revenues as the ones made in the past (Miguel Birra);
- *Artist's exposure:* The association to brands provides an increasing exposure and dissemination of the artist to new and possible larger audiences, considering that the brands approached by record labels generally communicate for the masses. As a result of the exposure received by the artist, consumers may identify immediately what the artist involved is and/or get interested on discovering more about the unknown artist. Considering brands have a "fundamental role on contributing to influence the tastes of consumers", those who have a positive opinion about the brand may like, for instance, a song synchronization in a TV ad too (Eduardo Simões), which consequently may increase other revenue streams, such as recorded music sales (Paulo Junqueiro);
- *Association to brand values:* As a way to leverage a music career to the right audience, the artist must be associated with the brands who fit his

profile the most in order to get a positive association and facilitate the transference of brand values to the artist. By sharing the same values of the brand to which the artist is associated with, brand fans will more likely be interested on the artist and vice-versa.

As it has been mentioned before, record labels are now taking an active role on such partnerships. These propensity of assuring the establishment of negotiation with brands is also resulting on the development of a long-term relationship between record labels and brands, as the close involvement between the parties is also a way for the record label to present other artists to brands, in order to potentiate possible new partnerships in the future (Susy Lorena).

As much as brand association to artists can leverage and finance their artistic career in the current state of the industry, Miguel Birra provides an interesting opinion on the relative importance of such partnerships. The respondent believes that record labels would not be seeking for brand investments if the industry could invest, recoup and make revenues from the artists on its own, stressing his conviction that if the industry can make as interesting revenues in the future as were done before, the companies within the industry would stop seeking for brand support as their financing would not be needed anymore, resulting on a return from record labels to their core competencies: “to seek, develop and sell talent”.

To sum up, it has been verified an increase for both the brands and artists on the importance they have for each other. Music has always played an important role on branding and as its outcomes are evolving to a more deep relationship between the parties, brands understand the value of the artists, “becoming an inevitable and valuable part of the brand” (Andrea Johnson). At the same time, music artists have become conscious about the leverage that brands can provide to their artistic career on getting additional investment exposure and reaching through new audiences. Therefore, brand partnerships represent an important source of revenue and exposure for music artists (P6).

#### **4.8. The evolving future and contribution of record labels (Proposition 7)**

The uncertainty on the industry has lead the interviewees to provide different opinions on how they perceive record labels to be in five years' time. Such period in time was defined due to the fast pace in the evolution of the recorded music industry.

Some of the respondents have commonly mentioned that in 5 years' time record labels may move away from a concept strictly focused on recorded music to a new focus on "entertainment". Such evolution may also lead to an integration of the services which are currently outsourced to partner companies in order for the "entertainment company" to have more control and provide the services contemplated on the 360 deals, as those are directly related to entertainment. Although Andrea Johnson agrees on this natural evolution to an entertainment environment, the respondent believes that such process "is moving very slowly and cautiously" and hints that top management from record labels may be one of the barriers to such evolution to happen in the next 5 years, as "they are so used to work the way they have always done it", resulting in such change to probably take longer than that. The same respondent notes that the distribution network and ability of marketing an artist will continue to be valuable, even though record labels will have to "definitely" rely on brand partnerships to fund the marketing of the artists.

João Teixeira suggests the recorded music industry will be more focused on rights than products. The respondent believes that the sales area will reduce on importance, resulting in a decrease in importance of selling physical products. The industry will lead to a concept where record labels will be continuing to create brands with goodwill - their music artists - and sell the rights attached to those brands, including synchronization, image rights and specially brand partnerships having increasingly more importance. Consequently, the focus on the business will be based on the "immaterial and intellectual component of the artists" and their intellectual heritage.

Miguel Birra foresees two distinct approaches on the evolution of record labels:

- *Record labels as communication & creativity agencies:* the industry will continue on seeking and developing talent, but will also put more efforts into conceptualizing and advising solutions to artists. This evolution will result in the company to be more focused in entertainment and therefore the development of entertainment products and experiences which are not strictly focused in recorded

music. The respondent also notes that it is relevant to distinguish the record labels which are connected to hardware companies (i.e. SONY Music belongs to SONY Corporation) and those who are not, as those who are will have to keep developing products that contribute for creating trends and make consumers buy the hardware.

- *Back to basics:* On the other hand, the respondent mentions that if somehow piracy decreases and the recorded music industry increases its revenues with the distribution of recorded music again, record labels will focus once again on their core business as “music specialists”.

Paulo Junqueiro stresses that the integration of additional services<sup>9</sup> is only dependent on the continuous growth of the market and the ability to structure the company to include such services. Besides which structure or identity record labels may evolve to, the respondent mentions that record labels will still exist, guiding artists to explore all the business opportunities that may occur in the artist’s career.

To sum up, it is more likely that the 360 deal is contributing for record labels to evolve for a new format with integrated services (P7). Most of the respondents agree that the integration of services which are often provided by outsourcing to partner companies may be provided by the record label in the future. Therefore, the focus of the company will rely less on being a ‘record label’ and will enhance the ‘entertainment’ factor. By managing the different components of the artist’s career, it is more likely that these “entertainment companies” will be more focused on developing products and experiences not specifically tied to recorded music.

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<sup>9</sup> SONY Music has a division named ‘Day 1 Entertainment’ which provides management and live touring solutions for artists signed with SONY Music.

## **5. CONCLUSIONS, SUGGESTIONS AND CONTRIBUTIONS, LIMITATIONS AND FUTURE RESEARCH**

### **5.1. Conclusions**

This study demonstrates that the 360 deals are a new trend on the contractual form which is going to be mostly used for signing new artists, as the monetization from recorded music sales is still not fully accomplished. Through the analysis of some Portuguese record labels' perspectives, the results allow a focusing and strengthening of opportunities to conceive different win-win relationships between the several players of the offer side (the record labels and the artists, but also the entertainment businesses and the brands trying to be more intrusive and to achieve more tribal fans) and the demand side (the consumer whose interest in music consumption is increasing, but also is more aware about the diverse ways to experience the music, either free or payable).

In conclusion of the whole secondary and primary data gathered and analyzed, the following three sub-chapters of this conclusion explain the main results of this study's analysis.

#### **5.1.1. The need of monetization in the recorded music industry**

The recorded music industry has always been very dependent of the revenues provided by the sale of records. With the transition between the evolution of formats (vinyl to CD), the industry has artificially grown, as consumers were also buying the same contents in a new physical format and the CD was the dominant format of recorded music consumption.

As the Internet started to be more accessible to consumers, the industry was affected by a huge trend of illegal downloading. While the rise of the MP3 format was being ignored by the industry, as it was considered an incentive of piracy, it opened space for other digital retailers to maximize the potential of this new format. The industry has ignored the potential of marketing of this new format and decided to fight piracy by suing individuals and developing anti-copying tools in CD's, although some illegally downloaded music as a way to pre-evaluate new music for further purchases (Molteni &

Ordanini, 2003). The easy and free access to copyrighted content through piracy, which is still considered by the industry as one of the main threats for the decrease of recorded music revenues, has also allowed the development of new innovative business models that can target different consumers through varied pricing strategies, contributing for an ever wider access to discovering and access to music consumption.

With the decrease on sales of physical formats and emergence of digital platforms, it is undeniable that the physical format will become residual and the main format of recorded music consumption will be accessed through digital means. However, taking into account the evolution of consumption for both formats, it is clear that consumers who once were buying recorded music in physical format haven't completely shifted their habits for digital recorded music consumption, as the losses of physical sales aren't being compensated by digital revenues yet. Therefore, the industry is facing an increasing concern on how to monetize its investments.

### **5.1.2. The 360 deal as an evolution on the contractual form with artists**

As a consequence on the lack of monetization in the recorded music industry, record labels have started to develop contractual forms with its artists, where broader rights are contemplated, allowing record labels to be less dependent on revenues of recorded music sales.

Record labels have always been an important source of investment for artists, as they were the ones who first believed in the capability of the artist to generate recorded music sales. Even though the industry has never needed or sought other revenue sources in the past, as the business used to be sustainably profitable – and record labels are still the ones who keep investing on artists, so nothing has changed on this aspect – the 360 deal is clearly a convenient way from record labels to compensate the losses of its core business revenues by taking advantage of other revenue streams that once were granted exclusively to the artist, sometimes playing a more important role than revenues from recorded music. Nevertheless, the fact that record labels have the rights to explore further revenue streams from artists also may bring real advantages for both parties, as the company will be genuinely interested on maximizing the investment provided to the artist. Therefore, business opportunities such as brand partnerships may add real value to the artist,

financially and in terms of exposure and fan building, which may leverage even other revenue streams, such as record sales or live shows.

Although this contractual form may not reach all music artists, it is becoming a normal procedure for signing new artists to a record label. If the artist is not up for being signed under this contractual form, it may compromise the interest of the label on signing the artist. As the industry still strongly invest in new talent – “We have kept A&R at the forefront of our priorities. We continue to invest heavily in signing great artists and finding an audience for them” (IFPI, 2013: 10) – it is most likely that most of the artists in the future will be signed under a 360 deal.

### **5.1.3. The implications of the 360 deal**

Justified by the fact that record labels provide an initial investment on the artist’s career and therefore the record label should get a percentage on the revenues generated by the artist, record labels have been participating passively in the artist’s revenues, meaning that the record label has low involvement on contributing for generating those same revenues.

Although it has been identified the willingness from record labels to participate actively in generating other revenue streams than recorded music, such participation is largely conditioned by structural limitations. An active participation will implicate the creation of specific departments on record labels to fully explore other revenue streams or through conceding such activities to companies owned by record labels – i.e. “Warner Music has bought a tour promoter company called ‘Get In’, the biggest promoter company in Spain” (João Teixeira); “Sony Music has ‘Day 1 Entertainment’ integrated for management and live shows production” (Paulo Junqueiro) – something which is now being done in more profitable markets. As the record label actively provides further services to artists, such as management, live shows production, business development, among others, the company is becoming a central piece in the control and development of the artist’s career, as there is a higher level of commitment and engagement to the artist. While actively participating in different revenue streams, the label better manages all the fronts of the artist’s career and may plan the different activities on its own rather than having different

partners for each activity – i.e., “Sometimes an artist is about to go on tour in a certain day but the new record is delayed, which results in a release date in the beginning or during the tour, which doesn’t make sense, there has to be time for the album to be heard and be successful and then the artist should go on tour. Each parties take care of different aspects and then things don’t work the best way” (João Teixeira). Finally, an active participation will also result in higher percentages of the artist’s income for the record label, as it actively participates in the different streams.

In the case of most Portuguese record labels, it has been mentioned that most of them are still not in a position to execute such structural change, as their performance on the market is the main constraint. In the meantime, while the number of artists signed under a 360 deal increase and record labels aren’t in a position to fully participate in the artist’s revenues, record labels will continue to participate passively on the artist’s revenues, leading to a higher dependence to work through partnerships with outsourced companies.

Consequently, the disintermediation of partners in the artist’s career may result in the disappearance of some figures that usually surrounded the artists, like the “manager” and “agent”, as the label may control the management and live production of the artist’s career. Therefore, it is fundamental for record labels to gain expertise in these areas, as these are “services they have not historically much experience” (Gervais *et al.*, 2011) and fully demonstrate how relevant they can be providing a full service, so artists can perceive the value that these “entertainment companies” may add to the development of their careers instead of working with different companies for each purpose.

## **5.2. Suggestions and contributions**

The present dissertation stresses the importance of the 360 deal as a new contractual form for the better monetization of the recorded music industry. As record labels are trying to reinventing themselves by providing more services to their artists, as also new ways to promote them, this study presents not only how this contractual form allows the record label to get a percentage on other revenue streams than recorded music sales, but also which are the implications it brings for the company.

Above all the analysis and systematization of the actual challenges and opportunities of the record music industry, this Thesis contributes with the clarification of some key



success factors that could give a marketing orientation to the record labels' executives. From the study it is possible to design three key success factors for the management orientation of the record labels:

**1.** Taking part in the new movements on the music market, understanding that although there is a need of protecting and monetization of the investments from record labels, artists and the general commercial offer, also there is a demand of revolutionary platforms and formats for the music experience. The emergence of new market needs and services concepts can be a distinctive positioning strategy for a record company. Even a small and medium size company can develop a creative innovation in its management operations and offer, for example, increasing the network to conceive new services through partnerships with private companies from other sectors.

**2.** The need of having an earlier and more active participation in the artist's career life cycle. Not only the record label have a role much more intrusive and of co-participation with the artist in his career, but also it is being crucial to be faster in the music market the searching for the opportunity of being the first to detect new potential artists and getting a distinctive market identity by offering different associated services to the artist.

**3.** Record labels should rethink their marketing strategies, namely the strategic position of the record labels for the global company sales, according to the cross variables of the market attractively and the competitive position. The diversification of the portfolio of products and maximization of the synergies within them can allow the risk reduction of the investments. Diversifying the product-mix and even reinventing the core business, going much more from a product orientation (recorded music) through a market orientation, building experiences associated with music, either in a more entertainment targeting and/or in a business or professional focus (i.e. booking live shows for corporate events).

As there is little investigation on the contribution of the 360 deal for the overall performance of the recorded music industry, another important contribution of this thesis is in the direction of the academic field. Not only it allows the development of a market study case as a tool for teaching, but also an exploratory study for future research or in the music sector, but also in the strategic marketing domain. Indeed, this analyses allows an overview of the main challenges and antecedents to determine the change of the

business orientation. The music market is passing through so big and radical changes that is an interesting example of difficult it is to change forward a market orientation.

### **5.3. Limitations**

As it may happen in all the studies, there are always some limitations attached. Therefore, this dissertation has some limitations that need to be considered:

- The sample interviewed for this dissertation is very reduced and, although the findings may be considered valid within the sample, they may not be extrapolated for the universe of record labels worldwide;
- The methodology framework did not consider a typology crossing the several stages of artist's career life cycle. Indeed this exploratory study, namely through personal interviews, revealed that the importance of the 360 deals can be different according to the level of awareness of the artist.
- There was no input from music artists, which could have been useful on understanding how artists feel and perceive the 360 deals for the overall contribution on their artistic career;
- There is no financial analysis on the contribution of the different revenue streams contemplated on the 360 deal, in order to quantify what the relative importance for each of them;
- There was no reflection of music genre associated to this study, which may influence how important each revenue stream is according to the genre of the artist.

#### **5.4. Future research**

The present study was aimed to generically characterize the 360 deal and contextualize its importance for the industry. For future research, the following topics may be analyzed:

- Analyze the financial impact for the record label of signing an artist under a traditional contract vs. 360 contract;
- Investigate how the exposure the artist gets through brand partnerships may enhance other revenue streams;
- Analyze the financial impact for the record label through an active participation in the artist's revenues vs. passive participation;
- Investigate if the artist's music genre influences the profitability of the revenues contemplated on the 360 deal;

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## APPENDICES

### A. Interview Guide

- 1) How would you define the current situation of the recorded music industry? Which are its main threats and opportunities?
- 2) How would you define the current music consumption? Which formats and trends are emerging?
- 3) How can record labels be relevant to music artists?
- 4) How does the need of the 360 deal come about for the recorded music industry? What's its importance for the label?
- 5) Which are the main advantages and disadvantages of the 360 deal?
- 6) How does the label decide to participate actively or passively in the exploration of the artist's revenue streams? Are there any challenges involved for the record label?
- 7) What's the artists' reaction to this new contractual form? Are they the ones who seek this kind of deal? Is it a contract that can be adapted to all artists?
- 8) Which are the most important revenue streams contemplated on the 360 deal?
- 9) How important are the relationships between artists and brands? How has this relationship evolved? How important are brands for artists and vice-versa? What motivates both parties to establish a partnership?
- 10) How do you imagine the recorded music industry in 5 years' time? Which format will it evolve to? Do you think that might exist some structural changes?



## **B. Transcript from the interviews**

### **B1. Andrea Johnson [Assistant Professor of Music Business at Berklee College of Music, Boston (U.S.A.) and former consultant for record labels]**

#### **1) How would you define the current situation of the recorded music industry? Which are its main threats and opportunities?**

I think it's absolutely in flux. I also teach record company class at Berklee and we talk a lot about the differences between the traditional and 360 deals and the thing that I'm seeing the most happening is that the old guard is the moving out of the traditional deals, even some of those are still being done. We're going into this flux. We're in a moment of disruption and there's a higher innovation on technology. The people have always done business the way they've always done it and now they are uncomfortable. Some people may argue 'the music industry is falling apart', I disagree. We saw with the new 360 deals coming it that they are helping for additional streams of revenue which is good for the artist and the label, but more important I think that it's really coming into the technology innovation. It's allowing more artists to take control of the technology and to develop additional streams of income and distribution methods. I think that's actually where it's going to head in the future.

I think part of the threats are in the streaming, the artists aren't being paid fairly in the streaming of their music, even though labels are using it more as a promotional tool, for the artist is really not great for anything as far as the revenue.

#### **2) How would you define the current music consumption? Which formats and trends are emerging?**

I say it's all digital, I've been spending some time on Apple Radio, I have a subscription to Spotify and my discovery methods are all online. I think it's all online discovery. It's interesting in my age group, 40s, we're still buying music. I buy it mostly digital but my friends buy CD's, I think it's the age group.

**3) How can record labels be relevant to music artists?**

I think the good record labels have to be involved with the internet space, they have been really slowly on that. I've seen a movement towards the technology to be very slow. Even 10 years ago, you could get on a record label's website and there was no way to buy the artist's music from their website. The labels are relying on iTunes and third parties to have their music purchased digitally instead of coming up with their own web portals and I think that's a total misstep. They need their own portals, like iTunes, where I can see all their artists at once and buy it all through one portal.

For me, it's the fact they have the distribution network and marketing contacts, I think that's what really relevant. They have the ability to put the record across the market, because they developed these long term agreements over the past forty years with partners around the world. For me, it's still relevant to sign with record labels because of the distribution and marketing, it is easier and quicker that way. And of course the marketing money is kind of drying up, and that's where the partnerships come in and that's why you might want to have a 360 deal. For me, the most relevance of record labels rely on their distribution and marketing.

**4) How does the need of the 360 deal come about for the recorded music industry? What's its importance for the label?**

I'm not a big fan of the 360 deals, although I think it was a natural progression of the industry. I don't think it's necessarily great for the artists, because the label now is getting revenue streams that traditionally were only held by the artist. I'll give you an example: when I was with Gloria Estefan, she had a deal with Sony where she had 100% rights of her merchandise. With the 360 deal, the label would have their hand in that and would be taking 60% of that revenue and she made a lot of money from merchandise and other participations that she had back in the 90s, although for the label this great, they aren't only relying on records to pay their bills, they can take a percentage into publishing, tour, merchandise, sponsorship deals, etc. So I think for the label it's a healthy way to go. These contracts are becoming very important for record labels, it's their lifeblood. I think that we're still seeing a combination of the more traditional deal and the 360 deal. It's an easy approach to compensate the losses from recorded music sales. That's the change the label

is going through, they are realizing they need to have all these revenue streams just to continue with their operations.

**5) Which are the main advantages and disadvantages of the 360 deal?**

For an established artist, a 360 deal is not about individual royalties, it's all about the advances. They are getting these large multi-million dollar advances. I think it's also allowing the artist to have more freedom and creative rights over what kind of content they want to produce. In that sense, it's empowering the artists and they're not really holding on into the idea of 'I'm going to recoup and receive some kind of royalties at the back end', they're getting it all upfront in the overall deal. I'm hoping artists are investing this money in their career. I think you are not seeing the 360 deals with the younger artists only because they haven't received the benefit of all the marketing. With Jay-Z, who is signed on a 360 deal, you don't really need to spend a lot of marketing, the labels on which he was signed previously did all the work. When Jay-Z now gets a \$150 million dollar deal, it's more about the development for him to do his own line of clothing for his own boutique and that's the benefit of those deals for the artist. The record label of course is merely about having additional revenue streams, so they don't just have to rely on record sales, owning a part of the publishing, touring, merchandise and all the ancillaries that go with that.

Regarding disadvantages, on the artist's side the disadvantages are that the label has their hands in all these income streams. The artist is giving up on the rights of their creative work. As for the label, I'm not sure if there are any disadvantages, as they get many revenue streams and use those revenues to pay the decline of record sales, I think that's the benefit for them.

**6) How does the label decide to participate actively or passively in the exploration of the artist's revenue streams? Are there any challenges involved for the record label?**

I think that it has to do with the level of autonomy the artist has. If the artist is in control of the management of his career and know how he wants to be marketed as, then he only needs to connect with the label maybe for distribution and some marketing purposes. As for a new artist, they really need someone to fully participate and tell them "this is what

you're going to do for merchandise, touring, production" and I think this is how it can work out. I believe it works better as a passive participation, so the label participates in the distribution and some of the marketing. I would say that for established artists a passive participation is better and for new artists a more artist participation would be more suitable, just because they don't know the industry and they don't have the contacts. That used to be the role of the manager but now the manager is just connecting them to the label who has the ability to do the full 360.

**7) What's the artists' reaction to this new contractual form? Are they the ones who seek this kind of deal? Is it a contract that can be adapted to all artists?**

It's interesting, I think that part of the hype when they see these big artists who have it, out of ignorance, they say "I want that". My young artist at Berklee at first was like "Oh this is great, they are going to give me money for everything and it's going to be really big money" but then when they start to realise that traditionally the label only used to have their hand in the records and now they get more of publishing, touring, merchandise, etc., they may realise it's not the best deal, but I think that's the difference between educated musicians and non-educated musicians. Artists are aware of this contractual form, but when they come into the business I don't think they understand what it entails but it is certainly something they are bringing up in negotiations. I think traditionally the artist has always dealt with all these issues about publishing, touring, merchandise, etc. but it was something done more slowly in time, so I think the main challenge for them is to deal with all this at once when trying to negotiate a long-term deal and be able to speculate "how big is my career going to get in a year or two?", "Am I making the right decisions for the trajectory of my career?". It's a lot of decisions in such a small amount of time and I think it can be overwhelming for younger artists.

**8) Which are the most important revenue streams contemplated on the 360 deal?**

I think a lot of people would argue tour income. CD sales and digital sales are collapsing, digital sales are not making up for the overall performance of the label, it's the live touring. Part of the increase in the revenue for live touring has been because the average

ticket prices are just going up as an average of 39%, so there's not more people buying tours, it's just they're paying more to see those shows. For me, I think that's why we have to combine the tour plus the revenue from record sales and merchandise, but the thing I'm seeing it's growing the most is the placement of music in synchronisation licences, TV commercials or TV shows or independent or major films. That's where I'm seeing an exponential growth. I would say live and synchronisation are the most important components on this deal.

**9) How important are the relationships between artists and brands? How has this relationship evolved? How important are brands for artists and vice-versa? What motivates both parties to establish a partnership?**

I think it's excellent, one of the things we talked about at MIDEM was all these unique opportunities to work with brands, it's a natural progression between music and brands. I would actually scratch my last answer and say that brand partnerships and synchronisation licenses are the growth areas. I think tour will stay steady but I really do think that it's in these brands partnerships that we can find the natural fit when it's not forced and the artists are not only spokesperson for the brand.

I'll give you the example of Hard Rock Café: They presented at MIDEM a partnership with a band and basically they put the artist on tour in all their hotels and casinos, they put the artist's image in gambling tables, video placement in the Hard Rock Hotels suites, so there was a lot of cross branding and then they had the opportunity to play shows in all the Hard Rock venues around the world. This band made so much money, they weren't on the top of the charts, but they were making revenue. So for me, the branding partnerships are the growth area. If you can find interesting ways to promote artists through brands, I think it's brilliant. Brands are looking for innovative and interesting ways to explore their investments in music, at the Hard Rock deal they were trying to have the artist not only representing the brand but to work through the Hard Rock social media outlets and really being seen participating in the brand. I think that's absolutely what has changed, brand used to synchronise tracks as a one-off thing, but then there was no more participation, and we didn't see the artist interacting with the brand and its fans. With Hard Rock the approach was totally different, things have changed. It's a more long-term relationship, for Hard Rock I believe it was a 3-5 years partnership.

Also, on the artist's side of the relationship with brands, I think it's a must, you've got to have that, not only for the additional revenue stream but it's also another way to reach a fan base. It's an easy way, especially for new artists to have a voice and to be seen as someone associated with a certain brand.

I would say artists haven't been as important to brands as they are at the moment, but now I think it's a very symbiotic relationship. I'll give you the example of Swarovski, the jewellery company: They worked with an artist called Brisa Roché, they gave her creative control, and they put an entire campaign around her music, gave her rights to direct a video, they really were using her style to enhance their sales and create a stronger image for Swarovski. So I think nowadays, they really understand the value of an artist, especially with TV commercials too. You think about the new electronic dance music (EDM) artists, they are the ones who are creating the cool factor for KIA car commercials. A lot of the EDM artists are being branded as creating the cool factor for a traditionally uncool product, a car. I think the artists are absolutely becoming an inevitable and valuable part of the brand.

I also think there can be opportunities that are not branded properly and it can be abused or misused. I think we saw some of that in the 80's, when the artist was just really there, they were being used for products they weren't integrated into, it was a very short branding opportunity. I think nowadays we're really looking into more integrated relationships with the artists, the artist really believes in the brand, they want to connect with the fans of that brand. You're always going to have both types of branding, some better good, some better not.

**10) How do you imagine the recorded music industry in 5 years' time? Which format will it evolve to? Do you think that might exist some structural changes?**

I think that of course the digital space will definitely grow, brands partnerships are definitely going to be funding the marketing of the artist and also technology will also drive new portals of distribution. I think their distribution network and marketing will always be valuable. Even though it's moving very slowly and cautiously, I like to think they will become more integrated in the services provided to artists, like for instance Warner Music where they are trying to integrate some of these spaces. As a consequence

of the 360 deals, record labels will be turning into a sort of entertainment companies. I'd like to hope that it would happen something like the record companies providing more services and don't rely on outsourcing companies, but it will probably take more than 5 years. I'm not sure if that's going to happen until the guys at top management who are 60+ years old leave the companies, as I think they're so used to work as they have always done it. I think that's going to be more than 5 years from now.

**B2. Eduardo Simões – President of Associação Fonográfica Portuguesa**

**1) How would you define the current situation of the recorded music industry? Which are its main threats and opportunities?**

The current situation is not brilliant at all. Internationally we are starting to see some frank signs of recovery, this year for the first time a group of developed countries showed some positive evolution, which is very important to mention that they have taken effective measures for the protection of record labels, namely protection of sales and other forms of music exploitation through the Internet, specially the limitation of piracy, so I'm not talking about passive countries like Portugal, where the legislative inaction is absolute. In Portugal, the results are not good at all, the market is still decreasing in a double-digit percentage/year. I must mention that no one can blame the industry because of the lack of new talent, as there's a new amount of new talent much bigger than it existed in the past, due to easier communication through the Internet and social media. Some of them can even succeed in foreign countries, not only in fado (as an Intangible Cultural Heritage of Humanity) but also in other music genres. These are very positive signs and it gives us hope for the future. The recorded music industry lives by its own means, I have to mention that it is one of the few unsubsidized cultural industries. I do not see the future with optimism, but with hope, there is a lot of talent to explore. Portugal overcame the language barrier, the language is no longer a barrier to the exportation of our music.

I would say the biggest and only threat in the industry has to be piracy, because everything else actually can be considered as opportunities, such as the talent of the industry (artists, composers, producers, record labels) who have all requirements and knowledge to succeed. We cannot continue with this lack of legislation and the sense of impunity that exists in Portugal. The industry used to "chase" consumers for piracy, in Portugal we did it in 2006 and we realised that we can't fight piracy with spontaneous actions. We must get legal solutions that can minimize the piracy effect, by blocking illegal websites or file-sharing platforms, otherwise it's very difficult to quit from current situation of the market.



**2) How would you define the current music consumption? Which formats and trends are emerging?**

Overall, the music consumption is bigger now. Music is everywhere and in many more formats than in the past. In the past, we had music in radio, CD's and sometimes on TV. Currently, there is a multiplicity of ways to listen to music and even bigger access to music repertoire. I think music is going to be more consumed in the future digitally, specially using streaming services. The portability of music has changed, we can bring music everywhere, so there was a big evolution on how music is consumed these days. The recorded music industry dematerialized itself, the physical market will become residual with an equivalent size of the vinyl consumers today. These traditional formats will then be seen as a niche market and not as something to contribute to the industry's overall performance. With the internet we've seen the reappearance of the singles. The single was a dead format, as the price/quality relationship was not very interesting. The price was expensive and it wasn't advantageous for the consumer. The internet allowed a better price/quality relationship and the consumer joined the movement of buying singles again. Due to the possibility of buying the tracks individually, people now buy the tracks they like and are not forced to buy an album.

**3) How can record labels be relevant to music artists?**

I have to say that the digital market hasn't changed the role of record labels, as they still have to seek new talent, so this aspect hasn't changed. I think the most important part of the record labels' work hasn't changed. A "healthy" record company still has to seek talent before the competition does so. Youtube is full of talents that get no exposure. This idea of self-promotion is very theoretical. The role of a record label is still essential for the exposure of an artist, whether it is for the investment, the know-how for marketing a record and an artist. As an artist I may have many views on my Youtube video but no records sold, which happens with some famous artists.

**4) How does the need of the 360 deal come about for the recorded music industry? What's its importance for the label?**

During some decades, the recorded music industry had a very good performance, so there was no need to explore other sources of revenue. Before the 360 deals, starting from the 80's the industry has started to pay attention on the need of other revenues other than recorded music, such as performance rights. Recently, the industry has stated that it is the only investor of the artists, so it has started to negotiate counterparts on the music activities, such as merchandising, live concerts, autobiographies, etc. There was a need to find alternative sources of revenue, which is perfectly justified, because usually the record label makes all the investment for the artist, starting from the clothes they wear, the hairstyle, preparation of tours, so it was a natural step for the industry to require a share of revenues. The main importance of this contract for record labels is the fact than they can recoup the investment made on the artist in different streams. For new projects where there is a creation from scratch, the 360 deal will be the right option.

**5) Which are the main advantages and disadvantages of the 360 deal?**

Regarding disadvantages, I believe it's the investment, because it's wider now than the traditional investment – payment for the studio, musicians, instruments, recording, marketing. There's a higher risk, such as live concerts production, sometimes an artist with interesting sales might be a flop on live shows.

As an advantage, I would say it is the participation on the revenues from the initial investment. Also, the label has a more central role on managing the artist's career and it's a natural process, as it is investing in more areas of the artist's career.

For artists, these contracts are usually applicable when they are about to start a career, so artists only have to focus on what they do best, which is music. Also, if they don't have the means to invest on their career, the label provides the investment they need to succeed in other areas than recorded music.

**6) How does the label decide to participate actively or passively in the exploration of the artist's revenue streams? Are there any challenges involved for the record label?**

Let's say the artist may get a sponsoring deal on his own for a live tour. This way the label has a passive participation, as the deal has been negotiated by the artist. But if the label gets an amazing deal with iTunes or MTV, that's an active participation, or if the label books a live show for a great music festival.

These contracts make the record label to have a more active participation, as it's not limited to sell recorded music, having to adapt itself on the market and learn new know-how to explore the other revenue streams, as the marketing activities to promote live shows or other business units is not made in the same way as marketing recorded music.

**7) What's the artists' reaction to this new contractual form? Are they the ones who seek this kind of deal? Is it a contract that can be adapted to all artists?**

In two ways: if they are established artists, it's natural they won't be attracted for this contractual form. For younger artists, sometimes it is a good option for them. It is important to mention that some artists already have an album recorded and a tour set up, so they only need a traditional contract. In some cases, the artist has all the interest in this type of contract.

I don't think new artists are aware of this contractual form, normally we're talking about very young people which are about to start a music career. They know they need a contract which legally binds them to the record label, but they don't know specifically what it means. Usually artists have lawyers which take an important role on negotiating the contracts, which is something natural. As for established artists, I don't mean to say this contract cannot bring any advantages, but it depends on an evaluation for that specific artists and what it might be planned for the artist's career.

From the feedback I get from record labels, for brand new acts this contractual model is more used very frequently and for established artists it's usually used a more traditional approach. Contracts can include every wishes from each party and everything can be included as long as it's legal. It is essential for the artist to be paid and in both cases it is

assured. It is a personal opinion, but only when the traditional revenue streams started to decrease, that's when the industry started to look more closely to contracts. This type of contract is an answer for the rejuvenation of the industry and they are here to stay. These is not a casual phenomenon but it implies structural changes that have come to stay. If all of a sudden the market shows some more positive signs, I don't think record labels with change their contracts once again.

**8) Which are the most important revenue streams contemplated on the 360 deal?**

I would say it's the live concerts and artist's image rights. For more famous artists, the image rights are fundamental. Regarding live shows, they generate more money than recorded music sales. At the moment, for artists in 360 deals, that's where the biggest part of the revenue comes from. In some other cases, due to the artist's popularity, there are more options to associate the artist's name and image to other ventures, such as brands. The most promising streams are related to the live concerts and the artist's image rights.

**9) How important are the relationships between artists and brands? How has this relationship evolved? How important are brands for artists and vice-versa? What motivates both parties to establish a partnership?**

We can say that brands are increasingly working more with artists, even though it's not something new. The relationship between brands and artists has started some years ago when the artists themselves registered their own brand as industrial property. Even the name of the artist or band was a trademark. Back then record labels were not very involved in this area, and the 360 deals allow them to take a more active role on exploring the relationship between brands and artists. This relationship is an opportunity to complement the exploration of a record or a career. I think this has opened more possibilities for the association of artists to brands and vice-versa. This results in brand investments for artists that sometimes record labels can't afford to do. If there's an association of an artist to a brand, it is often possible to make a TV campaign and it wouldn't be possible to be done if there was any association or it would be possible but with less GRP's. There is a mutual help between all the parties. Brands are now more

interested on having the artist to be involved with the brand its followers. There was also a change in mentality, as 25 years ago most of artists didn't want their music to be synchronized in a TV ad, now they look at the subject with a different perspective. I remember to read an interview from Moby in which was said that he made a record with the intention to associate the record to different brands worldwide. There has definitely been a change in mentality, artists now face brand partnerships as an opportunity, as they get exposure for new audiences and money. Actually, without the 360 deals, it would be very difficult to explore this kind of revenue streams, as the image and name rights are one of the most protected rights that it exists. It's a leverage of diffusion of an artist and its work. Brands have a fundamental role on contributing to influence the tastes of consumers. If a person likes a brand and that same brand synchronizes a track on a TV ad, the consumer may like that same song.

**10) How do you imagine the recorded music industry in 5 years' time? Which format will it evolve to? Do you think that might exist some structural changes?**

What a record label does today is what they will have to do in 5 years' time as well if they want to stay in the business. The 360 deals are resulting into the exploration of other revenue streams and therefore it may evolve from being less record company to a more entertainment company. It may evolve very soon in this way, so the company has more integrated services than they have today, I think it's an interesting perspective. Other factors may change this perspective, but I do think it's a possibility to happen.

### **B3. João Teixeira – General Manager at EMI Music Portugal**

#### **1) How would you define the current situation of the recorded music industry? Which are its main threats and opportunities?**

The recorded music industry is one of those which have suffered the most changes in recent years. Everybody likes music and everybody is still consuming music, actually more is music in now consumed than ever, the problem is how to create value, there is a change in the music consumption paradigm. In terms of the amount spent on entertainment, music has clearly lost a huge value. In terms of an essential commodity in entertainment and culture it's still untouchable. Why? In cinema, soundtracks are important for a movie to be good, advertisers are more demanding on which song they want to feature in an ad, festivals are getting more popular. Music still has an enormous equity as a cultural commodity. It loses in value, but it doesn't in consumption, also I don't think music has ever been so consumed as it is now.

Formerly, only in physical formats (and we had already physical piracy) and today people consume through physical and digital formats, having access to music is more important than owning the music, back then it was important to own it. Even those who didn't care for ownership had to own it. The digital era revolutionized the type of consumption and the way people own it, but there is also very important: music is part of the entertainment industry, some years ago entertainment meant go to football games, to the cinema and listen to music and the budget available for entertainment was enough for those. People didn't travel often and very few other things were done. These days, the available budget for entertainment must fit all of those, but also for travelling, cell phones, videogames and many other things. The budget for entertainment didn't stretch, and also due to piracy, music was one of the main things people stopped to spend money on. They spend it on Internet access, in hardware, cell phones and people started to consume music in a way which is not illegal, because the upload is, but the download isn't, but besides laws against piracy there isn't neither a legal or moral censorship to consume music illegally, as people know they are consuming in a way that doesn't remunerate artists, authors and producers. Also, the sound quality stopped to be considered as something important. Music used to be something related to sound quality, today accessibility is more important than that. All these aspects together have resulted in a massification of music consumption and a drastic reduction on monetisation. The problem has been now on how to monetise investments,

besides being an affected industry, is the one who most invests in artists by far, not managers, not agents, not brands, record labels are the ones who invest the most in artists. So we're looking into ways of hard-bundling consumption like Spotify, Music Box and similar services. People don't pay or pay very small amounts for it, also pay it as something integrated in other services. Even if they pay small amounts but if it can be massified, it may be more profitable. Massification can be seen as an opportunity.

**2) How would you define the current music consumption? Which formats and trends are emerging?**

There are different types of music consumers. Older consumers are still consuming and wanting to use CD's, Portugal is still a market of physical format, fado style is currently being very acclaimed and this target also buys the physical format, which has been reducing on its price, we can easily go to FNAC and find CD's at 5€. Then we have the gadgeteers which are early innovators and have to fill them with music content bought through legal means. There are also the pre-cash: music is very important for them, they don't have credit cards, so they have to find ways of consuming music, through Youtube and piracy. Each person consumes music according to his experience, his age. More and more people consume tracks rather than albums but the album, which was considered as being done, is still something very important. The recorded music industry thought the album was gonna disappear with iTunes, the iTunes itself regulated that contents on sale had to be available for sale track-by-track, but the album generates more gross sales than track-by-track. Also, people want to have access to music wherever they are, they don't want to pay for it or only pay as little as possible, handling is more important than sound quality, something which is easy to use, search, create playlists, share, so music consumption is now very heterogeneous. The live music consumption has been growing for two reasons: More companies have invested in live music. new investments in activation from new players and brands which realised that when people are having a good experience they are closer to a brand and people's subconscious relates to that. I'm not even sure if we aren't oversupplied. Also, the artists themselves which realised their income dramatically being reduced – labels have lost a lot of money, but when labels lose it, artists do as well – and many of them used to do smaller tours or live from royalties, so to maintain their lifestyle they have to increase the duration of live tours, as the income

from recorded music is much smaller. There's more supply, more demand and more investment. The maximum experience is and always was live. As a rare experience, an artist can't always be with his audience. Actually, the recorded music industry started one century ago because if people wanted to listen to an artists, they had to be with him. Music is 5000 years old, recorded music is 100 years old. The supreme experience is live, the contact with the artist, but I am sure people aren't consuming music live the most, based on the number of hours radio broadcast music, the number of hours people have access to music. Actually when people go to live shows, they have already listened to recorded music from the artist. If they haven't, they wouldn't go to the live show. The recorded music consumption is much bigger than live music consumption.

I think people will more and more use music streaming services, radio has realised it can't have only music. Spotify now with Spotify Radio, you may chose a music genre. A certain song gets played and you may click 'Like' or 'Unlike', I'm formatting a radio for myself, tomorrow when I get to listen to this radio again, the songs that get to be played will get closer to my music tastes, so this is a fantastic competition to traditional radios. Radios usually do call-outs to see which songs people like or dislike, in this type of radio we do the call-out ourselves. I think streaming will get a very important role in the future and music will be heard it multi-platform and in a customised way, cheaper or even free, more hours. Quality is not important, but the access is. There's more people listening to music and what they really want.

### **3) How can record labels be relevant to music artists?**

For people to keep accessing music, record labels still need to exist. The most important role on record labels is not only the investment, but the know-how, the experience of selecting what can be successful. What's the best media to use? A certain media may ruin the artist. What kind of marketing campaign should be used? Which repertoire the artist can sing? We learn with failures and success. We're in Portugal for 30 years now, things may not work when we think they do, there's a certain uncertainty on what may work or not. I think the best proof of labels being relevant, besides investment and our know-how, is that artists still come to us.



**4) How does the need of the 360 deal come about for the recorded music industry? What's its importance for the label?**

The recorded music industry used to live comfortably from the reproduction and sale of its recordings. As a growing market, the recorded music industry never felt the need of having other sources of income, even some of them were already regulated in the law. As a rich industry, we don't look at other opportunities. People used to buy vinyls, when the CD arrives, people buy it in CD format – with this technological evolution, the recorded music industry was artificially enriching, and it wasn't creating more artists but selling the same ones in different formats. With the decrease on revenues from CD sales and growth of digital piracy, the recorded music industry reflected on the following idea: the industry creates brands, some artists turn into brands because there were investments in labour and money done for their talent turn into brands. That brand attracts many investments that sometimes are much bigger than the ones visible on return of the investment. For emerging new artists, not the ones who already have their brand, the industry had to say: "I invest in you, but for me to invest on you in recordings, marketing, music video, etc. the market won't remunerate me as it did before. When you get to have live shows to perform on, brand partnerships, sell image rights, we get a percentage".

This is still something in early stages. The most important music artists still don't have that kind of contract, as the logic of "I'm gonna make you a brand" is not applicable to those which are already a brand. It is still something in small amount, but it is growing year by year. For the Portuguese artists, we constantly have more artists under this type of contract, and as those artists develop themselves, those revenues keep growing. As for international artists, many artists are turning into this contract as well. It is important for us to feel encouraged to invest on them as well, as for the artist is also important to have someone to do something for him and get a percentage for that and we do the same for the companies abroad which are investing in our artists. The percentages aren't big, but while the recorded music sales drop, these percentages are constantly increasing and I believe they will have a very important role in the future.

**5) Which are the main advantages and disadvantages of the 360 deal?**

The disadvantages of this contract for the Portuguese record companies is to make an active partnership, meaning the delivery of a complete service. That's a disadvantage for us because of our dimension, if we have artists interested in a contract like that, we would need a team specific for those tasks and we would lose money. We would need a lot of artists, their careers would need to be successful. One day it may happen, we just need to start it and it may still be a bit early, probably when we get to have 90% or 100% artists signed to this type of contract it will be worthy. The main disadvantage is the company dimension. In Spain it is a common practice, because their dimension allow them to do it. The main advantage for us is to have a partnership with the artist, we're more connected to the artist, we help the artists on their marketing campaigns for live shows, we engage more with the artist in everything and that is also an advantage for the artist, the extra income is an advantage for us. Back then we used to take care of the recordings, their manager and agents took care of the other things. There's more engagement now on when to release the record, when to make a tour, the layout of the show similar to the layout of the record. From our perspective, the disadvantage is on when we can turn into active partnerships instead of passive partnerships. From the perspective of the artist, there may exist some fear, which I understand, that he may perceive "all the eggs are in the same basket". (...) If we have all business areas integrated, we are able to better manage the artist's career than if we only took care of a certain part of it. Sometimes an artist is about to go on tour in a certain day but the new record is delayed, which results in a release date in the beginning or during the tour, which doesn't make sense, there has to be time for the album to be heard and be successful and then the artist should go on tour. Each parties take care of different aspects and then things don't work the best way (...). For the record label, we then get other sources of income and make the most of them. If we control and make the most of them, the artist will more likely succeed, more ticket sales, more records sold, because there's someone interested on making everything grow and at the same time take advantage of it.

**6) How does the label decide to participate actively or passively in the exploration of the artist's revenue streams? Are there any challenges involved for the record label?**

The passive participation means to invest in the music and we only receive a percentage of the income, the manager reports the earnings of the other revenue streams and he pays us according to the percentages negotiated. In the active participation, we take an active role, we become agents, we sell the artist's shows, we promote live shows and then we get a higher percentage of income, as we are more involved and have more tasks to do. The active participation will also be more beneficial, if we can have a proper structure, through a specific department or companies owned by the record label. I think no other Portuguese record label has the structure to do it yet. EMI in Spain has EMI Entertainment, our artist Carminho performs her live shows in Spain through EMI Entertainment. Warner Music has bought a tour promoter company called 'Get In', the biggest promoter company in Spain. Even the Madrid's bullring is concessioned to Warner for live shows. The first step is to share income from a certain business, because we contribute to the creation of brand. The next step is not only share a percentage but to go into that business.

**7) What's the artists' reaction to this new contractual form? Are they the ones who seek this kind of deal? Is it a contract that can be adapted to all artists?**

It just has to be, it's the future, otherwise we can't have the level of service they desire, neither we can't invest what they want, we can't provide the service they want, they end up not being what they want nor reaching the level they want. We have to share, so we can have more availability to invest. These days it's a standard on the market, the majority of the artists are signed under this contract. Even though the artist is signed to a contract with more revenue streams, it doesn't mean his attitude is going to change and that we can force an artist to do something. We can't work against the artist. He's the one who sings and performs, we aren't. Then we also have the artist's moral rights, it's not because we have a contract with the artist and we can get a partnership for a detergent that the artist will have to be associated with it. They have the right to oppose themselves, justifying why they don't agree. The artist is always allowed to say 'no'. What changes

the most is for the managers, as he partners with the label or he simply doesn't exist, as there is one more partner to work and share revenues – the record label.

**8) Which are the most important revenue streams contemplated on the 360 deal?**

The live sector is the most important, then publishing and brand partnerships/image rights, which is something it may happen but it's not common on a daily basis. It may happen, but there are artists which have an entire career without them and some may be approached.

**9a) How important are the relationships between artists and brands? How has this relationship evolved? How important are brands for artists and vice-versa? What motivates both to establish a partnership?**

EMI develops market studies for each artists and the affinity the artist may have with certain brands, the affinities each artist has with an audience and the brands that can identify with the artist. I think that there are partnerships which are interesting to us and can leverage the artist and others are just a source of income and may destroy the artist's image. As we manage artists' careers on the long term, we often don't want to make a certain partnership. We are up for partnerships when the consumer identifies a positive association for the artist and has a positive impact on the artist's career. If the label is responsible for getting a certain partnership, it will get a much better percentage of the income. Our contracts allow us to have active and passive participations, so if the partnership is negotiated through the artist, we'll get a much smaller percentage. If there's a positive affinity between the artist and those which like brand, it's a win-win situation. The artist's profile may increase on status, the artist earned some money and the brand received the return on investment. If it's not a good association, the results are negative for everyone involved. It needs to be reflected.

These partnerships are still something very new, as record labels didn't have image rights in the past. Traditionally, labels only had the artist' image rights associated with the recorded music's exploitation, labels didn't negotiate image rights in the past. As we

didn't have the rights, the deal was first negotiated with managers and then if sound recording were necessary, then the record label would be approached for a synchronization. This is something very recent in Portugal, it started 2 years ago. When we feel the need to do it, we develop a proper study for the affinities with the artist, which brands can be approached and then we take an active participation (...). This is all part of a new world of record labels. I remember in the 90's to go to meeting in the U.S.A. and see they were constantly doing market studies of the artist's image, like politicians do. They are constantly doing it. So, at first managers were doing it with a passive participation, a certain brand would contact them, advised by advertising agencies who already have those kind of studies, to negotiate how much and what the artist needed to do. As we're having the rights to do it now, we are going to try to do it on a more professional way and actively, managers have never done it actively. Brands normally seek for the music, every month we have brands requests for synchronisations. We also have in less extension the request of image rights, but there's more competition, as we have sports and TV personalities, many people competing on image rights. An advertising agency will talk to a certain brand's marketing team, showing up their analysis on different people to use their image and reflect on which one who fits the most. So now we're doing it the other way around: we provide the studies and we approach brands saying "we have this research saying our artists has a lot of affinity with your brand, let's see how we can explore it". Brands who explore brand activation invest more in festivals. It's harder to get brand support for an artist's tour than to music events, that's why we have many festivals, as they can get money more easily. So when we can get it, what can we give in exchange? An artist may have to appear in two or three ad spots, private events from the brands, brands itself may be able to synchronize tracks from the artist on their ads, the brand gets a certain amount of tickets with meet-and-greets once there is a live show from the artist. It's a matter of playing with creativity, "the tickets have to include the brand's logo", the brand will try to get the most of it and the artist will seek for the lowest possible compromise to the brand. It's a matter of negotiation.

**9b) So would you agree on Brands want an emotional connection to their fans and therefore they use music and the artists themselves to combine that connection and amplify the brand's message?**

Exactly, it's something that it's growing, brands have realised that using music on TV advertising was not enough, because the emotional component is very important.

**10a) How do you imagine record music companies in 5 years' time? Which format can a record label evolve to?**

I imagine in as an industry of more rights and less objects. It will be essentially an industry of rights and not of products. We still have warehouses, distribution chains, devolutions, sales, trades. It will be an industry of rights in any form. We will sell rights to public performance, synchronisation and image rights, we'll make brands that have a goodwill. We'll be more close to publishing companies, we'll make brands and sell rights of those brands. In terms of structure, I think it will change as well. Selling albums to stores will reduce on importance, brand partnerships will have increasingly more importance. Image rights, synchronisations, brand partnerships, public performance. The traditional component of selling products will decrease in importance and it will be reflected on the company's structure.

**10b) So record labels will have available a larger number of services for their artists...**

Yes, the immaterial and intellectual component of the artists is more important than the physical component, the sale of physical products.

**10c) Are labels turning into an integrated management of the artist?**

Yes, the artists and his intellectual heritage.

#### **B4. Miguel Birra – New Business Manager at Sony Music Portugal**

##### **1) How would you define the current situation of the recorded music industry? Which are its main threats and opportunities?**

The paradigm in the market has changed because of different aspects. First cause: the fast and cheap access to broadband connection allows sharing of contents we used to control to a very significant number of people that have started to download our contents, thinking they can do it. This started to happen in early 2000. Before then, we already suffered of two types of piracy: physical piracy sold at markets, a lot of domestic piracy. Piracy has always existed. There's an old saying in the industry which is "If you can hear it, you can copy it". The problem arises when piracy reaches the high level it has now, since the last decade I would say, being very easy to be accessed and democratized and it turns into a trend. Second cause: The Portuguese market has become less anglo-saxon, people are now massively consuming Portuguese music, as songs are played in soap operas, younger generations aren't ashamed anymore of listening to Portuguese music, also Portuguese bands sing more in English now. The economic crisis also contributes for people to invest in some music products – I say 'some' because they spend more and more in live shows – and they spend more in live shows because they don't spend their money in the products we used to sell. By existing more interest on Portuguese music, there's also higher investments from Portuguese record labels in recording, marketing, distribution, etc. As the industry spends more money, there's a need of recouping the investment with more sales and many times this doesn't happen. All these factors aligned with the growth of the live shows and more offer, people have now a lifestyle which allows them download and share our contents – in the formats we sell and which we were trained to sell – more and more illegally downloaded and shared, so people save money for other things, whether it's for t-shirts or live shows, actually it's more for live shows. Also, record labels also lost some relevance on the market, maybe because of democratization of the Internet, which I don't think it's a problem. The information was much more channelled through record labels back then than it is nowadays, all the information regarding the artists, release dates, etc. These days all the information is spread everywhere and the media doesn't have to approach us to interview and get information from the artists anymore. Also, it's interesting to mention that bands have started a movement of 'do it yourself', as they think record labels have too big structures and take them a lot of money, so they

think they can do it on their own. This movement has made bands starting to contact directly sponsors, making live shows and recorded music and contacting media on their own, substituting the work of record labels which also consisting on managing the communication between artists and media. The recorded music industry is in a point of extreme change, the current state of the industry can't be said to be fantastic, as in about the past 8 years all the record labels have been downsizing themselves, and if a downsizing is not applicable, then salaries are renegotiated, new conditions for employees are applied and so on. If the industry was growing, nothing like this would happen. Record label's performance is not the same at all compared to 10 or 15 years ago. The market is not growing on itself. The only segment growing are digital sales, which still doesn't compensate the losses of the physical sales. So labels are now developing services which were not provided before, "refreshing" the offer they can provide to artists.

**3) How can record labels be relevant to music artists?**

It's the know-how we have, advice we can give, all the bureaucracy, legal and financial approach we can give, all the services and opportunities provided and amplify the message of the artist. Even if they are entrepreneurs, they will have to be successful in order to continue to have their career. As a record label, we amplify the artist on the market, that's what we have always done. The approach might be different from what it was 10 years ago, but this happens to all industries. The movement from artists managing their own careers are actually those who have been on record labels or similar companies during many years, making them grow. Something has happened before the moment they decide to do it on their own.

**4) How does the need of the 360 deal come about for the recorded music industry? What's its importance for the label?**

It's a reflection of today's situation. We now need to have other revenue streams that were not explored before, the 360 contracts reflect the intention of such desire, it's a vehicle to materialize this need. The need of a 360 contract appears because the revenues on recorded music industry have decreased and at the same time we started to have more structural costs and for contracting artists. We didn't do it because we didn't have the



need to do so, we didn't have the know-how and our approach to the market didn't reflect other business units than the traditional approach. Also, due to the "do it yourself" movement, artists have started to distance themselves from record labels, so we have to figure out how to be closer to artists, make investments on innovative communication, whether it is for social media, applications that meet the artists' needs, which can prove we can be helpful on communication and investment for artists. It also arises because of the fact we need to be more "sexy", we need to be more attractive to keep artists with us. The term "artist" doesn't only mean to sell CD's and sell music, some artists are "characters" who happen to sing, but may make more as TV presenters, radio DJ's and so on. We are becoming much more "entertainment". Artists are becoming more receptive for the record label, as they understand we can provide them more services and our new identity and new opportunities within the recorded music industry. It also has financial impact, because we have new revenue streams from areas we didn't receive from before, such as live shows, sponsorships/endorsements and also for managing the artist's career ("management"). Gradually, the impact of these contracts, in my opinion, is this new identity we are trying to create for ourselves and to be recognized on the market and it begins to create interest for artists, looking at record labels as someone who can deliver interesting value propositions and manage their artistic career. It is a consolidation of this new identity and positioning for record labels, artists should look at us as entertainment agencies who can provide them services that they don't want to do or they don't know how to do: accounting, production, recording, new business opportunities, etc.

**5) Which are the main advantages and disadvantages of the 360 deal?**

Regarding disadvantages, there is an initial resistance, the first impact and negotiations of the contract with the artists or their managers. There is also another disadvantage which I don't consider it as a disadvantage, which is the responsibility this kind of contract brings to the record label. I also have to mention the record labels' small structure, as we usually have to use outsourcing of services. As we outsource, we may lose some control and we have to share our know-how.

As an advantage, even though it depends on the artist, this contract allows the record label to work on other business units which can be profitable.

**6) How does the label decide to participate actively or passively in the exploration of the artist's revenue streams? Are there any challenges involved for the record label?**

The record label, despite an active or passive role, plays an important part on participation, as the label supports, communicates and creates the positioning of the artist on the market and more and more we will also take an active participation on exploring other revenue streams from the artist.

**7) What's the artists' reaction to this new contractual form? Are they the ones who seek this kind of deal? Is it a contract that can be adapted to all artists?**

New artists have a positive reaction, as they are starting a career and their motivations are different from an established artist and so are their expectations. They also don't have any history and they don't understand how a record label works and also they don't have many options, as currently new artists are normally signed under this type of contract. For established artists with 10, 20, 30 years of career, they will turn into this kind of contract, only if they haven't been successful in the past, otherwise it is not that easy, or the record label really needs to justify the investments that are going to be done to get other revenue streams from the artist. There are three different types of artists: baby acts, developing acts and established acts. For baby acts, they already have an idea about this contract, as someone has told them about it and they are interested on understanding how it works. Developing artists are those who have previously been on a contract and they are more curious about profits and losses, they make more elaborated questions and are more careful regarding the future of their career. For established artists, as I mentioned, it really has to be enhanced the potential to have this contract, if such thing is applicable. Let's say that if a record label wants a percentage of another revenue stream, then probably the label as a counterpart will have to increase the marketing investment for a certain artist.

**8) Which are the most important revenue streams contemplated on the 360 deal?**

It depends on the artist, the investment made on the artist, his profile and what he is worth on the market. It really depends on the artist.

**9) How important are the relationships between artists and brands? How has this relationship evolved? How important are brands for artists and vice-versa? What motivates to establish a partnership?**

Bands need financing, labels also need some financing because they have less money to invest and also less revenues. It's not like there aren't any advantages, but I don't believe any record label would seek for brand investment if they could invest, recoup and make money. On the other hand, it is interesting to work with brands, as brands work for the masses and some of their know-how may be applicable to the music business, as their products have different turnovers and life-cycles than ours, so there are some best practices that we learn and may apply to our business. Also, working with brands is not only about the money, but three factors: as already mentioned, the know-how we can get from them, the brand values those brands transfer to our artists and the marketing savings we get if a brand promotes our artists. We work with brands because we are looking for financing and money that compensates the money that we used to make and no longer do nowadays. As a personal opinion, I am almost sure that if one day the recording music industry can make revenues as interesting as the ones in the past, no one will be seeking for brands support as it will not be needed anymore and the record label will return to its core competencies: to seek, develop and sell talent in the formats we master.

As for the interest for brands in music artists, they identify the music content and entertainment as something very related to people's lifestyle. People value music a lot. Also, through market research, brands are increasingly more aware that usage of music associated with brands is a good combination, as the rate of recall is high, the values association is interesting and the brand activations are much more creative and original and are unique experiences associated to music, which I think overall it turns to be a good investment.

**10) How do you imagine the recorded music industry in 5 years' time? Which format will it evolve to? Do you think that might exist some structural changes?**

I can see two ways: the first approach is that record labels will turn into creative and communication agencies, which will continue to seek and develop talent and at the same time putting more effort into conceptualising and advising rather than doing and we have the right channels to take artist to success. This company will be then more focused and

specialized on entertainment and development of entertainment products and experiences, much wider and not only strictly focused in recorded music. Also, we may distinguish record labels who are connected to hardware companies (like SONY Music/SONY) and those who are not. Those who are connected to hardware companies will always have different goals to those who are not connected, as the first will always have to create products which are related to the hardware. Therefore, these products have to help on creating trends and make people buying hardware.

The second approach is that if piracy decreases and the revenues of the traditional products – seeking, developing talent and making the output of such talent in whatever format – if we get to have more revenues from the distribution on these contents, I believe we will get back to what we were in the past, 20 years ago – music specialists. When an artists wanted to develop a music career, he would come to a record label. This has always been our essence and our core business.

## **B5. Paulo Junqueiro – General Manager at Sony Music Portugal**

**1) How would you define the current situation of the recorded music industry? Which are its main threats and opportunities? 2a) How would you define the current music consumption? Which formats and trends are emerging?**

I think music is now more consumed than ever. It has never been so easy and portable to listen to music in any place and situation in so many devices, from radio to cars, cd' players, mp3 players. The possibility of listening to music and its portability is a major breakthrough. The recording music industry has suffered very much over the past years and it had to readapt and reinvent itself. Last year, for the first time in many years, the industry has grown compared to its previous year and I truly believe that with these new contractual forms and new ways of commercializing music the industry will keep on growing, as there are new formats to market and monetize music. Artists still need record labels, otherwise they wouldn't exist now. Speaking for myself and this company, we have more and more artists wanting to sign with Sony Music.

Some people would consider piracy as a threat for the industry, but I don't see piracy as something static. Piracy exists for many years now, first in cassettes, then in CD's and currently in digital form. It has always existed.

Regarding opportunities, the music scene has changed so much, many new music platforms are arising, such as streaming, which I believe it's here to stay. People don't have to buy and save the content and have access to millions of song with a simple subscription of the service. I hope in Portugal it spreads quickly and massively, but in some countries like Sweden, with 11 million citizens and 1.7 millions are already subscribers of Spotify. It's so much simple, it's cheap and people can have access to 24 million songs, no virus, it's possible to create their customized playlists, it is user friendly. Having easy access is more important than sound quality, people don't care anymore how a song sounds like as long as they can hear it quickly.

**2b) What about the live sector?**

There's no crisis on the live sector. The live music consumption keeps increasing, there are more concerts and festivals, more options and more niche markets for live music with different thematic festivals: flamenco festivals, fado festivals. This diversification on the

offer reflects the demand for live music consumption, the world is very small, there's more information available to check and exchange. As there's more information available, more people want to consume. As there's more willing to consume, there has to exist more offer. Also, the biggest difference between consuming recorded music and live music is that when people are consuming live music they are living an experience. People don't go to festivals only for the concerts, even though the concerts themselves are an experience. You see your idol performing for you.

**3) How can record labels be relevant to music artists?**

I think the best way for record labels to start a relationship with an artist is before an album is done. A very talented artist doesn't need to have the ability to market and promote himself, so when the record is on the making that's when the record label has to come on board to give an opinion and guide the artist on the best way possible, which doesn't mean that the artist will do what the label says so. As I mentioned earlier, many artists want to sign and collaborate with us, especially for the investment, know-how resources we can provide them and the access we have to the market, whether it's physical or digital stores, brands, media, everything. As earlier as the artists starts a relationship with the record label, a better output will be created.

**4) How does the need of the 360 deal come about for the recorded music industry? What's its importance for the label?**

Some years ago, people didn't talk about the 360 deals and record labels didn't even think on the possibility to have other revenue streams than recorded music. The market was so big that there was no need for it. The artist used to sign a deal with a record company to have access to recording, a good producer, good marketing and even better distribution. Those were the services included on a traditional record deal. Why? Back then there were only a few recording studios, it was very hard to record an album and the studio rental was very expensive. Only record labels had the money to pay for it in advance. Also, record labels had access to famous producers, so this was the basic offer that record labels had for artists. Once the album was ready, the label had a marketing team to market the record and that was it. Other than that, managers would take care of other aspects. So back then record labels didn't feel the need to get other revenues streams and didn't have

the need to state “We found and invested a fortune on this artist, so we want all the revenue streams that this artist may generate”, we simply didn’t think about that and we didn’t need it. There were actually very few businesses with higher revenues than record companies, there were no talks about 360 deals at all. Also, when the illegal music softwares like Napster started to spread, the music industry rather than thinking on how they could adapt to such environment decided to take legal actions against them, actually it was something that couldn’t be fought. I include myself on that, as I was there and I and many others should have thought more carefully about what we could do with these new platforms, giant platforms that probably were already bigger than us. So with the devastation caused by physical and digital piracy, record companies realised they couldn’t function strictly as record companies anymore, but as music companies providing integrated services to the artists. That’s when contracts with more amplified rights came about, which included management rights, live rights, and sponsorship rights, etc. The digital era allowed studio rentals to be cheaper, people can now record albums at home or cheap studios, producers and sound technicians multiplied themselves, so artists became more autonomous but at the same time they still need some services they can’t get by themselves. That’s when record labels realised the need to be service providers and format 360 deals, having almost every rights of the artist’s career.

The 360 deals are fundamental for record labels these days, very few record labels will sign artists from scratch with a contractual form other than the 360 deal. Record labels still sign traditional deals with established artists, having no diversified rights but they don’t have the same obligations. From the moment a record label signs an artist from scratch, the label will only sign him under a 360 deal, but if it’s already an established artist with everything done and only in need of marketing and distribution, the record label will hardly get any other rights. It’s a matter of analysing and making some maths, so we can see if it’s a win-win situation.

##### **5) Which are the main advantages and disadvantages of the 360 deal?**

The advantage for the record label is the opportunity to find, discover, develop and get diversified revenue streams from the artist, which was developed by the record label. The investment is always made by the record company. When the artist makes money, the record label deserves to get a percentage from the revenues, as it was the label who

believed and invested in the artist. As for the artist, he will need a record company because of the know-how that can be provided on amplifying the artist to the market. If a record label provides a good service to the artist, then the artist gets all the advantages on sharing a percentage of the revenues with the company.

Also, there's a difference from the Portuguese market and some of the biggest music markets. Some record labels in other countries already have integrated Management, Live and Business Development structures, in Portugal the structures are very small, and so they still can't provide these services. So with the 360 deals, even though record labels have the full rights from the artists, we normally outsource some services. In some markets, record labels already big structures with more integrated services, as the market is more profitable. In Portugal, we assure the rights but specially live and management get to be outsourced, always chosen according to the wishes of the record label and the artist. I believe in the future the record label will be outsourcing less services and will become more integrated and specialized in the different business units.

Regarding disadvantages, I can't see any. These contracts are an evolution from the traditional models, as a result of the need from record labels to get other revenue streams.

**6) How does the label decide to participate actively or passively in the exploration of the artist's revenue streams? Are there any challenges involved for the record label?**

Record labels play a more active participation according to their structure, so if a record label has already a significantly big structure, it will be more active. If the structure is quite small, then it will be a more passive participation. Even though we can participate in all the revenue streams, the artist's career is managed between the management team and the record label, so we might have a more passive participation if it happens this way. It is not something that it's defined in the contract, as we can have both types of participation.

**7) What's the artists' reaction to this new contractual form? Are they the ones who seek this kind of deal? Is it a contract that can be adapted to all artists?**

Artists have a good reaction to this contractual form, because if they don't want to sign this type of contract then they won't even come to us. So far we haven't had any



discussion regarding this type of deal, as it's something getting established in the market. A few years ago it was something new and the artists would just say "No way!" but as time goes by, artists realise they still need record labels, support, ideas and know-how they can't get anywhere else. As the recorded music business has changed, so has the mentalities of the artists.

In the same way that this business has changed, so have the mind-set of the artists. But we can't force artists to do something they don't want to. No contract will force, for instance, an artist to represent a brand if he doesn't want to. If an artist says "a priori" that doesn't want to represent any kind of brand, we only may suggest the partnership as it's an excellent opportunity, but I've never seen an artist signing something that he didn't want to. But these days are also more receptive on signing other deals than recorded music, we can see many worldwide famous artists sponsored by brands.

**8) Which are the most important revenue streams contemplated on the 360 deal?**

It depends on the artist. As more popular the artist is, more likely he will be successful in all the revenue streams, but some labels are actually getting much more revenues from live concerts and brand partnerships than from recorded music, so I would say those are the most important.

This contract is more advantageous for both the record label and the artist, otherwise they wouldn't be signed.

**9) How important are the relationships between artists and brands? How has this relationship evolved? How important are brands for artists and vice-versa? What motivates to establish a partnership?**

Music has always been something very attractive for brands. Product placement has always existed, from movies to music videos, etc. but artists had to be successful at first for it to happen. In 007 movies always had big artists singing their theme song. Nowadays, record companies do it "a priori", there are already specific departments within the company looking for brands to show them their services i.e. the artists, whether it's

through advertising agencies or directly to brands. Record companies are now more professional on trying to meet brands and show them their artists, even though they may not still be very famous. It's a bilateral relationship between the parties, as brands seek artists to leverage their marketing campaigns and brand goals, as record labels also seek brands to expose their artists. There is more interaction and willingness from both parties. It is also positive for the artist to be sponsored by a brand. It is not only about the money, because if they interact with a brand who fits their profile, the artist will get benefits from that association. A 'cool' artists wants to work with a 'cool' brand, it is beneficial for both of them. People who like the brand may like the artist and those who like the artist may like the brand in the end. If the match is done in the best way, both of them will achieve some benefits.

As for record labels, our role will mainly be to point the artist in the direction of the right brand for the right 'price' and get a percentage on that revenue stream. Also, the exposure an artist gets from a brand may also be reflected directly on other components, such as the sale of the recorded music. Also, in brand/artist associations for established artists, people immediately identify what artist is. As for emerging artists, people may be curious about who that artist is, so it will necessarily result in recorded music sale or streaming. I don't think we can apply it to Portugal yet, but streaming services allow people to search for the artist and listen to his repertoire. It's the same with brands. Let's say that I'm buying a wristwatch and the artist Justin Timberlake is using it on in-store advertising, then I listened to Justin Timberlake on the radio and I'll go on a music shop, it may result on buying the album. On the other hand, a person who listens to Justin Timberlake has unconsciously seen him wearing the wristwatch may remember that wristwatch in the future. There is a positive association between both parties.

**10) How do you imagine the recorded music industry in 5 years' time? Which format will it evolve to? Do you think that might exist some structural changes?**

I think record companies will still exist with competent employees that can help the artists on better explore all the business opportunities that may arise. The live sector and sponsorships will keep on growing. The industry will still move forward and keep on growing, learning with the mistakes from the past. We may integrate the outsourced services in the company and become more about entertainment, actually in some

territories Sony Music has 'Day 1 Entertainment' integrated for management and live shows production. Due to our small structure, we can't have a 'Day 1' structure here soon, but if the market keeps on growing and we may structure the company for these new business models, we'll surely integrate these services in the company.

## **B6. Susy Lorena – Label Manager at iPlay - Som e Imagem**

### **1) How would you define the current situation of the recorded music industry? Which are its main threats and opportunities?**

The recording music industry has been “healthier” before than it is now as an industry dedicated to sell recorded music. People have stopped buying records for different reasons due to some factors as the economic evolution, the devaluation of recorded music. In the past 10 years it resulted in a huge loss and reduction of job positions. Due to economic factors, people consider music a luxury and they focus mainly on the basic needs. It’s a tough time for the industry. People are buying less music but they haven’t stopped consuming it. The business model is not only done by physical format, but also digital and licensing music to movies, soap operas and any other way that can make people aware of the artist’s music. Regarding live music, live shows are not in crisis, as the experience is more important, contrary to consuming through physical or digital formats. It also helps the recorded music industry, because it promotes the artists and for people to want to go to a live show they must listen to recorded music in advance. They are industries that help one another, they are not competitors. When people go to festivals, they know already one or two bands, but they also go for the experience. It’s a unique moment. Like what happens with physical editions, people value what is special, unique, other contents besides music. A 500 units limited edition CD is valued because it may be signed by the artist, it may include a t-shirt, it may have songs which are impossible to find elsewhere, it may have a DVD or a book. People are valuing unique things, not repeatable – like concerts – and that represent a valuable asset for the money that was spent on that particular object or experience.

### **2) How would you define the current music consumption? Which formats and trends are emerging?**

We can’t define music consumption if we don’t define generations. Some people don’t buy music besides listening to it every day, through radio when they are driving or as a soundtrack from a soap opera, these people consume music occasionally without wanting it. It’s still part of their lives, they may associate a certain song to a character from the soap opera which may be a reflection of his own life, so they are unconsciously

consuming music without seeking it. Unconscious consumers are also influenced by social media, once they are exposed to a certain content, they won't read a review from music critics. There's also an intermediate audience with age between 30 to 35 years old who still buy music because they want to, whether it is to listen on their smartphone, computer or in the car. It is not possible to characterize music consumption without segmenting it in audiences. Regarding formats, I think people are still very attached to Youtube, it's the place they're gonna search something first, when someone talks to them about a song or an artist, one of the first places they go to is Youtube, even if that song doesn't have a visual content like a music video, it may only be a photo or a montage. The future is going to be digital and free to the final consumer, with platforms like Spotify.

**3) How can record labels be relevant to music artists?**

We have tools to help them to get noticed, we have partnerships and we are service providers. We have the investment and also the know-how on how to help them to build up a career.

**4) How does the need of the 360 deal come about for the recorded music industry? What's its importance for the label?**

The career of an artist is made of records, live shows and all the aspects surrounding his work. Their shows have no audience if artists and their songs are not promoted. When a foreign artist would come to Portugal, the record label also financed some of the costs, because the visit from the artist would result in more records sold, whether it was something made as an impulse, or because that would generate communication about the artist. As people have reduced purchasing recorded music but live shows are still happening, then it is because there is an effort and work of record labels on promoting the artist. As artists are still developing on their careers, it makes sense to share the revenues, as the initial investment is always made by a record label. No one will produce a live show if there's not work done behind. So the label agrees with artists and their managers in getting a percentage of the profits from an album, live show, merchandising, public performances from the artist, and synchronisations in movies and soap operas, so there's a share on the percentages from all the parties involved. This procedure has started

a few years ago and it's getting more and more common, whether it's a single company (in this case, a record label) making a deal with the artist and every revenue is already established in the contract with the label or the record label, like an agency, having partner companies which all together work on that same artist.

More and more artists will have this kind of contract. It is very important because it may define which artists can or cannot be signed to a record label. We may find very interesting artists, but if they are not up for a 360 deal, it may not be convenient for the record label to sign them. Currently in our label all our artists are signed into 360 deals, as we've realised having 360 deals with artists is more profitable.

**5) Which are the main advantages and disadvantages of the 360 deal?**

The main disadvantage may be when one of the partners can't reach the defined goals. Let's say that the record label releases a lot of records and distribute them to the market, but then there aren't many live shows sold. The record label will be prejudiced but the live shows partner won't. As also the opposite, if there are many live shows sold but no records on the market. If one of the parties fails to meet the goal, that's the main disadvantage. We're also dependent on outsourcing some services, as record labels have a small structure than 10 years ago, so we have to work with partnerships, contracting through outsourcing, there's a high dependence on that. I'm not sure, but in the future we may have those services integrated in record labels.

We have all the advantages on having this deal, because there is a higher investment on the artist, so we can have a higher return on the investment as well. There's a higher commitment in the 360 deal.

**6) How does the label decide to participate actively or passively in the exploration of the artist's revenue streams? Are there any challenges involved for the record label?**

Generally, record labels have a more active participation on releasing and marketing the album and less in other revenue streams. In iPlay we intend to play an active role. We define on the contract whether we play an active or passive participation on exploring the different revenues. Currently we have around 90% of contracts with active participation.

**7) What's the artists' reaction to this new contractual form? Are they the ones who seek this kind of deal? Is it a contract that can be adapted to all artists?**

Initially, they were a little bit surprised, as they were supposed to have a manager, an agent, a record label, a tour promoter, everything was very separated. By having all these components together, there's a higher investment on the artist and a higher effort on recouping the investment made on the artist. Their career is more protected this way. In the 360 deal, the artist also needs to have his own show set up, as in a traditional contract his art could only be the album, the band could even not exist. The artist needs to be ready to promote his work to consumers. This contract only can be adapted to artists which can fulfil these requirements, because if it's an artist who doesn't play live and has a fictional image, then a 360 deal won't fit him, only a traditional contract.

Artists are demanding this type of contract but the label also pushes them to go for it, as this contract facilitates the artist, having no need to look for different partners, so the artist can have all different services in the same company (the record label). All parties will be helping each other and working for the same purpose, so the artist is the one who gets the most benefited. By having the label more focused on the artist, we'll manage the different points of the artist's career in a more integrated way, always taking into account the artist's perspective and ideas, according to his wishes.

**8) Which are the most important revenue streams contemplated on the 360 deal?**

Live revenues are the most important, image rights are also important. These are the ones which are not in crisis and keep growing, while the other components of the industry are decreasing. Image rights will be useful to public presentations from the artist, merchandising, sponsoring, brand partnerships, everything we can do with the artist's image. These areas are more profitable than other components but they only exist because of the investment labels do in advance.

**9) How important are the relationships between artists and brands? How has this relationship evolved? How important are brands for artists and vice-versa? What motivates to establish a partnership?**

Brands were used to contact managers before, but as record labels now manage image rights, they contact us, but for them there's no difference, as they are only interested in having the image rights for a certain artist or character. Besides having an artist's song on their ads, brands are also looking into ways of having a more deep relationship with artists and between artist and brand fans. Even in ads we now may see the artist, in music videos we can see brand references, so now it is common now to have a sort of brand integration in the artist's career. It's not only a synchronisation, but the artist is now part of that brand. Brands have an important role on the dissemination of the artist, their investment is very important, sometimes then may invest what record labels may not. But the artist and record label will only accept the association to a certain brand if it fits the artist's career, then all the exposure is welcome, whether for the brand or the artist, so it's a win-win situation for everyone. It is always up to the artist and his goals to whether accept a partnership or not. As record labels get involved with prestigious brands for partnering with their artists, it is also a way for labels to present other artists to brands and possible new partnerships may happen.

It may happen that brands through advertising agencies ask for suggestions on artists to create a partnership, or they select a specific person that they think it's appropriate to be linked to the brand and then contact the record label. The process doesn't always work in the same way.

**10) How do you imagine the recorded music industry in 5 years' time? Which format will it evolve to? Do you think that might exist some structural changes?**

The evolution is happening at such a fast pace. 5 years ago I couldn't imagine the way the recorded music industry is now and the opportunities that emerged, with Spotify and similar platforms. We may evolve from record companies and turn into entertainment companies, providing all the services involved in a 360 deal, as they are the ones related to entertainment. These contracts transform the record label not only in record makers and distributing them, but also in an active participator in the artist's career. I would say we may not need a new structure, it's not necessary, as we have enough partners to do it. We would get into something that other companies can do better. If I want to produce a live show, I don't have to own a venue or have the technical equipment. Sometimes things work better when others are in charge for doing them. As all industries, the recorded music industry will always need outsourcing of services.