

SELLING MUSIC FOR A SONG

Online music stores make at most a dime per track—where does the money go? **BY STEVEN CHERRY**

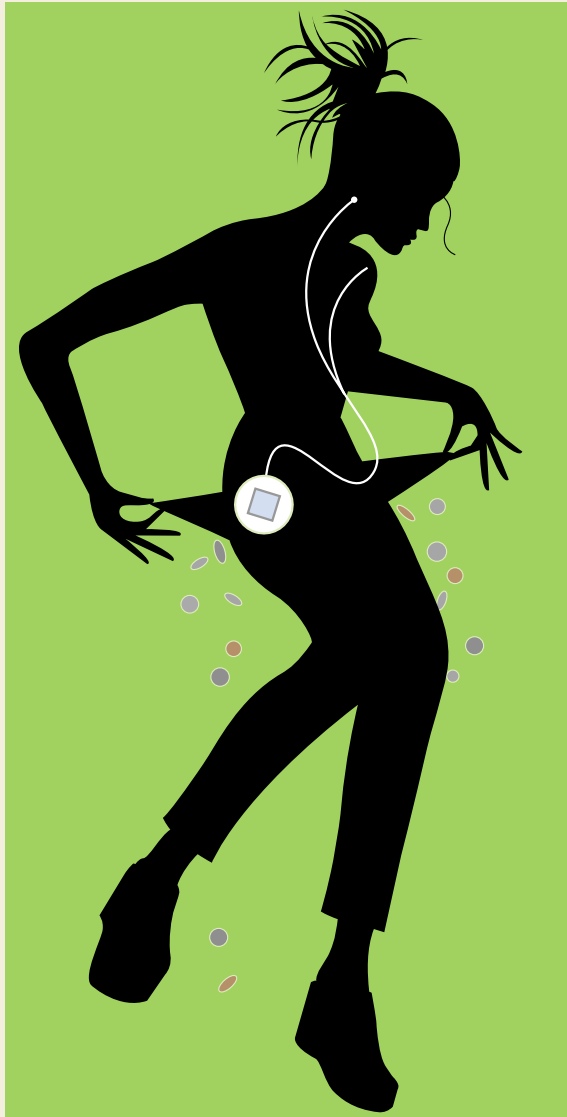
WEBSIGHTS

If an average CD contains 15 songs and sells profitably in stores for US \$15, you would think online services could make oodles of money selling individual songs for \$1 each. After all, there's no physical CD being created, boxed, shrink-wrapped, and shipped all over the world. There's no retail store with a huge rent or shoplifters to worry about. There are no unsold discs to be returned or thrown out. And yet, the surprising truth is that online music services are anything but the gold mines you would expect them to be—not even Apple Computer Inc.'s iTunes Music Store, by far the biggest of the bunch with about half the online song market.

Who's getting all the cash? Back in November 2003, Apple CEO Steve Jobs said the then 7-month-old service was falling shy of merely breaking even. He explained that out of the 99 cents that Apple charges for a song, about 65 cents goes to the music label that recorded it. Another 25 cents goes for "distribution costs"—mainly credit card charges, but also for the servers, bandwidth, and other expenses needed to operate a large online service. Marketing, promotion, and the amortized cost of developing the iTunes software itself eats up the rest. In the first quarter of 2004, the iTunes Music Store finally made a "small profit," Jobs claimed recently.

Other online digital music retailers aren't minting money either. This summer, RealNetworks Inc., in Seattle, quickly sold a million songs at a promotional rate of 49 cents. It's clear, though, that even at its regular price of 79 cents per song, with about 65 cents going to the music label, the service cannot be profitable. Others, such as Musicmatch (recently purchased by Yahoo! Inc. to invigorate its own music service) and the now commercial Napster, fare no better.

Why do the music retailers bother? In Apple's case, at least, the reason is simple: "Because we're selling iPods," Jobs told *Time* magazine earlier this year. And selling and selling—more than 1.6 million of them in



the first six months of 2004. Company profits in the first and second quarters of this year tripled and doubled, respectively, over last year's, largely because of the diminutive 10-by-7-centimeter music boxes. Jobs openly wondered, though, what companies that are not also selling hardware get out of it.

NOR ARE MUSICAL ARTISTS getting rich from online sales. Industry experts believe that those who have signed with a major record label end up with only 3 to 5 cents of the 65 cents that the iTunes Music Store and others pass on. That's about the same as what they get per song when a CD is sold. Even as they complain about digital "piracy," the

record labels seem to be using the new technologies to propel their profit margins toward the stratosphere. After all, they're getting about the same revenue, with much lower costs.

It seems clear that for musicians to make more money, the large music labels, which still control 85 percent of all music sales worldwide, have to be bypassed, one way or another. Many artists now sell their music on their own Web sites. The popular band Phish might be the most successful: in less than two years, its site, Live Phish Downloads, selling only concert recordings, has taken in more than \$3.5 million. (Net profits go to The Mockingbird Foundation Inc., in Saratoga Springs, N.Y., which raises money for music education.)

Musicians are also turning to one another instead of to the major record labels. Last year, two successful musicians, Peter Gabriel and Brian Eno, created MUDDA, which stands for Magnificent Union of Digitally Downloading Artists. (Four years ago, the far-sighted Gabriel founded a commercial music download business, called On Demand Distribution, or OD2, which has since been sold.) MUDDA acts as an online collective for artists to sell their music directly to the public.

Another venue is CD Baby, in Portland, Ore., which describes itself as "a little online record store that sells CDs by independent musicians." According to founder Derek Sivers, artists see 55 cents of every dollar that

comes in. At BandMecca.com LLC, in Dallas, another online music store, that figure is even higher: 61 cents.

There are other ways digital music will make money for its artists. One of the most sophisticated is an artist-authorized equivalent of the concert tapes that fans have always made, usually on cassettes. A new service, eMusicLive, will make a recording at a live concert and then sell it on a CD or USB key drive to departing patrons, minutes after the last encore—a far more enjoyable take-away than the traditional band-tour T-shirt. For more and more musicians, the fruits of new technologies may get the rent paid better than traditional recording contracts. ■