

Electronic Distribution and Its Effects on the Music Business

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It's 2010. The latest from Aerosmith is supposed to be released today, and you're hoping it's better than their last one. So you turn on the computer and use your modem to hook up to the electronic music distribution service. You then choose the "New Releases" option from the menu, and highlight "Aerosmith: Geritol Overdose." Then your selection is downloaded into your computer where you can record it. Reach over and insert a specially-sized blank piece of glossy paper into the printer and, voila, you have the cover art, complete with lyrics and credits. Fold it up and slide it into a jewel box (CD case), which you ~~have already~~ ordered in bulk over the computer last year (or maybe by then we will have completely switched over to "digipaks," the cardboard equivalent). Of course, all of this will automatically be billed to your credit card or some kind of account you have with the distribution service.

Sounds pretty cool, huh? The advantages of this system are incredible for the consumer, including convenience, accessibility, and possibly even cost. The artists and composers can also benefit from the possibilities of new recording techniques and availability as well. Of course, there are obviously general concerns about security within the system and affordability for the hardware. The main problems and concerns, however, lie in the hands of the industry-- publishing, copyright, royalties, competition, and the ability to adapt to change. It is difficult to predict the success of this new technology/method without having a basis for comparison or being able to look back in hindsight.

A similar technology available now is the audio cable network system. This is a subscription-based service which offers every type of music, commercial-free, on separate stations. The uniqueness is that it is digital-quality and comes with a program guide, allowing the consumer ^{THEY} to ~~be able to~~ record ~~what~~ he wants. The pricing is very reasonable, also (Goodman 39). Similarly, there is Digital Audio Broadcasting, which is basically the same thing as DBS for radio, using a new analog to digital coding scheme (which allows three times the recording capacity per disc.) The problem here lies in available spectrum space (DeSonne 100).

New advances in FM subcarrier technology can also be a reference point for electronic distribution. They are now capable of handling high-speed digital data rates, which makes transmission of five simultaneous SCA channels possible (DeSonne 43). This is currently being used for services like muzak and telemetry, but computer data transmission is the key here. Data networks could be set up and downloaded locally from satellite at the radio stations. *SORT of like teletext. But would they be interactive?*

In a joint venture with IBM, Blockbuster Entertainment (the largest video retailer in the United States) announced last May that they will offer a system in which CDs will be manufactured inside the record stores themselves. After a six-minute wait, the music will be downloaded to a port where the consumer can receive the CD. Blockbuster will be handling all the distribution themselves (Goodman 36). Whoah! What about all the people who are in the business of packaging and distribution now? The record companies were furious when they heard this news. Well, except

for PolyGram, whose parent company (Philips) owns seven percent of Blockbuster. One major fear was that people would create their own compilation discs in the stores, but I don't think you would be able to order anything that wasn't in its original form as an official release.

Would record stores as we know them fall of the face of the earth? I doubt it, because as I've mentioned, they might be the locale for the downloading process. If not, they could become more specialty-oriented, selling merchandise, sheet music, rarities, hardware, and the more lavishly-packaged releases (like boxed sets). Also, some friends have pointed out to me that the buying experience is something overlooked. It is a social thing, and people like to go and visually browse in the stores.

Of course, it is silly to think that CDs are the only format for which this system would be available. Once the information is downloaded, you could record it permanently on any medium that is convenient-- CD, DAT, cassette, 8-track(!), and probably on ^{HOW ABOUT ON MY WIRE RECORDER??} computer disks and hard drives, too. It is the digital formats that are most talked about, because they are higher-quality, more permanent recordings, and more competitive with conventional releases. With consumer DAT decks, they have Serial Copy Management Systems, which would prevent digital copies from anything but the master itself, cutting down on pirating and unfair competition. According to DeSonne, CDs only have 20-35 percent penetration in the United States, but Thompson has come out with a five-inch recordable compact disc (similar to Sony's MiniDisc, I suppose) which allows for 300 minutes of music. The

decks are supposed to run between \$1000-\$1500, and should be available sometime next year (page 38). This is the type of system that is expected to be used for recording in conjunction with electronic music distribution.

A key factor will be the competition in the actual methods of distribution. Satellite, cable, telcos, and fiber optic services all come to mind. Cable has proven itself in this field before with shopping services like QVC. Telcos will have to get into other things like cable and fiber optics to compete in this area because of the low quality associated with phone lines. Leo Bogart said Time-Warner is using money acquired from U.S. West (who bought 25 percent of the corporation) to upgrade its cable systems to carry electronic information (page 58).

Fiber optics are the real hope for the future here. Of course, given the history of networking, it could take 40 to 50 years before it's actually in place, but the growth rate could be incredibly high very quickly. Just look at cellular phones. According to Peter Huber, they grow at a rate of 20 percent per year. Just after they began building microwave networks, MCI tore them down to start replacing them with fiber optics (page 93). Japan is accelerating their network-building, and we need to keep up with them in this information-oriented economy, but one problem is accessibility. Because of our principal of universality that's been in effect since the Communication Act of 1934, rural America must have access to fiber optics, also. James Johnson, CEO of GTE, said, "Within a few years, fiber optics will be cost-competitive with copper in new end-user installations" (page 212).

Fiber optics have been used for long-distance phone systems and more recently for audio by filmmakers and production companies. Now, they are coming into play in the commercial music recording process. Phil Ramone (one of the most ~~well~~-respected producers in the world) recently used fiber optic technology in the recording of Frank Sinatra's latest release, Duets. The main application is sending partially completed recordings to other parts of the country to be worked on by other musicians. This saves time as well as travel expenses.

Fiber optic signals travel fast enough to allow real-time interaction, as opposed to cable, which is always two frames behind (Greenwald 34). Think of what this means. You could literally be at your home performing vocal tracks while the London Philharmonic Orchestra and a New York session musician contributed their parts, all being recorded in a Los Angeles studio. Wow! This gives small studios access to a vast amount of sound resources. I think that home studios are going to be increasingly prevalent in the future. I don't mean a synthesizer and a four-track, but a decently organized basement operation. All you need is a soundproof place to play and the tracks can be forwarded to a larger place which won't need recording booths, only outboard effects processors and recording gear. The large studios will be used as a hub, offering rare instruments and special recording environments.

The way the arrangements work technically is that, first, the phone companies provide the lines. Then an outside company (such as Entertainment Digital Network) supplies the compression method

(called "codec") including the encoding and synchronization. Tom Kobayashi, president of the aforementioned EDN, says that in order to lease the lines from the telco and have them installed will cost between \$10,000 and \$15,000. For an additional \$10,000 you can have video transmission capabilities (Greenwald 35). Since fiber optic lines are supposed to be able to carry both audio and video, I think this means that different compression methods are used, hence the difference in price. The cost for the audio transmission itself is currently going for \$100 per hour (two-way, not counting the studio time on each end). Capitol/EMI is now using this system to approve and reject recordings quickly, and they are eventually going to digitize their entire archive.

Will record companies die? Well, they aren't going to be quite as necessary as they currently are, but I'm sure they'll find something to do in order to stick around. What they need to do is redefine their role as far as artist relations go, and prove their worth to the artist. This new technology could be to the companies' benefit if artists don't stay on top of the developments in the music business. During the last five years, the major record companies were purchased by others in hopes that new technology would translate into a higher profit margin. I think they were counting on CDs and the like, and had no idea how greatly electronic distribution could affect them. Even so, DAT, Philips' Digital Compact Cassette, and the MiniDisc haven't really caught on immensely, though DAT is widely used on the professional level. Companies are already branching out into other areas. Sony and Time-Warner are going into the cable audio network

business.

I think that record companies just don't want to have all their apples in one basket when they eventually lose power. If they are smart, they will try or demand to own the computer systems/networks that control the distribution process. Wouldn't this discriminate against the small labels, though? Would there need to be several terminals, one for every company? This could cause the already large record companies to exert even more power in getting smaller labels to become affiliated. According to Goodman, on the subject of record company control over electronic distribution, MCA's Al Teller said, "I'd prefer that our finger is the one on the button" (page 36). As long as the distribution power stays on the national level, consumers should be alright. If it is done locally, there could be monopoly problems such as history has shown with telephone companies (Huber 93). Many people believe that we (the United States) need a comprehensive national media policy as well as a national commitment to build up our fiber optic networks. James Johnson and Leo Bogart both subscribe to this belief.

Of course, the artists themselves should be in a very good position as a result of electronic music distribution. The most obvious reason is that their music will be more accessible, because the programming options are practically unlimited for fiber optics. Some record stores don't carry certain titles because they don't sell well. If you are only manufacturing exactly what you need, there won't be the problem of overstocking. One drawback is that there will be no "bargain bins" unless the

artist is in control of his own distribution and chooses to sell his product at a discount. Much like long-distance telephone works now, there could possibly be cheaper late-night transmission fees. If record stores are the downloading sites, they could replenish their most popular titles overnight to save time during business hours. Smaller record labels could also more easily compete with the larger ones because of the impartiality of the computer. There are no in-store displays or salespeople looming over your shoulder. Help and information could be contained within the computer, as well as recorded samples as some stores already do. For that matter, the artists could sell their own releases completely independently.

What are record companies going to do to stay in business? Well, as the new markets and technologies develop, the companies are going to subject their contracts with recording artists to new financial re-evaluation to gain more leverage. That's very interesting, because usually it is the artist who decides to renegotiate his contract after success has hit. From the artists' perspective, why should record companies receive 80 percent of the sale price when they aren't going to be manufacturing, packaging, or shipping the product? Well, record companies are a very valuable resource to the unestablished artist. They are a source of money for financing albums, they can provide good producers, engineers, and they also pay for certain artist expenses while touring or on other business. Record companies also have tremendous power for marketing and promotion. If you so desire, you could go through an independent advertising or marketing firm

to promote your music. Former record company executives could start their own music publicity services.

In their renegotiations, record companies are going to crack down to ensure that they get compensation regardless of the developing technology. "New technology" clauses were put into artists' contracts around the time CDs were beginning to be sold. This reduced royalty rates for the artist, and the record companies made a pile of cash, because they make almost three times as much profit on a CD as they do for vinyl or cassette. The new "through the air" distribution methods (FM subcarriers, Direct Audio Broadcasting) will cause another fifty percent royalty deduction for the artist. The biggest controversy, though, is that the record companies also want a 35 percent packaging deduction, even though there is no package to deal with when using electronic distribution (Goodman 48). This is similar to the government's fighting cigarette companies and then subsidizing tobacco farmers.

The RIAA even wants compensation for airplay on cable audio networks. The problem here is that songwriters and publishers (50/50) are supposed to receive airplay and performance royalties, not the record companies. The companies, performers, and producers make their money through sales and concerts, and airplay is considered a huge form of promotion. According to Goodman, they are just afraid that they won't be able to control their releases with this new technology (page 40). For instance, "hackers" could possibly be able to hear new music before it's released, or even during the recording process with fiber optics I

mentioned earlier.

True - but I don't think it would happen.

In the days of old, the publisher actually did the printing, but now they own the copyright and just license its use, which is a potentially large source of income later in life as we are about to see. "The Lady and the Tramp" was released on videocassette a while back. Peggy Lee, a composer for the music on the original film, sued Disney because they never anticipated its release on another medium, and her permission wasn't given. She received \$3.8 million. Following (and filing) suit, publishers for Irving Berlin and Igor Stravinski are also suing Disney for similar reasons (Goodman 46). This goes to show what legal problems could be associated with electronic distribution. Record companies are now claiming "universal rights" instead of performance rights in anticipation of new delivery systems for music, especially satellite.

In summary, the music business is becoming decentralized. Howard Schwartz, of the Society of Professional Audio Recording Studios, used an analogy whereby if football players were in different parts of the country, the team would be unable to function properly (Greenwald 35). Companies are branching out. Time-Warner owns a little of everything (record/film publishing, books, magazines, distribution companies), and BMG and Tele-Communications are making a new cable channel which is part music video and part music shopping as a trial for the success of this new technology (Goodman 44). On the other hand, companies like Disney are saying they don't need to go into other businesses, they are artists, and as long as they keep cranking out product,

WHERE IS IT AVAILABLE?

someone will be there to pay for it, regardless of the distribution method. I think this is where the industry is headed-- more power and freedom for artists. Record companies may rise or fall, depending on their ability to change with the times. The same applies for record stores. Fiber optics are greatly going to change the distribution process, be it for recording or pirating. One important thing to remember is that all this depends less on the technology (it is already available and being used) and more on the consumers and their willingness to spend money on it. In the future, all media (books, photography) ^{ARE} ~~is~~ going to be like this, with the information superhighway, because we live in an information-dominated society and those who possess the resources will possess the power.

Interesting topic. I think it might have helped to have explained the current distribution process in greater detail so we would have a more lucid understanding of how this new technology would change the whole business.

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292

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