

nary rate," says EMI's Hands. Keen to keep it alive, he is mulling changes to the way EMI's artists are rewarded. Out could go generous advances for some artists—"an excuse for us to lose more," he calls such payments. Instead, some expect him to experiment with salaries or even day rates for artists cloistered in the studio.

Would artists buy this kind of shift? Jon Webster, chief executive of the London-based Music Managers Forum, is not so sure. Far from spoiling musicians, he says, "most personal advances are to keep people alive." Squeezing out an album is an unpredictable affair, and regular pay checks might strike some artists as an unwelcome reminder to hurry up. "Creators rarely want to be sitting here watching the clock," Webster says. "The creative process doesn't work like that."

Too often, it doesn't produce money-spinning discs, either. More mature music fans might still pay up for a CD; some 2 million people outside North America bought last fall's *Long Road out of Eden*, for instance, the first studio album from the Eagles in decades. But supermarket muscle has driven down the retail price of compact discs. The only U.S. store selling that Eagles CD was Wal-Mart, for the bargain price of \$11.88. The average price of a CD in Europe dropped by 4% between 2003 and 2006, according to PricewaterhouseCoopers. One way to maintain price levels is to offer deluxe products that pair a standard CD with a fancy book, live recording or DVD. Radiohead figured that out: aside from its pay-what-you-want download offer, the band flogged a special-edition box set of

since 2004. However, that's not exactly the fortissimo it may appear to be. The 38% annual growth in digital sales last year was less than half the increase seen in 2006. Music companies, says JupiterResearch's Mulligan, "are at a stage where they cannot afford to be as choosy as before" when it comes to distributing their wares.

That means easing restrictions on how downloads can be used, and on what kind of devices. You'll still need a whizzy Apple gadget to hear most of the music available from iTunes, but Amazon last September began selling tracks in the U.S. in a format compatible with most digital music players. Its catalogue of 3 million songs—culled from all four majors—will be available outside the U.S. later this year; European music fans unable to wait can from this month download such unrestricted tracks by Warner Music and EMI artists from 7digital, a U.K. music site.

To ease the pressure on their revenues, record companies may paradoxically have to offer more for free. Today's music consumers shell out hundreds of dollars on MP3 players, but they spend an average of just \$20 a year on downloads. To the crucial teenage market, paying for music is as outdated as picking up a newspaper. But companies can get something in return for giving them music. Advertising-supported free music services such as Last.fm pay the major record companies from ad revenue; in return, their users can stream the companies' music for nothing. Such outlets offer record companies the chance to build a relationship with younger fans in the hope those users will later migrate to more lucrative products such as music DVDs. Cell-phone users can also expect to get months of free access to a catalogue of songs. Nokia will launch its Comes With Music service later this year, reimbursing artists and their labels from expected new sales of its music-compatible phones; a similar service, available through Korean giant LG, will come out in the summer. The first record company to offer its music for both these services? Universal, led by the once skeptical Morris.

Innovation like that could also help to strangle music piracy; some 20 billion files were downloaded illegally in 2006. The music business has called on Internet Service Providers (ISPs), which host that traffic, to do more to choke it off, and an agreement was reached in France late last year requiring ISPs to stop large-scale copyright infringers. But to shake off its blues, the record business must itself continue to break old habits. Saying yes to rehab is a start, but returning to health is going to take a sustained dose of discipline and imagination. ■

**'What we are saying to artists is: The current model is broken. Unless we find a new model, new music is dead.'**

—GUY HANDS, EMI CHAIRMAN

*In Rainbows* for \$80 a piece. And a repackaged, "deluxe" version of *Back To Black*, bundling Winehouse's 2006 album with bonus tracks, shot to the top of Britain's album charts just this month.

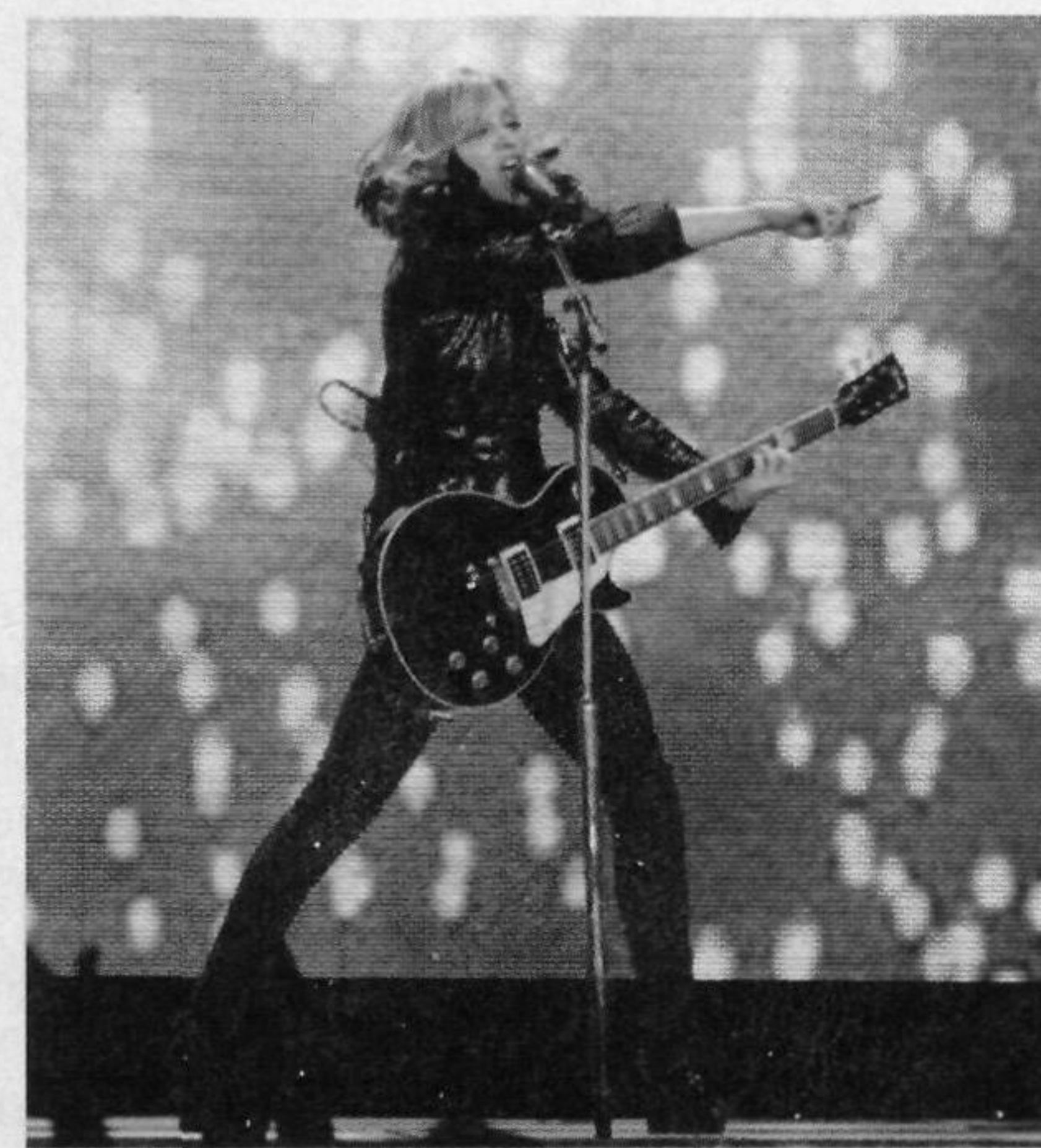
Wringing more out of plastic discs won't be enough to secure the record companies' futures, though. More pressing is the need to sharpen strategies for the digital market. Record companies were slow to turn on to digital; Doug Morris, the boss of Universal Music, once slammed MP3 players as little more than "repositories for stolen music." But last year those companies saw their revenues from digital sales hit an estimated \$2.9 billion, up almost eightfold

**Realigning the Stars. The music business is under attack as everything from new technology to free-thinking artists force record labels to find new ways of making money**



#### GOING SOLO

Record labels shuddered as some 40% of Radiohead fans paid an average of \$6 to download its DIY album *In Rainbows* in the month after its release; a CD version later topped U.S. and U.K. charts



#### MATERIAL GIRL

Tour promoter Live Nation gets a slice of Madonna's concert and merchandise sales as part of a \$120 million deal. As CD sales shrink, record labels hope similar arrangements will fill the shortfall



#### DIAL M FOR MUSIC

Mobile phones accounted for almost half of all digital music sales in the first six months of 2007. New free-download services, such as Nokia's Comes With Music, should further boost that share