EMI to cut jobs, artists' advances

By Joseph Menn, Los Angeles Times Staff Writer
January 15, 2008

In a dramatic demonstration of the economic toll of digital piracy on the music industry, EMI Group is expected to fire more than a quarter of the London-based company's employees and radically alter the way it does business to further cut costs.

Guy Hands, who was installed as chief executive of the world's fourth-largest record company after it was bought last year by investment company Terra Firma, is expected to announce cuts of at least 1,500 employees today as part of a major restructuring, two EMI executives said.

EMI also will become the first major label to eliminate the large advances that customarily are paid in the industry to proven artists. For instance, British pop singer Robbie Williams reportedly got an advance worth $150 million when he signed with EMI in 2002. His future advances could be in jeopardy because of his disappointing sales.

EMI instead will pay retroactive compensation based on how well a recording sells, one of the executives said.

The approach will probably take the record company out of the running for top acts, which can negotiate bigger advances from Universal Music Group, Sony-BMG or Warner Music Group, the executives said. A severe cutback in advances means that "you're not competitive anymore for A-list talent. You're asking to be outbid," the executive said.

The company is home to acts such as Coldplay and Kylie Minogue. Last year, it lost one of its biggest bands, Radiohead, which now handles its own distribution.

The record industry has been steadily shrinking over the last decade to respond to a 15% annual decline in music sales. EMI's downsizing has been among the most extreme. EMI will have about 4,500 employees after the cuts, down from more than 15,000 15 years ago, according to industry executives.

Terra Firma spent more than $4 billion to acquire EMI last summer, not counting debt, but the company lost money in the last year.

Hands will decrease marketing spending but invest more in artist development, the two executives said. Striking deals with smaller bands that sell fewer albums could be more practical today, at a time when well established bands are less dependent on the marketing muscle of a major label.

"The status quo hasn't exactly worked," the other executive said. "We can put the emphasis on a good-quality record that doesn't sell a million, but a profitable quarter of a million."

That is a radical departure for an industry that historically has survived on
the profits generated by artists with major hits.

To Hands, that is evidently part of the problem. He might cut from the roster EMI bands that don't earn back what they cost, the executives said. EMI also intends to save money by consolidating such functions as sales and marketing at Capitol and other labels, except for the profitable division that owns the publishing rights to songs. "Their catalog is second to none," said Jay Samit, a former senior executive at EMI, Sony and Universal. "They can monetize that."

He said EMI and the other traditional record labels had been slow to change with consumer habits.

"Every day, entrepreneurs are coming up with new ways of doing things," Samit said. "Yet they're still finding it difficult to work with some of the labels in a timely fashion."

joseph.menn@latimes.com