Starbucks to form record label
Starbucks' new record label to produce CDs

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Starbucks by the end of this year hopes to make its own sweet music to go with made-to-order lattes or cappuccinos.

The international coffee company announced Monday that it is joining with Concord Music Group of Beverly Hills, Calif., which has a history of producing jazz, to create a new record label called Hear Music.

The label is the same brand Starbucks has used since 1999 for CD compilations and for several specialty music coffeehouses, such as one in Bellevue, where customers can buy and create CDs.

"As we built the success, we got more and more artists' attention, and artists began calling us and wanting to sign with us," Ken Lombard, president of Starbucks Entertainment, said in an interview. "We have been very fortunate since we made our initial commitment to the music industry."

Lombard said Hear Music hopes to produce an album by the end of this year, eight in 2008 and more each successive year.

Starbucks has been relatively successful in selling CDs and books at its stores in recent years.

Lombard declined to disclose any artists that Hear Music had in the fold. The new company would be based in Los Angeles.

The New York Post, using unidentified sources, reported Sunday that Starbucks was close to introducing a deal with former Beatle Paul McCartney. Starbucks would not confirm or deny the report.

"We are not prepared to name any artists at this point," Lombard said.

Glen Barros, president of Concord Music Group, said the new label would not be limited to certain genres, and his company has expanded into adult contemporary pop, rock, soul and R&B.

"The nice thing about Starbucks is you have the platform to expose great music without
worrying whether it fits in a particular box or strategy," Barros said.

The two sides collaborated previously to create Ray Charles' "Genius Loves Company," which has sold more than 5.5 million copies and won eight Grammy awards.

If Hear Music releases eight albums a year, it would be considered a small independent label, said Jonathan Taplin, a University of Southern California professor who specializes in digital media entertainment.

But Taplin said Starbucks has an incredible distribution advantage with 9,401 U.S. stores, where CDs are prominently displayed and often are near cash registers.

"They sell to an upscale customer. Someone who is paying $4 for a latte doesn't shy away from paying another, $10, $11 or $12 for a CD," Taplin said.

Starbucks has said a typical customer is about 40 years old with an average income of $92,000 a year.

Hear Music's CDs also will be sold at traditional music outlets.

Neither Starbucks nor Concord would disclose the financial terms of the partnership.

Analysts who monitor the company said the deal likely would not generate huge revenue, but would provide Starbucks with some additional star power. Two analysts estimated the company's entertainment arm is part of Starbucks' ancillary business that generates less than 2 percent of company revenue. Starbucks has declined to disclose how much money the entertainment business generates.

In the past fiscal year, the company had $564 million in profits on $7.8 billion in total revenue.

"They never expected the entertainment section of the business to become a huge portion of their business," said Patricia Edwards, a Seattle-based retail analyst with Wentworth, Hauser and Violich. "But there is a good, strong niche there. It's a nice add-on business."

The expansion into the music business comes after Starbucks Chairman Howard Schultz last month lamented to company executives in a leaked e-mail how the company's rapid growth has led to the "watering down" of the company.

Dan Geiman, a retail analyst with Seattle-based McAdams Wright Ragen, said he doesn't view the record label as a further departure from the coffee business.

"It kind of complements what they are doing," Geiman said. "I think he (Schultz) believes Starbucks' core business can coexist with the record business. ... You do what you can to improve your core business."

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