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Music insiders try to stay upbeat at South by Southwest

The Boston Globe

By Joan Anderman and Sarah Rodman, Globe Staff | March 16, 2007

AUSTIN, Texas -- As thousands of bands flooded into the capital this week with their guitars and dreams in tow, keynote speaker Pete Townshend kicked off the 21st annual South by Southwest Music and Media Conference with a remark that neatly summed up the general mood in the industry.

"Rome," Townshend declared, quoting an unnamed record company CEO, "is burning."

Rome, in this case, is the record business, which continues in a freefall that hit a new low in January -- the worst month on record, with a sales drop of 40 percent compared to a decade ago. The explosion of file-sharing and downloading, competition from video games and other niche products, and the trend-driven nature of big-budget projects have combined to put the recording industry into a 10-year tailspin. Major labels have slashed employee and artist rosters. Perhaps most critically, the big record companies have largely failed to embrace the digital revolution, putting severe restrictions on their artists' catalogs. In the process they alienated customers and drove away business.

Although online sales doubled in 2006, it wasn't enough to staunch the bleeding, with sales overall declining 3 percent.

"Pundits have been saying Rome is burning for several years now, and the record company presidents have insisted otherwise," said Eric Garland, CEO of Big Champagne, which tracks digital file sharing. "You know there's been a sea change when you have those people on and off the record saying 'Yeah, this is a bad business.' It's become clear that despite gains in digital music it won't be enough to offset the damage."

According to Epic Records executive VP Andy Gershon, formerly president of V2 Records (which let go its entire staff and artist roster, including the White Stripes and Moby, in January), "the state of the business is similar to Baghdad, only no one's been killed."

Not literally, perhaps, but there is no longer any doubt that the old business model is dying. Still, all is not doom and gloom. Independent labels, while also struggling with issues of online file-sharing and depressed sales, are finding it easier to adapt to the rapidly shifting landscape. Josh Rosenfeld -- president of Seattle indie Barsuk Records,

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home to Nada Surf and Mates of State -- said that in the last year Barsuk has begun instituting changes that are critical to surviving in the digital age, such as streaming its releases in their entirety on the label website.

"The biggest challenge is how do we move into the future in a way that keeps the things we sell something of value without alienating our audience. The Internet has changed everything," Rosenfeld said, "and our ability to adjust is being stymied by the speed of the change. But I tend to believe that there's a way to get through catastrophic events without a final catastrophe."

Terry McBride, CEO of the Nettwerk Music Group, doesn't smell the smoke either. "Maybe we're building a new city," he said in an interview before speaking at the conference.

A willing participant in the digital revolution and outspoken opponent of litigation against downloaders, McBride encourages his artists -- including management and label clients such as Sarah McLachlan, Guster, Barenaked Ladies, and Dido -- to stream music on their websites, make songs available for remixing, and interact with fans, and then attempt to find a way to monetize those interactions. "I don't work from a basis of control, from a basis of force, I don't try to litigate and legislate," said McBride. "I just try to promote and market to that behavior."

For instance, a recent opportunity for fans to remix a song off of McLachlan's "Wintersong" CD resulted in Nettwerk's saving a five-figure DJ fee by buying a fan mix to sell in the marketplace.

"It gained what we would've gained at one-tenth the market rate," said McBride. "We're at that tipping point of being very successful, and we're having fun again."

As are music fans who are swapping, streaming, sharing, and making their own YouTube videos with passion. Noted Big Champagne's Garland: "It's not like music went out of style -- it's more popular than ever. People are excited about sharing music. The record companies just can't figure out how to get paid."

The ability to navigate nimbly and intelligently is what's kept New England-based Newbury Comics in business when mega-retailers like Tower and Virgin have shut their doors. CEO Mike Dreese expanded his merchandise inventory years ago to include DVDs, clothing, and toys. Since Tower closed, Newbury Comics has rapidly expanded its classical CD departments, essentially absorbing the now-defunct superstores' business. Twenty percent of Newbury Comics' CD sales are now online, through their own website as well as Amazon.com, eBay, and LaLa.com, and the chain has also aggressively pursued digital-based promotion: Newbury Comics communicates weekly by e-mail with 90,000 members of its eClub, a promotional tool that Dreese says is far more powerful these days than traditional media. Still, the future is uncertain for brick-and-mortar retailers.

"The old ways are dead. The question now is what can we do to be useful to the customer three years from now," said Dreese, who has brought five members of his marketing and promotion staff to South by Southwest. "You have to figure out little niches of demand. Generally speaking, though, I don't think that the music industry is in bad shape. There's tremendous growth in ringtones and videogame soundtracks. Talent today is in the best position they've ever been in. They're monetizing their own careers, cutting their own deals, communicating directly with their fans. We're in a primordial digital soup and nobody knows what will crawl out, but if you're talented, in five or seven years the world will be an amazing place."

That place is already beginning to take shape. ReverbNation.com, which launched in October, is a website that provides young artists with toolboxes for building careers from the ground up: from uploading and selling music online to collecting demographic information about who's listening to their music and in what towns -- all keys to developing grass-roots fan bases.

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labels have historically controlled," said ReverbNation CEO Mike Doernberg . "You're going to see a lot fewer super-successful groups and a lot more viable groups."

"It's really an emotional time for the business," Garland said of layoffs and shrinking bottom lines and artist rosters. Instead of putting restrictions on digital files and taking consumers to court, he and others believe, it's time for the record labels to take a serenity-prayer approach to doing business and accept the things they cannot change. It's a tough sell, indeed. "You start talking about radical change and people in the traditional business get very nervous. These are major corporations; they like safe, gradual transitions."

But the match has already been struck, the fire is raging, and, as Newbury Comics' Dreese points out, "sometimes the tastiest barbecue comes from the burnt pieces."

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