

Warner Music Group & Atlantic Records

Company History & Overview

Warner Music Group

Warner Music Group Corporation is the world's only publically traded major music company. WMG operates all over the world; its best-known labels include Atlantic, Elektra, Reprise, Rhino, Roadrunner and Warner Brothers. In addition to distribution and labels, WMG offers artist management and music publishing.

Warner Music Group (WMG) began in the 1800s, with sheet and classical music. By the early 1900s, WMG had procured exclusive rights to the Vitaphone. In 1929, Jack Warner found Music Publishers Holding Company to acquire music copyrights for use in films. In 1947, Ahmet Ertegun and Herb Abramson found Atlantic Records. Three years later Jac Holzman found Elektra Records. Word Records was founded in 1951 as one of the first companies in contemporary Christian music. Warner Brothers Records was founded in 1958 as a soundtrack factory for Warner Brothers movie studio, and two years later Frank Sinatra created Reprise Records. Warner Bros and Reprise merge in 1963. In 1970, Elektra and Nonesuch Records become part of Kinney National, which became Warner Communications and forms Warner-Elektra-Atlantic (WEA Corporation), which is the first major music distribution company in the US. 1986 brought WEA Manufacturing, the company's first CD manufacturing plant as well as further international expansion. Warner merges with Time, Inc to form Time Warner and

becomes, at the time, the world's largest music publisher. Throughout the 1990s, Time Warner was the largest media company in the world. Digital and streaming media becomes prominent in the early 2000s. WMGreen, an industry-leading environmental initiative, is launched in the mid-2000s and WMG became listed on the New York Stock Exchange. (Warner Music Group).

Atlantic Records

Founded in 1947, Atlantic built a reputation through developing artists such as Ray Charles, being comprised of primarily R&B and jazz artists. Atlantic was acquired by Warner Brothers in 1967 and was run separate from Warner Bros and Reprise Records. During this time, Atlantic signed Led Zeppelin, solidifying its place in music history. The subsidiary labels combined to form Warner Music Group (WEA). In total, the label has over three-hundred artists on its roster and continues to be self-distributed (Warner Music Group).

Executive Summary

The rise in digital music sales has been affecting Warner Music Group for the past decade. Because of the increased availability of cheap or free music on the internet, WMG has to find new and innovative ways to transform their company and continue to keep themselves relevant in an ever-changing market. People are asked to play multiple roles, from within the corporation ranging from creative people in the offices to the performers that become actors, singers and dancers in order to be a part of the WMG Disney Empire.

Because of the new measures in place by WMG and its subsidiaries such as Atlantic Records, their stock prices often fluctuate due to touring sales rather than music sales. In the past year, WMG has approached banks for a "bail-out" which has also affected their stocks and the way people, including the stockholders, view of the company. WMG major labels must now compete

against, not only other major labels but against independent labels that are now actually having a large impact on music sales thanks to sites like iTunes.

Many artists are choosing to leave their labels and support themselves financially and creatively, even releasing entirely free albums, such as with Radiohead. WMG has been struggling to compete and revise a business model that worked before the download age, but no longer works.

Branding of the label, itself, and the artist can prove beneficial in the battle between physical and digital. More personalized marketing can build integrity that major labels are perceived to lack, and "360 Deal" also known as a "Multiple Rights Deal" should be implemented more regularly. The term is used in the music industry to describe special branding of musicians. Contracts allow record labels to receive a percentage of earnings from all of a band's activities, not just their music sales, such as ticket sales, merchandise sales, endorsement deals and ringtones. In exchange, musicians receive support from their label for longer periods (possibly the duration of their career) in all aspects of their career including providing merchandise, management, legal services, extensive marketing, and tour support.

SWOT Analysis

Strengths

Being a large corporation owned by an even larger corporation, Atlantic Records has the 60 years of history and the 200 years of history, its parent company possesses as a strong indicator to investors. Unlike smaller start up labels, they have years of experience to build confidence with those involved. In addition, because of the large parent company, most things can be done

in house such as marketing, distribution, and designing; thus keeping a cohesive brand throughout the company with each artist. This cuts down cost of development and keeps the lines of communication uncluttered, as they would be with outsourcing and dealing with multiple companies.

Atlantic Records is credited as the first label to have 50% of its sales from digital outlets, so it has obviously learned to embrace the digital market well, and much better than some of its competitors. It also has the ability to generate great radio play for many of their artists staying constantly on top of Billboard charts and radio Top 40 lists.

Weaknesses

Branding

Atlantic Records has been around for over 60 years, developing some legendary artists. The red logo and typeface has stuck with Atlantic since almost its inception. General consumer perception sees Atlantic as an All-American label with strong roots. Unfortunately, they have not done enough to build brand loyalty. Recently they developed the Atlantic Records Time Capsule, a \$100 box set of records, documents and other media from the last 60 years, however; no pressure was placed on the sales of the box set. The idea of capitalizing on the label's successes and history is a sound, unfortunately, it is difficult to adhere to your classic roots while still expanding and changing with the times.

Independent labels are far better at creating a brand because they often only focus on one type of artist or from one region, as opposed to Atlantic that covers many artists, and genres all over the world. Smaller labels create merchandise for not only their artists but for their own label. The fans of the label are able to show their support for the label through this merchandise.

Because of the intimacy of one genre or region, fans build a sense of familiarity with smaller labels. The development of subsidiary labels such as Photo Finish Records and Fueled by Ramen show that Atlantic has an ability to build and develop this brand loyalty on a smaller basis, but has failed to do so on a larger scale.

Opportunities

The popularity of Multiple Rights Deals have become a new way for labels to regulate cash flow and keep a consistent roster. Atlantic has the opportunity to embrace this form of deal. In addition, new digital practices are being developed and implemented every day that can change the face of the music industry, not kill it, like many like to predict but mold it into something that was not there before. New technology always brings about new opportunities.

Threats

Illegal downloading has been the biggest threat to the music industry, as a whole. Embracing digital music has been the redeeming feature for Atlantic, but album sales will never be as they were in the 90s and early 2000s. The threat of albums becoming obsolete and a switch to constant singles or EPs is very real. The label may choose to embrace that, or continue with the traditional practice of a new album every 12 to 18 months.

Industry Analysis

The 21st Century has brought about challenges to the music industry with technological advancement of music distribution. Digital music poses a special challenge for musicians and record labels. In the early stages of file sharing and music download, it was uncertain whether companies should embrace the practice or banish it. While lawsuits and legal issues still occur

often with music downloads, it is nearly impossible to succeed in the music industry without accounting for legal and illegal music downloading, “IFPI estimates around 95 percent of tracks are downloaded without payment to rights holders” (International Federation of the Phonographic Industry 5) .

Multiple Rights Deals has become a solution to the 20% per year decline in physical album sales over the past seven years (Burns 1). “With the new wave of recent contemporary pop (artists like Hilary Duff, Miley Cyrus and the Jonas Brothers), Disney has created a sustainable ‘machine’ – a generation of 360 Deals where the ‘branding’ of artists and creation of other products (in addition to CD’s) drives profits” (Valletutti). Labels argue, “It doesn’t make sense for labels to pour money into artist development when CD sales, their primary source of revenue, continue to decline,” (Arrington 1). With these deals, labels receive a cut of artists’ revenue from touring and merchandise sales, but labels normally supply the seed money for these endeavors. Obviously, the labels could not make money without the artists, but now the labels are retaliating that the artists cannot make as much money without them.

Walt Disney Records’ High School Musical audio franchise, that features some of Disney’s current roster of label artists, was the number one best-selling album globally for the two consecutive years, selling 7 million units in sales (Disney). Walt Disney Records has used 360 Deals to their advantage, for what their New Media Director, Matt Fitz-Henry claims to be the past 50 years (Valletutti). Though this formula has worked and continues to work for Disney, the recent rise in popularity has brought heavy debate about the positive and negative aspects of Multiple Rights Deals and the future consequences that may arise from branding artists.

Disney targeting young adolescent girls to market their music is an example of practicing modern economist methodology, because this age group receives money from their parents. “Of

the reported US\$ 51 billion spent by tweens themselves, an additional \$170 billion was spent by parents and family members directly for them” (Mesa 1). Disney Records specifically targets “tweens” and because of this “Miley Cyrus's two-disc Hannah Montana 2/Meet Miley Cyrus album sold 326,000 CD's and debuted at the top of Billboard album charts” (Valletutti). While the data is present for album sales, Hannah Montana also has extensive merchandise, including a toothbrush that plays her single. While not as easily measurable as CD sales, it is still relevant in the scheme of Multiple Rights Deals.

Current Status

Financial Standing

In 2009, WMG experienced a sharp decline in its stock due to unexpected changes in its fixed operating costs. The company hit its lowest trading point in March 2009 trading at less than \$2, in recent months the company has traded at around an average of \$5. Warner Music Group holds a \$1.9 billion long-term debt and continues to cut costs to keep pace with shrinking revenue (Munarriz).

Product

“Although the concept of promoting artist development in order to increase revenue streams exists in the minds of major record label executives, they should extend their efforts beyond the ‘artist’ and into the ‘product’” (Valletutti). The goal of Multiple Rights Deals is to have a cohesive overall plan for an artist.

The way an artist is marketed, from their look, their appearances, where their music is played or sold, and where they tour, are all a part of this effort to make the band a brand. In a sense, a band becomes like a corporation with different departments controlling aspects of a larger business plan. Al Branch, general manager at Hip Hop Since 1978, an artist management firm, sees the future of recording labels as companies “establishing recording divisions, touring divisions and so on, to run these talented people. Labels are going to see artists as brands and not just people who can sing or rap really well.” (Burns 2).

Recent Changes

Previously music was the value that customers sought after; however, the need for music has been filled through technology. In response, labels must supply their consumers with an alternative to music since that can be acquired easily through the internet. In order a firm to remain relevant “the firm must sustain this process of creating and capturing value over time” (Silk 2). The concept of 360 Deals involves labels evolving over time to provide continuous valuable goods to their customers.

The argument for stealing music is that from an economic standpoint some believe that digital music should be free. Once software to record music is already present, there is no cost to produce another copy of digital music. Unlike cassettes of the past, any additional digital copies made are just as good as the original. Because of this there is perfect competition and zero barriers to entry, evident through social networking sites. “MySpace, for example, lists more than 2.5 million hip hop acts and 1.8 million rock artists alone” (International Federation of the Phonographic Industry). “Unless effective legal (copyright), technical (DRM) or other artificial impediments to production can be created, simple economic theory dictates that the price of

music, like its marginal cost, must also fall to zero as more ‘competitors’ (in this case, listeners who copy) enter the market” (Arrington).

Free music is used as a marketing tool within itself. Well-known and established artists, such as Prince and Nine Inch Nails have given away full albums free. Prince’s goal was to increase excitement for his 21-city tour. UK band, Radiohead made their entire seventh album available online and allowed their fans to “pay what they want” before the album’s physical release date to promote the CD. The album reached number one on the US and UK Billboard Charts (Billboard 1).

The idea that people will purchase an album after they already acquired it for free challenges a modern economists methods of data analysis, the demand for the album should have ceased after being made available for free, however; a post-modern economist denies the role of methodology (Repko 107) relying solely on situational differences. Because of the way a band builds and creates loyalty, the fans are willing to continuously support a band in its efforts, thus the value of the music is directly correlated with how much a consumer values an artist.

Marketing Plan

Because each artist on a label has set specific goals and different means to achieve those goals it’s difficult to have a blanket marketing plan for an entire label, especially one like Atlantic that does not focus on one genre or even one nation. Because of the nature of media companies, a focus strictly on finances may harm the creative integrity of the corporation, which is something major record labels have been facing for decades.

Branding

A marketing plan for Atlantic Records would first need to achieve the goal of branding each artist. Building brand loyalty for an artist is an effective way for repeat buying. Fans are more willing to purchase and find everything an artist has created the more loyal they feel to that artist. KISS is an example of how a brand can generate revenue outside of simple music sales.

Company Re-Design

With the new record label, the monetary gains (or losses) cannot be the only judge of a successful business. A label may put money into an artist with 360 Deals, but may not see immediate returns. Because of this, other aspects must help decide how successful a label is.

Departments will have to show their effectiveness, for example, the public relations department will have to show the financial officers how visible their artists are in magazines, online, on television, etc. The economist and marketing director would then have to work together to create a plan that accesses the relationship between artists' visibility and potential profits. The revenues department that has more defined goals will have to check the more abstract departments for tangible evidence of potential gains.

In an effective deal, an artist should be incorporated in the goal-oriented process in order to check that they are being presented the way they would like. If an artist is involved with the process it can help avoid exploitation of an artist since most labels do not have a way to incorporate ethics into their business plans.

Non-Traditional & Digital Sales

Though album sales are in decline, general music sales are substantially higher than their past. Music sales exceeded 65 million in the final week of 2008, representing the biggest sales week in the history of Nielsen Soundscan (Neilson Soundscans). Therefore, it is not that people

are not buying music; people simply are not buying albums. Digital sales, ringtones, and singles continue to increase. Even vinyl sales are at a high from the inception of Soundscan in 1991, selling about 2 million copies in 2009. Capitalizing on the sale of individual songs can be profitable in the short term for an artist while they work to develop their brand.

Albums can still sell well in the new label format by providing something that cannot be replicated through the internet. Special album artwork, supplemented free merchandise, or tour-exclusive content can help drive physical album sales in an otherwise hectic market. Some musicians have reverted to cassette tapes as a novelty item, while providing the digital tracks free.

Album sales at Non-Traditional music outlets (digital, internet, mail order, venue, non-traditional retailers) hit an all-time high in 2009 with sales reaching 110 million. Non-Traditional is the only strata that experienced album growth over the previous year; with an increase of 11% over 2008, and accounting for nearly 10% of overall music sales in 2009 (Neilson Soundscans).

Free Music

Instead of treating music as a commodity to be sold, for many artists, music should be used as a marketing tool. Distribution and availability of free music still has an appeal to many consumers. In addition, it builds awareness of an artist that a consumer may not have necessarily heard had the music not been free. The distribution of free music can then lead to touring and merchandise sales.

In the case of a major label distributing free music, it makes the label look more consumer friendly, thus helping rid the stigma of a big business and consumerism. Making the free music available on the label website or social networking sites can build brand loyalty to the label as

people will turn to Atlantic as a source for free music, like they may do for other (possibly illegal) sites.

Online “Licensing”

While labels have always had large licensing departments to get artists songs on television programs and movies, the internet is a much cheaper form of real-time licensing. Instead of demanding the take down of songs from YouTube videos, it might be more beneficial for Atlantic to embrace these music videos and use it as product placement. Obviously, in order to maintain the integrity of the label and artist’s brand they may not want to endorse every video that chooses to play their song. Incorporating software that will help others discover what artist is playing and how to find them online would be a good way to reach millions of YouTube users with little to no extra labor or money. In an oversaturated market, exposure is key to developing an artist and limiting the amount of exposure on sites like YouTube tends to do little more than make labels look like the bad guys.

Cheap Marketing

More responsibility should be placed on free and cheap marketing labor, street teamers, for example, have been essential to record labels for years. An easy and financial savvy way for labels to build relationships with artists, small media outlets, DJs, bars, clubs and other key locations are through street teamers. A switch must be made from impersonal generic marketing, e.g., online banners, targeting only large arena shows, and generic social networking usage, to communicating with individuals both online and in person based on tastes, interests, and location in order to have a more relevant base for artist. A team of individuals working to promote artists for free concert tickets, and other small cheap prizes shows a personal intimate

relationship that smaller labels have, and helps to reach publications and media sources that labels often overlook.

Projection

Because it is the only publically traded major music company, it is difficult to compare to competitors in terms of revenues and investors. It is projected that WMG revenues in the fourth quarter of 2010 will fall by 14%, while digital sales will only increase by 1%, which will not compensate for the projected 20% decrease in physical album sales (Benzinga).

With increased branding, the way consumers view Atlantic Records, WMG and its artist can make a paradigm shift that could help the company stand out from the other three conglomerates. Building a large loyal fan base will allow artists to experiment with new directions and sounds, while keeping revenue steady through touring and merchandise. The focus on multiple rights deals, while controversial, will make it easier for artists to keep their creative integrity. The allowance of consumer to shape their own experience through free music, and licensing through online outlets will make the label more consumer friendly, thus making Atlantic seem less like a “suit” and more like a creative entity, whose goal is to release authentic music as they did 60 years prior.

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