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Record labels shed big name sales risks

By: BY ASHLING O'CONNOR IN LONDON, FT.com site
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Star singers and musicians are increasingly being dumped from their record labels as a squeeze on profits prompts the music majors to review costs.

Rod Stewart, David Bowie, Tori Amos, Sinead O'Connor and Anita Baker are among established artists who have found that, in spite of their continued appeal, they do not sell enough records to justify the overheads associated with an expensive contract.

Normally, companies can depreciate their assets over time. But what if those assets are people?

"This is a becoming more of a problem for the music companies," according to an executive at one of the majors.

"What do you do with the acts that just do not cover their costs? They're big names so they require looking after - in the best hotels, driven around in limousines - and the marketing costs associated with their releases are high."

Disappointing sales of Mick Jagger's latest offering, *Goddess in the Doorway*, and of Sir Paul McCartney's *Driving Rain* have highlighted the problem as younger consumers continue to snap up CDs by artists such as Robbie Williams and Shaggy.

At Warner Music, a division of AOL Time Warner, the response has been a clear-out. Stewart was dropped this month from the company after 26 years. It is unlikely he will remain out of contract for long, say some industry watchers, because his records still sell, although not in the numbers they used to.

David Bowie is another example. EMI, the world's third largest music group, had the option on his future recordings but chose not to take it up, according to a source close to the company.

While consumers will still buy past Bowie hits, such as *Let's Dance*, there is less of an appetite for the new material. Bowie, who raised money on the bond markets securitised against royalties from future sales, has set up his own label through which he will release his next album.

"Because of the pressure of short-term profits, record companies are not interested enough in artists' long-term careers," said one senior music executive.

Indeed, the size of the advances to many famous names can act as a disincentive to the artists, who have banked the money, while the record company stands little or no chance of making back its investment. Will EMI and Sony Music make returns on recent, expensively produced releases by superstars Mariah Carey and Michael Jackson? There are doubters.

For some artists, the most sensible route is to work for themselves. Steve Harley, the original Cockney Rebel, ended a seven-album contract with EMI in 1980. However, he continues to release new material through Comeuppance, his own label, and sells records to fans who go to see him perform live. The margins are more attractive, too, than if he was simply paid a royalty by a music group.

He says: "It's a harsh fact of life but no matter how fanatical the few in the audience are, there are not the masses who will go out and buy your records. So why would record companies want to pay for something that's going to make a loss? It's not viable for them."

Free from corporate constraints, Harley, 50, can produce tracks cheaper than

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a big company could, while profiting from his older material through re-releases or greatest hits compilations.

Gary Numan, the electro-pop maestro of the 1980s, is at the centre of his own cottage industry, selling every kind of merchandise from music, videos, T-shirts and concert tickets, to mouse mats and books through his web site. Others go to an independent label for better distribution. "Artists who have been around for 10 years find it hard to get their product out because a major has to sell in millions," says Terry Shand, chief executive of Eagle Rock Entertainment, an independent whose acts include Simple Minds, Alice Cooper and Yes.

"With a lower cost base and more realistic sales expectations, it still makes commercial sense to release their records."

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