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## Radiohead: Music at Your Own Price (A)

"No really, it's up to you." A short announcement in early October 2007 on [www.radiohead.com](http://www.radiohead.com), the website of British band Radiohead, spoke volumes about the planned release of its new album *In Rainbows*. The music would be available exclusively as a digital download on the band's website, at least initially, and would allow each fan to decide how much to pay for it—a decision that fueled intense media speculation about the future of music.

Scheduled to take effect on October 10, 2007, the highly unusual plan represented a significant break from the industry standard of fixed prices for music—typically \$0.99 for individual digital songs and \$9.99 or more for complete albums. Was the plan, conceived by the band and its managers Chris Hufford and Bryce Edge at U.K.-based Courtyard Management, a brilliant idea, or, as some industry insiders suggested, another nail on the coffin of the dying music industry?

### Radiohead

#### *The Band*

Formed by five friends attending an elite English private boarding school in 1985, Radiohead was one of the most popular and artistically significant contemporary bands of the late 20<sup>th</sup> and early 21<sup>st</sup> centuries. Named after a song by Talking Heads, a popular act at the time, Radiohead consisted of singer/guitarist Thom Yorke, bassist Colin Greenwood, keyboardist Jonny Greenwood, drummer Phil Selway, and guitarist Ed O'Brien.

Known for its brooding style, Radiohead made a splash in the U.S. market with its single *Creep* in April 1993, which introduced music buyers to its debut album *Pablo Honey*. Building on the band's success in its home market, the United Kingdom, Radiohead's label Capitol Records had identified the launch of Radiohead as one of the company's key marketing priorities for 1993, releasing *Creep* simultaneously on MTV and modern rock radio stations. Album sales peaked in early August, before the release of two follow-on singles and a fall tour of the U.S.<sup>1</sup> *Pablo Honey* went on to sell 2 million copies by 1995 in the U.K. alone.<sup>2</sup>

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The band released five more albums between 1995 and 2003, which collectively sold over 8 million copies in the U.S. (see **Exhibit 1**). *OK Computer*, Radiohead's third album, was met with adulation from the music media internationally. It garnered the band's first Grammy award, for Best Alternative Music Album. Influential British rock magazine *Q* named the album "the second best British album ever," behind the Beatles' *Revolver*,<sup>3</sup> echoing British fans who frequently ranked it near the top of "best albums ever" lists.<sup>4</sup> Subsequent albums also were critically acclaimed. Along the way, Radiohead accumulated a "huge following, large enough to make albums zoom to number one and devoted enough to plaster the Internet with Radiohead fan sites, blogs, song discussions, and bootleg recordings."<sup>5</sup>

Over the years, Radiohead had established a reputation for experimenting with unconventional album release tactics. For instance, Radiohead's third album, *OK Computer*, was introduced with an epic single, *Paranoid Android*, which had no chorus, several tempo changes, and lasted six-and-a-half minutes—much longer than the average radio-friendly pop song. The label also sent 1,000 media-industry insiders a Walkman with the album "perma-bonded inside" in order to "have people get to know the record in its entirety," according to Capitol VP of Marketing Clark Staub.<sup>6</sup> For *Kid A*, the fourth album, Radiohead eschewed a traditional promotional approach, foregoing a single, a conventional music video, and an accompanying U.S. tour.<sup>7</sup> Instead, the band released a collection of 10- to 40-second *Kid A* music "blips," combining images of nature, animations, and pictures of the band with audio clips, on music television channel MTV, and on the band's website.<sup>8</sup> Tony Wadsworth, president and chief executive officer of EMI (by then Capitol's parent company) remarked that Radiohead "want[ed] to find other ways of doing what has to be done to get their records into as many hands as possible." Band member Yorke asserted, "You can say we've earned the privilege to do things our way."<sup>9</sup>

In 2003, with the release of *Hail to the Thief*, Radiohead fulfilled its contractual obligations to EMI and chose not to renew its contract. By early 2005 the band had begun to record another album, with no plans to sign a new contract with any record label.<sup>10</sup> "I like the people at our record company, but the time is at hand when you have to ask why anyone needs one," said Yorke around 2004, and later referred to the conventional strategy as a "decaying business model."<sup>11</sup>

### *In Rainbows*

Radiohead's seventh album, *In Rainbows*, was the product of a two-year effort in the recording studio, with the music shaped by feedback from fans who attended concerts during a 2006 tour when many of the songs that ultimately found their way on to the album were tested. Many live versions of the 10 songs that appeared on the 42-minute *In Rainbows*, described by a *New York Times* critic as Radiohead's "most gracefully melodic album in a decade," were posted on the Internet by fans who had recorded them at concerts. "The first time we did *All I Need* [a song on *In Rainbows*], boom! it was up on YouTube," Yorke said. "I think it's fantastic."<sup>12</sup>

## The Music Industry

Worldwide retail sales of recorded music were estimated to be \$29 billion in 2007, down from nearly \$32 billion in 2006—a shift mostly attributed to the digitization of music production, distribution, and consumption.<sup>13</sup> The number-one market, the United States, claimed approximately 36% of global retail sales in 2006, while Europe's leading marketplace (and the world's third-largest overall behind Japan), the United Kingdom, accounted for around 10%.<sup>14</sup>

The global recorded music industry was dominated by four record companies—Universal Music Group, Sony BMG, Warner, and EMI—which together accounted for almost three-quarters of the physical and digital album sales in 2006 (see **Exhibit 2** for more details).

After being “discovered” by artist and repertoire (A&R) executives of record companies, artists typically signed long-term contracts—often covering four to six albums—with those companies, which agreed to manufacture, distribute, and promote their music. Record companies also frequently played a role in the production of their artists’ music, but with the advent of digital technology, some artists had taken more control over the production process by self-producing or enlisting producers of their choice. To market a new album, record companies would traditionally select an introductory song from the album, promote it to radio stations, release an accompanying music video to MTV or its kin, and perhaps engage in in-store promotions and advertising in support of the album. The majors often spent several hundred thousand dollars to promote the singles of their artists and more than \$1 million for their most promising or successful acts.

In return for artists’ creative services, record companies paid them an upfront fee plus sales-based royalties. New artists typically received an advance of \$200,000 to \$300,000, while established, top-selling artists could expect upfront fees exceeding \$1 million. Sales-based royalty rates varied between 10% and 20% of music sales, depending on the stature of the artist. Artists received royalty payments once their advances and related overhead costs for the record company (such as expenses for recordings, video production, and radio promotion) had been fully repaid.

**Table A** shows a typical breakdown of the price of a physical album released by a mainstream artist associated with one of the four major record companies.

**Table A** Sample Breakdown of the Price of a Physical Album (CD)

Item	Percentage	Dollar Amount
Artist Royalties	15%	\$2.25
Publishing Royalties	5%	\$0.75
Packaging and Manufacturing	5%	\$0.75
Distribution	5%	\$0.75
Marketing and Promotion	15%	\$2.25
Record Company Overhead	20%	\$3.00
Record Company Profit	10%	\$1.50
Retail Overhead	20%	\$3.00
Retail Profit	5%	\$0.75
<b>Retail Price</b>	<b>100%</b>	<b>\$14.25</b>

Source: Adapted from *Wired*, “David Byrne’s Survival Strategies for Emerging Artists—and Megastars,” December 18, 2007; casewriters’ estimates.

In 2007, U.S. “bricks-and-mortar” record stores accounted for just over 30% of all album sales—an all-time low—compared with over half of all album sales in 1998, having consistently lost share to mass retailers like Wal-Mart and Best Buy and digital retailers such as Apple’s iTunes store (see **Exhibit 3**). The proportion of recorded music sold through digital channels rose from 9% to 15% from 2006 to 2007 alone.

Introduced in 2001, iTunes had dramatically altered the way recorded music was sold and priced. Complemented by Apple's iPod device (which had a 42% share of the market for digital music devices owned by adult Internet users),<sup>15</sup> the iTunes music store sold music for play only on iPods and/or via iTunes software, and claimed 70% of all legal online music downloads in 2006.<sup>16</sup> While the average retail price of a physical album was just under \$15 in 2006, the iTunes store typically sold music for \$9.99 for a full album or \$0.99 for an individual song. The majority of sales came in the form of individual tracks: it was estimated that only about 5% of all digital music transactions involved an album sale.<sup>17</sup> **Table B** captures the breakdown of the price of an album sold on iTunes.

**Table B** Sample Breakdown of the Price of a Digital Album Sold on Apple's iTunes

Item	Percentage	Dollar Amount
Artist's Share	14%	\$1.40
Record Company's Share	56%	\$5.60
Apple iTunes' Share	30%	\$3.00
<b>Retail Price</b>	<b>100%</b>	<b>\$9.99</b>

Source: Adapted from Wired, "David Byrne's Survival Strategies for Emerging Artists—and Megastars," December 18, 2007; casewriters' estimates.

Subscription services such as Rhapsody, which offered unlimited access to millions of tracks for a \$13 monthly fee, made up approximately 18% of U.S. online music revenues in 2007, compared to 82% for paid downloads.<sup>18</sup> In addition, some artists and bands made their music available free of charge on their own sites or on social networking sites like MySpace, which boasted profile pages of more than 1.2 million rock bands.<sup>19</sup>

The proliferation of pirated digital music available for downloading on the Internet had a profound effect on the music industry. The Institute for Policy Innovation, an economic public policy organization, estimated that global piracy of recorded music cost the U.S. \$12.5 billion in economic output annually.<sup>20</sup> The extent to which illegal downloads were a substitute for legal purchases was a subject of debate, but it was estimated that music files were traded illegally worldwide at an estimated ratio of 20 illegal downloads for every track sold.<sup>21</sup>

The worsening conditions in the marketplace for recorded music had fueled experimentation among both established and new artists. For instance, in July 2007, Rock and Roll Hall of Fame member Prince, working around his record company Sony BMG and the usual retail channels, released his new album by granting the British tabloid newspaper the *Mail on Sunday* the exclusive rights to debut the album as a free insert in the Sunday newspaper. Nearly 3 million copies were distributed.<sup>22</sup> Later that year, acknowledging the increasing importance of live-concert revenues, Madonna signed a groundbreaking 10-year, \$120 million pact with concert giant Live Nation. The agreement provided Madonna, who had already sold more than 200 million albums over her career, with a mix of cash and Live Nation equity and gave Live Nation the rights to sell three studio albums, promote concert tours, sell merchandise, and license her name.

## The *In Rainbows* Release Strategy

On September 30, 2007, Radiohead's website announced the upcoming release of *In Rainbows* in a fashion unprecedented for a musical group of its magnitude. Not only would the album be available exclusively through Radiohead's website for digital download on October 10, 2007, but consumers would have the option of setting their own price for it. No preview tracks or streams of the album were made available on the website, but between September 30 and October 10, consumers could pre-order the album for digital delivery on October 10. When consumers clicked on a question mark next to a blank price box, a message saying "It's up to you" would display, and a subsequent screen would confirm, "No really, it's up to you."<sup>23</sup> Consumers could set their own price in British pounds sterling, and a service charge of £0.45 (or close to \$0.90) would be assessed for any download.

In contrast with the digital download experience of iTunes where users could cherry-pick individual tracks, *In Rainbows* would only be available in its entirety. (Radiohead refused to allow its albums to be sold on iTunes for this reason.)<sup>24</sup> At 160 kilobits per second (kbps), the audio quality of the *In Rainbows* digital download was slightly better than the 128-kbps standard for iTunes downloads.<sup>25</sup> And whereas iTunes downloads were equipped with a digital rights management (DRM) mechanism that limited the number of computers and devices on which the digital file could be played, Radiohead's album (in the MP3 file standard) had no such restrictions.

In addition to the digital version of *In Rainbows*, consumers could purchase a deluxe box set version of the album for £40 (just over \$80, including all fees), which would be shipped "on or before December 3," according to the site.<sup>26</sup> The box set, designed as a collector's item, featured two compact discs (with extra tracks), a vinyl LP record, and a hardcover book of artwork.<sup>27</sup> Purchasers of the box set also received a digital version of the album to listen to in the interim.

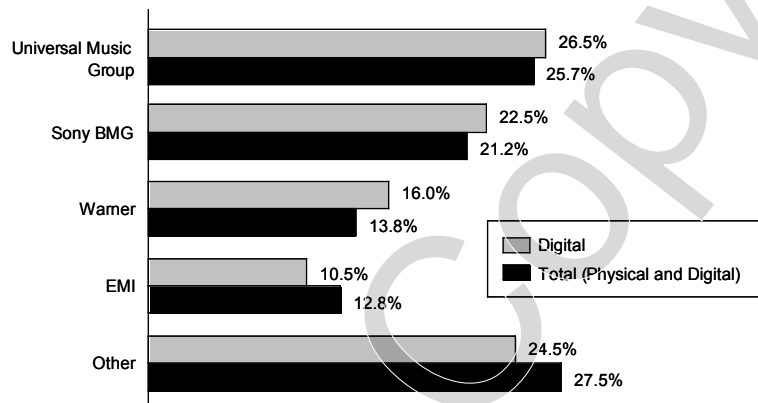
On October 10, British modern rock radio network Xfm would premiere *In Rainbows* by playing the album uninterrupted.<sup>28</sup> Certain tracks would also be distributed to U.S. radio stations by ATO Records Group (with which Radiohead had not yet signed a formal agreement).

*In Rainbows* was self-produced and self-released by Radiohead. Having terminated its contract with EMI in 2003 and without a recording contract in the interim, Radiohead was free to release its music when it wanted to and precisely how it wanted to. Additionally, for the download version of the album, Radiohead itself retained all rights and worked out an arrangement with its longtime music publisher Warner/Chappell to allow for proper payment of publishing royalties. "Warner/Chappell fully supports Radiohead in their desire to find new ways to present their music to their fans and to the wider world," said Richard Manners, managing director of Warner/Chappell Music U.K. "These new ways are iconoclastic in nature; they acknowledge the realities of a digital society and they challenge existing commercial assumptions."<sup>29</sup>

**Exhibit 1** Radiohead's Historical Album Sales (as of October 1, 2007)

Title	Release Year	Peak Chart Position on the Billboard 200	Estimated Total Sales	Estimated First-Quarter Sales	Estimated First-Year Sales
Pablo Honey	1993	32	1,400,000	130,000	570,000
The Bends	1995	88	1,300,000	60,000	240,000
OK Computer	1997	21	2,200,000	270,000	870,000
Kid A	2000	1	1,200,000	630,000	910,000
Amnesiac	2001	2	900,000	560,000	710,000
Hail to the Thief	2003	3	1,000,000	680,000	870,000

Source: Adapted from *Billboard* and Nielsen SoundScan data, casewriters' estimates.

**Exhibit 2** The Worldwide Music Industry: Market Shares for Record Labels in 2006

Source: Adapted from eMarketer, "Recorded Music: Digital Falls Short," November 2007; and Informa Telecoms & Media, "Music and Copyright," July 18, 2007.

**Exhibit 3** Top U.S. Music Retailers (Based on Unit Sales in First Quarter of 2007)

#	Retailer	Market Share
1	Wal-Mart	15.8%
2	Best Buy	13.8%
3	iTunes	9.8%
4	Amazon	6.7%
5	Target	6.6%
--	Other	47.3%

Source: Adapted from eMarketer, "Recorded Music: Digital Falls Short," November 2007; and NPD Group, June 25, 2007.

## Endnotes

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