



RADIOHEAD'S ONLINE RELEASE CHALLENGES MUSIC INDUSTRY

The unconventional release of Radiohead's "In Rainbows" -- sold online and without a set price - - could redefine how musicians distribute and get paid for their music.

As the record industry continues to sell fewer and fewer albums and online music sales heat up, Radiohead's break with their record label could inspire other groups to adopt the same business model - cut out the record companies and release music directly to the fans.

Instead of selling the album in stores, Radiohead cast off their longtime record label, EMI, and is selling their music exclusively on the band's Web site. Radiohead also went a step further: they are letting their fans name their own price. On average, fans have paid \$8 for the album. More than half have chosen to pay nothing at all.

It is too early to say whether the experiment will pay off in the long run, but Radiohead's decision to sell directly to fans at a price of their choosing has shocked the \$33 billion-a-year music industry.

Growing Trend

Radiohead isn't the only artist to part ways with their record label recently.

Madonna cast off her label, Warner Music, to sign a \$100 million contract with Live Nation, the concert promoter.

And industrial-rock group Nine Inch Nails announced October 8 that they have left their label as well. Band leader Trent Reznor wrote on the Nine Inch Nails Web site that the record business has "radically mutated."

"It gives me great pleasure to be able to finally have a direct relationship with the audience as I see fit and appropriate," Reznor wrote in the statement.

Cutting out the middleman

Traditionally, the record company's role has been crucial to a musician's success. The labels provide the initial funding for manufacturing the records, and help promote the artist.

By releasing their album online, Radiohead is suggesting that record companies have become a cumbersome middleman in the Digital Age.

“I like the people at our record company but the time is at hand when you have to ask why anyone needs one,” Radiohead lead singer Thom Yorke told Time magazine in 2006.

Direct Marketing

It typically takes several months for a record company to produce an album, replicate it and distribute it to stores. The company tries to build hype for the new release through a marketing strategy.

As it has become easier to download music online, legally or otherwise, traditional CD sales are declining. Instead, more revenue is coming from the sale of related merchandise such as T-shirts and concert tickets. Musicians say they need to get their music to their fans faster, in order to generate word-of-mouth publicity for concerts.

“The game used to be really simple. You get your record played on radio, you get your face on Rolling Stone (magazine), and you get on ‘Saturday Night Live,’” all of which would be managed by the record companies, Bruce Flohr, an executive at Red Light Management, which represents the Dave Matthews Band, told the Associated Press.

“Now...you put your video on YouTube, you get your MySpace page happening, you do your deal with Facebook, you tour ... all these things add up, hopefully, to a successful record.”

Radiohead hopes that success from the downloadable album, which reached 1.2 million downloads in the first two days, will encourage some fans to download or buy a boxed set of "In Rainbows" for \$80 at the beginning of next year.

Broken Record Labels?

Nervous industry analysts say the record labels still have an important role in marketing emerging artists and superstars alike.

Smaller artists rely on labels to assume overhead costs of manufacturing and promotion. The record companies are also better able to produce to exacting digital standards.

Superstars like Radiohead and Madonna have a dedicated fan base that will respond to their music, no matter how it is sold. They have years of investment behind them, thanks to their labels.

A growing number of record companies are responding to the changing environment by offering "360-degree" deals that extend to cover merchandise and concert ticket sales.

“The idea is, let’s become a talent developer rather than a CD seller,” Sony BMG CEO Rolf Schmidt-Holtz told the Financial Times.

--Compiled by Christina Satkowski for NewsHour Extra

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