RECORD PROMOTION, DISTRIBUTION, AND RETAILING

THE MARKETING PLAN

To paraphrase an old adage: If you make a great recording and no one hears it, was it really great? Everyone from the largest major recording label to the self-released independent artist will benefit by knowing the market, identifying the target audience, and planning an effective marketing and promotion strategy. After all, the artist and the label go to extreme lengths and expense to record the best possible sounds.

It should be easy to sell recordings; millions of music lovers purchase music every week. For many people, recorded music is the first choice for entertainment. If the audience has the desire and the buying habit, why should such a detailed plan be required to compete in the marketplace?

Everyone knows that the stakes are high. Those who win, win very big. Those who lose, lose significant dollars on one campaign, wreck careers, and won’t be taken seriously in the future. Worse yet, contract artists will complain in public and look for an excuse to defect if the sales and marketing people cannot move a lot of units.

To understand how recorded music is promoted, it is important to understand the universal elements of a marketing plan. Demand must be developed, not only nationally but also all over the world. Because of the significant production and promotion costs, a label often has to sell a lot of records—quickly—to be successful. Many labels think they are holding their own if 20% of their releases are profitable.

Developing a Marketing Plan

A marketing plan is a strategy on how the recording will be promoted to various outlets, including radio, press, retail, advertising, Internet, television, and

Left: CMA Award.
Photo courtesy of Country Music Association.
“street”/grassroots initiatives. In practice, some of these responsibilities are interchangeable. Whatever the name attached to a particular marketing concept, whatever job titles are used, everyone active in this general area has the same objective: to get people to buy recordings. Larger labels may include in their marketing departments the following personnel:

- Marketing people. Responsible for conception and execution of sales campaigns and providing sales aids to distributors and retailers.
- Radio promoters. Responsible for gaining exposure on the radio.
- Publicists. Responsible for getting stories, reviews, and “news” releases to print and broadcast media.
- Advertising managers. Responsible for the conception, production, and placement of ads in print and broadcast media.

**The Concept**

A unique marketing plan is a useful way to attract attention with a new recording: What makes this release different from the other several hundred new releases coming out that week? The demand for fresh marketing ideas challenges the most creative and experienced staffs. Many companies enlist market researchers to help identify target markets or demographics, thereby enabling them to cater to those specific audiences. Armed with this information, a recording company attempts to put together a marketing campaign that ties in with the nature and style of the music and buying habits of that group.

A conscientious starting point would be to listen to the music a company is trying to sell. At this early stage, the company’s marketing people try to come up with a hook. Those invited to help conceive the marketing plan might include the artist’s manager, the producer, the head of marketing, the art director, the heads of promotion and publicity for the label, and the A&R (artist and repertoire) representative.

Once this group invents the marketing concept, the art department renders sketches, a photographer or other artist is engaged, the copy is written, and the mechanical (assembled graphic elements) is rendered.

Meanwhile, the marketing department is trying to implement the marketing plan in the form of P.O.P.—industry shorthand for point-of-purchase materials. P.O.P. might include posters, banners, stand-ups, special display racks, window displays, flags and streamers, and perhaps souvenir items (nicknamed “swag”) that the merchant can give away. P.O.P. can be very costly to produce, but recording companies believe the investment in these sales stimuli pays off.

While the packaging art and P.O.P. are being produced, the firm’s advertising department is inventing print ads and, perhaps, broadcast spots.
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SWOT

An important step in effectively devising a plan of attack for marketing a pro-
motion of the recorded product is to do a basic SWOT analysis. SWOT stands for
“strengths, weaknesses, opportunities, and threats.” This gives a good perspective of
what marketing concepts may be employed, what hurdles may be faced, and
how those hurdles can be overcome.

Strengths. What does this project have working well in its favor? For example, the
artist has a successful history of radio airplay. Therefore, it will be an easier sell to
radio to have this artist’s new single added to the playlist. It could be that the artist
has built a loyal fan base through continuous touring, that the artist possesses a
sound or style currently in favor, or that the artist has cut a tremendous new
recording that will be ground-breaking. It’s best to start with what the project has
going for it from the outset and how to best maximize those traits.

Weaknesses. What weaknesses does this project face? By identifying these, the mar-
keting can then be developed to overcome those potential roadblocks and start the
thought process about other ways to create awareness. For example, the artist will
not be able to tour for health reasons. This means the recording company has to
think of other ways to gain exposure. Maybe it will concentrate more attention on
and allocate more monies to press and radio to overcome this obstacle.

Opportunities. What opportunities exist that the label can take advantage of in its
marketing effort? For example, the artist has landed an opening slot on a major
artist’s tour for 3 months. This will give the artist great exposure that the record-
ing company should use to its advantage. Another example is when a genre of
music takes off; the artist who plays that style enters a market primed for the
release of his or her recording.

Threats. It is just as important, if not most important, to identify what possible
forces may be working against marketing efforts. It can be conditions such as a
crowded month of high-profile releases that will be competing for radio and press
attention. By identifying these threats, the label can prepare marketing that will
both address these threats and find other ways to achieve exposure. Items that
should be addressed can be as broad as considering the current economy to as
narrow as that this artist insulted a writer from an important publication.

THE ELEMENTS OF A MARKETING PLAN

Targets

Radio. Although radio is no longer the sole influence on record sales, it is still a
heavyweight medium for promotion. A promoter does not have to twist arms to
persuade stations to go with the new release of a superstar. Program directors will add a new release from an artist of international stature even before receiving word that other stations are also going with the recording. But new releases of a performer below superstar status require promoters to hustle, because competition for airplay is fierce. There is space on many playlists for only two or three new artists at a time because stations don’t want too much unfamiliar music on the air.

Large recording companies employ a staff of full-time people to handle promotion in-house. Outside promoters, known as independent promoters, are also used routinely. The label, usually on a recording-by-recording basis, retains independent promoters for the sole purpose of obtaining or increasing radio airplay. This type of promotion is so expensive that recording companies may negotiate recoupment of some or all independent promotion expenses against future artist royalties.

Promoters always have a difficult time “breaking” new artists. Although discovering and establishing new talent does remain an art form, the promoter’s job has been made somewhat easier by the proliferation of format-specific stations, both commercial and noncommercial. Promoters must decide on the musical styles or formats that would be appropriate to promote the recording. Each format is either a singles-based format or an album-based format. A singles-based format such as Top 40 radio requires the recording label to choose a specific song from the album to promote to the panel of stations in that format. If the format is album-based, such as for college radio, the panel of stations wants the album to be delivered, and each station chooses the track or tracks they prefer to program.

Reporting Stations. Knowledgeable promoters focus nearly all their attention on reporting stations—that is, a station the trade papers and tip sheet publishers monitor to learn which recordings have been programmed. Note: Although all reporting stations are monitored, not all monitored stations are considered reporting stations, mostly because the music they play is not considered current enough to be useful for charts (e.g., “oldies” stations, adult contemporary stations, some country stations). This is the information that causes a particular recording to land on the charts—or fall off and disappear. The chart makers ask program directors not only about what recordings (singles, album cuts) are on their playlists but also about their rotation—how often particular recordings are scheduled in a 24-hour period, usually notated as heavy, medium, or light. Reporting stations are also asked which records are “playlist adds” for the week and which ones are being dropped. This method of information gathering is used for recordings that may not be ranked by electronic systems such as the Broadcast Data System (see Chapter 17).

Although rare with new artists, if a new release can gain airplay on influential radio stations, it may land a position on the charts. If that first chart appearance should occur, say, in the midrange of a national chart, the promotion people more
Program directors will often than not have a hit on their hands. At this point, most recording companies accelerate their efforts, instructing their label’s regional promotion staff to intensify their campaigns. The promotion staff is now in a position to prove the claim that the new release, which is starting to break nationally, has strong hit potential. At this point, radio station programmers who were too timid weeks ago to take a chance on the new release may now be persuaded to jump on this potential hit. As the singles promotion campaign continues to snowball with strong national airplay, a hit is born.

Sometimes there is a catch to this. Occasionally, we have “turntable hits”: A recording manages to get good airplay, but people just don’t walk into the stores and buy it. No one has come up with a satisfactory explanation for the turntable hit phenomenon.

To gain the confidence of radio program directors (PDs), promoters must establish a reputation for credibility. What the PD needs most is useful information—research, not fast talk. The station needs to know whether a new release fits its programming and whether it is gaining airplay elsewhere. It also wants to know a release’s overall ranking with the rest of the records getting researched; it wants to know the release’s “burn factor”—do people really want to hear it more?

If a promoter cannot provide these assurances to the station, there is one other hope: The music might appeal to the personal tastes of the PD or musical director. Occasionally, these decision makers will program a new release just because they like it, but few stations permit personal tastes to have too much influence on these important decisions. That influence is now even more limited with the advent of the group PD—a single PD responsible for a network of stations spread geographically.

Although traditional radio has become more and more difficult to break into, there are several other ways of providing music to the masses for little or no money. The first is satellite radio. Typically a monthly subscription service, satellite radio programs many genre-specific channels with little to no commercial interruption. It offers a deeper playlist than traditional radio.

Similar to satellite radio is cable radio. Available with most digital cable providers, cable radio also has genre-specific programming with little to no commercial interruptions and deeper playlists.

After much controversy, Internet radio has slowly but surely started to develop. It offers free-form programming, as well as the opportunity to listen to radio stations across the world.

Mailings, Telephone Follow-Ups. Because only a small number of stations can be reached by personal contacts, promoters mail free promotional copies to a larger number of outlets. Mailing out this many free recordings is extremely expensive, so experienced promoters use a very select mailing list, one that includes mostly influential stations or stations where the promoter has personal contacts.
Mail campaigns need to be followed up by telephone calls ("Hello, Frank. Did my stuff come in? How'd you like it? What did you find time to listen to? What have you added? No? How about next week? So-and-so is breaking big in Toledo; you won't want to miss out on it. How can I help you ..." and so on). The success of this kind of telephone call follow-up depends not only on the suitability of the recordings mailed but also on the rapport between the caller and the station programmer. More and more, e-mail has become an important and effective way of communicating with radio personnel.

**Payola.** The correlation between record sales and radio play has led to many cases of abuse of power. The first well-known cases of employees of a radio station taking money or favors in exchange for airplay or chart position occurred in the 1950s. Although there was a very public trial and condemnation of the practice of "pay for play," new ways of corrupting the air ensued. Later on, a middle person, known as an "independent promoter," came between the label and the radio station in accepting money for airplay. These middlemen copied the legitimate practice of recording companies hiring a professional radio promoter to handle their newest releases. The "illegitimate" independent promoter both acts as consultant to the radio station and then in turn asks for payment from the label for various adds and increase in rotation.

**Publicity**

Many recording companies handle their publicity activities in-house; others have only a small resident staff and engage publicists and PR firms to help out. A small label may depend totally on an outside firm or independent publicist for PR.

Even the most imaginative publicist cannot catch public attention unless the public can be persuaded that something is happening—a new recording is released, the artist is on tour, or a TV appearance is scheduled. When the publicist has no story, one might be invented. The job centers on the task of getting the artist and the songs talked about. Many merchants believe the most effective sales force is word of mouth.

A publicist can target many types of publications for reviews, feature articles, and interviews. The larger, more popular color magazines usually have long lead times. If a publicist wants an artist's recording to be reviewed in the magazine the same month the recording comes out, he or she needs to send a finished CD to the magazine 3 to 4 months prior to the record's release. For example, the magazine issue that will be on the newsstands in June is written in February or March.

Dailies and weeklies (newspapers and the weekly arts publication) are other types of publications available. These publications tend to focus on local artists and artists playing a concert in the area.
Fanzines are publications with a relatively small consumer base, usually written and published by a fan of an artist or style of music. Although not as widely circulated, the readership includes more proactive consumers.

Internet sites represent a wide spectrum of publications. Although not yet at the level of their in-print counterparts, the Internet is growing in importance in the publicity world.

Retail. Recording companies desire better placement within the record store. Once a recording is out of the alphabetical bins, companies believe a consumer is more apt to make an impulse buy similar to the candy rack in the checkout lane of the supermarket. This is why labels spend considerable money and effort to get their releases in better locations within the store. Almost every retail chain or store offers a variety of opportunities for a label to purchase co-op advertising or what is referred to as “price and positioning.” Most of these programs include having the CD both on sale and in a special location. In return for the fee that the recording label pays the retailer for the placement, the record store “buys-in” more of that particular recording and puts it on sale. Some examples of store-level price and positioning are listening stations or kiosks and the end caps, or racks at the end of aisles or in prominent locations in the store where the CD will be on display and at sale price. Sometimes these end caps have a theme, such as “music of the holidays” or “June is blues month.”

In addition to price and positioning, recording companies will try to have P.O.P. advertising set up in the retail store. P.O.P. is aimed at making the consumer aware of the release’s presence in the store.

Sometimes a retailer puts a release in better positioning either because it believes in the product or in exchange for free CDs to sell. These CDs are referred to as “cleans” because they are “clean” of any of the markings they would have if they were for promotional use only. “Promos” are cut, drilled, or defaced in some other way, but these CDs are clean and ready for sale to the public.

In 2000, major labels were forced to loosen a restrictive policy known as MAP (minimum advertised pricing). MAP had been used by the labels to restrict large discount retailers from undercutting smaller merchants by threatening those outlets that broke MAP policies with a suspension of co-op advertising funds for several months.

One-Sheets. Recording labels print a single page that contains major selling points and information about a particular release to solicit retailers. This document contains the cover art, some bullet points about why the retailer should stock this recording (past sales, press, or radio history), and if confirmed, tour dates. The one-sheet may also list key markets for the artist and some quotes from the media. Most recording companies find it beneficial to lay out some of the finer points of their marketing plan (plan for radio, press, and advertising). The one-sheets also
inform the retailer that co-op advertising dollars are available and list the various P.O.P. materials available.

Advertising

Print, broadcast, point-of-sale, and direct mail advertising can be important components of record promotion. All advertising seems to help sales, but the difficulty is measuring whether the resulting sales justify the expense. With this mass consumer product, large labels find it profitable, from time to time, to place ads in mass print media—magazines and newspapers.

Most advertising is institutional (also referred to as consumer advertising)—for example, a print page or media buy that doesn’t mention a store, or cooperative, in which the retailer benefits.

Another type of advertising is trade advertising. The recording label places an ad in a publication aimed at individuals and companies within a certain industry. It could be as all encompassing of the music industry as Billboard or as specific as Pollstar for the live entertainment industry. These ads help in both promoting the release and confirming to the music industry community the label’s commitment to its artist.

Video and DVD. Recording labels learned years ago that linking music to visual entertainment could increase sales, whether the medium was a movie musical, a TV broadcast, or a music video. Broadcasters and cable companies transmit dozens of video shows, and their impact on record sales is clear: Videos can not only increase record sales, they can break new acts, even prolong the chart life of new recordings. Production of music videos often requires large budgets, gifted directors, choreographers, and production specialists. Just as with radio, when the promotion staff can’t get playlist adds by networks and major market stations, they work secondary, even tertiary, stations in smaller markets for video exposure.

The music video field is discussed further in Chapter 20.

Club Promotions. Dance clubs have sometimes been effective places to test new recordings. Prior to commercial release, recording labels may remix to make long versions of singles, favored by dancers, then get them into clubs to test patrons’ reactions. If the clubs report strong response, the label will be encouraged to go into a general commercial release. Most labels supply clubs through companies in the business of setting up record “pools” of new releases for their clients.

If strong word of mouth develops through dance clubs, and if the same release gains good airplay in that region, the single may be headed for the charts.

Another way dance clubs contribute to record promotion is by showing music videos of new releases. Clubs obtain most of their tapes through video distribution companies that act as liaisons between recording companies and clubs. Dancers
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sound systems may be stimulated later to walk into a store and pick up a copy
(audio or video) to continue enjoying the music at home.

Campaign Management. Most labels assign one individual—the product manager—
to manage a promotional campaign. These managers receive a budget from the
company and are expected to oversee a promotion strategy, coordinate the various
departments (marketing, radio promotion, publicity, advertising) and execute the
marketing plan. They may also have the responsibility of assigning promotion per-
sonnel to certain geographic areas and coordinating the efforts of staff promoters
working out of the label's branch offices. Product managers put out the word on
timing of the campaign and how much attention and emphasis it is to receive.

Product managers also keep track of which radio and TV stations are adding
or dropping the new release. If they observe good airplay developing in a particular
geographic area, they may double efforts there in an attempt to develop a
regional hit. They then inform the marketing department and distributor of the
new radio developments to ensure there is enough product in the market to meet
the possible demand caused by the airplay. They arm their sales force with informa-
tion that the retailer will demand before being convinced to carry more of the
recording.

Product managers have the task of following the progress of a new release on
the trade charts and point-of-sale scanning at retail. Information on the entry, rise,
and fall of a recording on the charts provides guidance on how to spend (or
withdraw) the money available for a campaign.

In a basic sense, product managers are the quarterbacks for a particular
recording. They ensure that there is a plan in place, that each department is fol-
lowing through with its responsibilities, and that each department receives perti-
nent information from other departments to help in its efforts. They decide if
another approach or backup plan is needed should the original plan not work as
well as hoped.

International Promotion

Multinational recording companies may spend more money and effort
promoting releases abroad than they do in this country, because foreign sales can
contribute more than one half of world sales.

Increasing numbers of artists are becoming international stars. They have had
the good fortune of being with a recording company that has a worldwide pro-
motion setup or one that licenses its foreign releases to others. A multinational
entertainment conglomerate must determine, each time out, whether to have for-
ign releases occur simultaneously with the U.S. release or whether to test the
recording in the United States before promoting it abroad.
Sometimes the recording company does not have the option of delaying foreign releases: The artist's contract may specify not only that the label release the recordings abroad simultaneously but also the countries where they are to be made available. In addition, with the globalization of access to the Internet, any delayed releases can cause rampant pirating and downloading of a release prior to its domestic release.

The big recording companies have large, fully staffed affiliates in foreign territories that have the responsibility of releasing and promoting the firm's product. Among the strongest foreign markets for breaking new U.S. recordings are the Netherlands, the United Kingdom, Germany, Japan, Australia, and France. Firms with international operations know the promotional techniques that are most effective in these countries.

Foreign promotions cannot be handled like those in the United States. In all these territories, fewer radio stations are available for record exposure. The stations that do exist may be state controlled and allow no advertising and have a requirement that they play a certain number of recordings made by a citizen of that nation; time buys may be unavailable.

**RECORD DISTRIBUTION**

If the promotion people have created interest in a new recording, the manufacturer must find a way to get the product to potential customers—wherever they may be, at the right time, and in sufficient quantities. This is a very difficult thing to do well, because the market is unpredictable and widely dispersed. After many years of trial and error, even major labels are still trying to figure out a better distribution system (see Figure 16.1 for current distribution systems).

Periodically, record retailing has been plagued by price wars among merchants, which has a direct effect on the distributors (those who provide product to retailers). Merchants fighting to remain afloat amid irrational retail pricing competition appeal to their distributors for better discounts to help them survive the competition. Distributors can respond to these appeals most often when they can sell at high volume. But when a merchant becomes too aggressive in buying and becomes burdened with expensive inventory, the distributor will soon hear a plea for lenient "return privileges."

Distributors try to strike a balance between overselling their accounts and offering an undersupply. With the former, both parties suffer the inconvenience and expense of "returns"; only the shipping industry profits with returns. But when a distributor's customers buy too conservatively and a recording hits suddenly, both parties miss out on sales when the merchandise is not available to the buying public. It is paramount that a distributor be in constant contact with its retailers to advise them of recent and important developments so that the store can be properly stocked.
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**FIGURE 16.1. Record Distribution and Retailing**

**Major Label Distribution**

Large recording companies handle distribution through the branch offices of their affiliated distribution companies located in major cities across the country. Although most distribute only products of their own labels, some large firms also contract to distribute products of independent recording companies.

Major distributor branch offices normally have two divisions. One handles regional promotion; the other concerns itself with distribution and sales. The distributor's promotion staff coordinates its activities with the promotion staff of each distributed label. Major labels may have more than one distributing subsidiary, each of which has different strengths and expertise.

Branch offices of large recording companies employ salespeople, too. Their task is to call on retailers, try to sell them, perhaps deliver the actual recordings, help set up promotional displays, take a periodic inventory at the retailer, and do what they can to help the retailer attract customers. They work for a salary or on commission or for a salary plus an override. These are not the most glamorous jobs in the music business, but some people in this position have graduated to management positions and gone up the corporate ladder.

**Independent Distribution**

A handful of major multinationals handle the lion's share of record distribution in the United States. But they don't do it all. A share of the business is in the
hands of independent distributors, who provide services for hundreds of independent labels and artists who release their own recordings.

Independent distributors usually provide promotion services as well. Most have a staff of enterprising salespeople who call or visit retailers, deliver merchandise, and set up displays—much like the major label branch offices do.

There are regional and specialty independent distributors as well as national independent distributors, some of which have evolved through a merger or confederation of regional distributors. Large independent distributors are confronted with pleas from new labels to take on yet another line. If they consider adding new labels, management must determine whether it has the capacity to handle the increased inventory and the will to tie up additional working capital on unproven suppliers. If the distributors stocked every recording that appears promising, they would soon go broke. But if they fail to stock new product that suddenly bursts wide open at the retail level, their local accounts will sometimes bypass the local distributor and buy directly from the label.

One-Stops. One-stops are a special kind of distributor. They came into being in the 1940s mainly to accommodate the needs of jukebox operators. A one-stop is a distributor that handles all labels, including the majors. One-stops are set up to service not only jukebox operators but also small rack jobbers and mom-and-pop retailers. Most of these customers place small orders. Because major distributors have minimum-order requirements that are too high for most mom-and-pop retailers and because one-stops must purchase records from distributors, one-stops cannot offer the same discount as a major distributor. But their customers pay the higher prices because they appreciate the convenience of a one-stop operation and they may have nowhere else to go. One-stops sell more labels, in lower quantities but at a higher price, than the traditional independent distributors.

Music Clubs. In 1955, Columbia got the idea that records could be sold directly through the mail. It was right. The Columbia House Record Club (initially owned by CBS) has been running well ever since. Shortly after CBS got started in the field, RCA (now BMG) and then Capitol Records followed in establishing record clubs (Capitol has since discontinued this kind of promotion). When record clubs began, retailers threatened court action, arguing that a big company pushing sales of only its own label through the mail constituted unfair competition and restraint of trade. Columbia responded by expanding its club offerings to include products from other labels. Clubs now offer for sale any album that proves sufficiently popular to earn a listing in their advertisements.

Club memberships are developed through TV, magazine, direct mail, and Internet ads offering a starter supply of CDs or tapes below cost, together with a commitment from the "member" to purchase several more within a specified time at the regular price.
In recent years, struggling clubs rethought their selling strategies and tapped the growing power of the Internet as a sales tool.

Digital Distribution. The development of the Internet has created a new way to sell recordings to the consumer. Although many consumers have used controversial illegal Web sites that provide access to other users’ libraries of copyright-infringing digital files, the recording industry and other companies have started to offer ways of buying digital copies legally so that the copyright holders will benefit. These early attempts range from Web sites with a monthly membership fee to the a la carte “pay per download” to other possibilities as the technology becomes available. It is an effective way of selling music, because the consumer can sample the artist’s recordings and purchase them immediately.

RETAIL MERCHANDISING

From the distributor or label warehouse, the goods flow to retailers. The retail merchandising of recorded music constitutes one of the largest segments of the music business (see Figure 16.2 later in the chapter for sales by type of outlet in 1994 and 2003). Merchandising success depends to a great extent on how the retailer assesses buyer preferences, both as to configuration (e.g., tape vs. disc) and genre (e.g., jazz vs. classical).

Rack Jobbers

Before discussing the traditional record store, let’s look at a different kind of supplier—merchant—the rack jobber. The rack jobber moves a large percentage of the audio recordings sold and even serves some kinds of conventional record stores.

A customer walking into a large multiline/chain merchandiser retailer cannot know just by looking around whether the area where recordings are displayed is a department of the store, whether it is space leased to an outside firm, or whether it is serviced by a jobber who supplies the racks and bins. Chances are, a rack jobber is servicing that operation.

Jobbers work out various kinds of contracts with the store that supplies the retail space. Among the most common are the following:

1. The jobber rents space for racks and bins from the retailer for a flat monthly fee. The jobber offers complete servicing of the area and retains all the money collected from sales.

2. The jobber pays the host store a percentage of sales.
3. The jobber and store management work out a minimum lease fee; if sales exceed an agreed-on figure in any given month, the jobber pays the store a percentage of the overage.

Retailers like record racks on their premises because they can often make more profit per square foot of floor space from this kind of merchandise than they can from other lines. Merchants also benefit from increased shopper traffic generated by the high volume of record buyers.

When a rack jobber sets up a large number of racks and bins, the jobber needs clerks to assist customers and restock supplies daily. Where a rack setup of this size is in operation, it is practically indistinguishable from a “leased department.” When a jobber leases enough space for this kind of operation, the jobber has a major commitment of capital and probably has a dedicated checkout counter and a security system and handles money separately. Leased departments are common in department stores, mass merchandisers, and discount chains. Large retailers can demand hefty lease payments from the record merchant or jobber and, at the same time, are spared all responsibility of running the record sales department.

Retail Stores

Retailing today is much more complicated than it was in the past. Even retail operations of medium size are expected to stock not only current releases but also past hits. The stock should cover all major styles, from pop to classical. The DVD explosion has dictated that many major retailers carry music video titles and theatrical film releases. Customers will also expect to find blank CD-R disks, electronics, and a line of accessories. Stocking, controlling, and merchandising such a diverse inventory demands much more working capital than in simpler times. Although music retailing today is big business, it is a diversified and rapidly consolidating business.

On the whole, the small record stores are disappearing. One reason is that they cannot buy enough stock to receive an adequate discount from distributors. In turn, this means they cannot discount their retail prices to compete with larger stores. Another reason the small store rarely survives today is that many customers want to browse through endless bins of merchandise. Tastes are more diverse now; a customer may favor country music but might stumble onto something interesting to take home in adult contemporary or jazz. Only a retailer with a large inventory of diverse styles can attract this kind of customer.

One type of relatively small record store does well when it is well managed: the proprietor who locates in a special neighborhood, earns the confidence of a small but loyal clientele, and stocks the particular kind of music that appeals to that community. For example, one such operation does a strong business in Boston selling polka records.
Another kind of specialized record store is found in the inner city, where entrepreneurs catering to urban music tastes find a ready market. Yet another kind of specialized record store is often found in shopping communities adjoining a large university where the market for classical music is strong. When staffed by knowledgeable clerks, such stores may do well.

**Prices, Buying, and Discounts.** When a merchant manages to pull together enough working capital to set up a retailing operation, the problems have just begun. One of the greatest challenges is determining at what price the merchant can afford to buy—and then what kind of discounts can be offered customers.

Distributors will try to influence the retailer with all kinds of discount offers, seeking to encourage greater and greater volume. Distributors know that the more pieces of a particular release that it can get into the store, the more the recording will appear outside the bin and make a visual impact on the shopper. But if the merchant is persuaded to buy 100 CDs at a special discount on one release, the pool of money (called “open-to-buy”) available to buy other merchandise shrinks in proportion. When the retailer reduces cash through heavy purchasing, the next recourse is to persuade the banker to loan just a little more, then a little more. Credit at the bank and with distributors can soon become overextended, and the aggressive merchant might have done better going into the fish business.

To keep a tighter rein on their finances, many retailers now do the buying for all their chain stores centrally. This means that the distributors need visit only the home office of that retailer to sell their recordings. The retailer will then buy the appropriate amount for the entire chain. Although most retailers keep the various stores’ individuality in mind, they cannot anticipate all the differences that exist at the local level. To accommodate the varying demand at each store, the chain budgets a discretionary account for that store to spend each month on particular recordings that either weren’t ordered or weren’t ordered in the quantity that that local store customer may demand.

By federal law, distributors cannot give individual direct accounts special discounts. All must get the same discount offer. Labels can, however, offer more co-op advertising money or special prerrelease exclusivity. In addition, to help maintain the precarious balance that retailers hold between overstocking and not having enough product on hand, labels have established fairly liberal return policies and extended terms for payment. Basically, to get more product into the stores, most distributors offer a 100% return guarantee. Simply stated, this policy allows the retailer to return the product to the distributor at any time for any reason and receive a full refund. That allows the retailer to take more risks in carrying more product and in larger quantities than “onesies and twosies.” Again, the label and distributor want as many as of the releases as possible in stock at the retail store. The more product, the more the release will “jump” out of the bin and into the sight lines of the consumer.
Retail Chain Stores

As music software retailing becomes a business of increasing risk, the smaller entrepreneur becomes easy prey for sale to a retail chain. The growth of record chain operations results from the same economic pressures already cited: To make a profit, the merchants must find more ways to buy cheaper, and the mass merchandiser is certainly in a better position to do this than mom and pop. Another advantage is that chain store advertising is far more cost-effective than a mom-and-pop campaign—which can rarely include such an important medium as TV. Chain store operators provide an additional advantage to their component units: When one store overbuys and gets stuck with inventory, it can often shift some of this product to another unit in the chain that may have run short. Chain store locations help each other balance their inventories.

Overall, recorded music has fallen prey to the same “big box” transformation in retail that has swept over many kinds of merchandise. As recently as the late-1990s a majority of CDs and tapes were purchased at independent or chain record stores. Since then, mass merchants such as Wal-Mart and so-called “other” retailers have commanded the lion’s share of the business (see Figure 16.2). These mass merchants have amassed such clout that in many cases they can dictate prices and whether they will buy direct from manufacturers or distributors. And they can even demand changes in the music itself to meet the objections of their core middle-market audience.

E-Tailers

In recent years, the sales of recorded music through Internet Web sites have grown considerably. These sites have taken on the more traditional music retailer in that they carry more titles by artists of all levels, from those on major labels to artists who self-release their own recordings. In most cases, these sites can offer a lower retail price to their consumers, because they carry less overhead expense than a traditional brick-and-mortar operation could. Most of these sites offer their consumers sound clips from the records as well as reviews from linked publications and other consumers who purchased that recording. Patrons of these sites can shop 24 hours a day from the comfort of their own homes, read reviews, listen to samples, and have a wide spectrum of music available to them at their fingertips.

Sites that sell MP3s that have been licensed from the appropriate copyright holder can be included in this classification.

Cutouts, Repackaging

Recording manufacturers find it difficult to estimate how much merchandise to produce. If they underestimate demand, customers cannot be accommodated.
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Increasing risk, the smaller the growth of record sales already cited. To make a profit, and the mass market music and pop. Another strategy is more effective than a more important medium as TV, their component units; sales are not shift some of their product and will run short. Chain stores are not the “big box” transformation.

As recently as the late 80s, independent or chain record stores, so-called “other” retail outlets, as shown in Figure 16.2. These massive retailers can dictate prices and volumes, but they do not have the power to set those prices. They can still make objections of their core,”

Internet Web sites have revolutionized the way we purchase music and merchandise. These sites offer a lot of free music and where customers can listen to music before making a purchase. Patrons can access new music from home, read reviews, and learn about new artists at their fingertips.

FIGURE 16.2. Recorded Music Sales by Type of Outlet (in percentage of U.S. dollars)


Note: Internet sales were not recorded for 1994.

If they overestimate demand, they will find their warehouses stocked with dead merchandise. Once the demand drops sharply, the manufacturer will stop production. The inventory remaining is known as cutouts. Retail outlets cannot move this stock at normal prices, and the manufacturer finds it prudent to unload this merchandise at cost or below cost on buyers who specialize in cutouts. These cutout merchants buy up quantities, warehouse the units, then vend them to rack jobbers and other retailers at a very low price. Their customers, in turn, offer these cutouts at extremely low prices. Both parties usually turn a profit, and the retail customer gets a bargain—but artists do not generally receive royalties on cutouts.

Some music stores find that their profit margin from cutouts is better than from conventional sales. Some cutout companies buy or lease old masters, then rerelease them to fallen stars who still have loyal fans ready to gobble up ancient hits at bargain prices. For example, for years, cutout merchants and repackagers have been able to sell “rereleases” or “new” releases of the big name band hits of the 1940s. Another perennial repertoire comes from the early rock-and-roll hits. Reissues of country music also continue to be sold, through “new” releases, new packages, or cutouts.
Perhaps the most successful merchandising of old repackaged hits is seen on television. Companies buy up or lease masters from recording companies holding the rights to old hits, then repackage them under their own labels. These repackers favor titles such as *Sinatra's Greatest Hits* or *Monster Metal Ballads of the 1980s*. They produce low-cost, hard-sell TV spots, obtain time on TV and cable, and provide a mailing address and toll-free telephone number for viewers to place their orders.

**National Association of Recording Merchandisers**

The National Association of Recording Merchandisers (NARM) is the international trade association that represents the recorded music distribution industry.

More than 1,000 companies are NARM members. Individuals automatically become members when their companies join. There are two categories of company membership:

1. General members: This category includes retailers and direct mailers as well as wholesalers such as rack jobbers, one-stops, and independent distributors.

2. Associate members: This category includes entertainment software suppliers such as manufacturers and suppliers of music, video, and other forms of recorded entertainment, as well as suppliers of related products and services such as accessories, display fixtures, advertising, printing, packaging, security systems, and computer hardware and software.

All companies who join NARM pay annual dues based on their yearly sales volume. Member benefits include the following:

- Annual convention—a trade show for new products and services, and a forum for record merchandisers and manufacturers to network and discuss mutual opportunities and concerns

- Merchandising campaigns—point-of-purchase materials free to its members, as well as educational videos on merchandising

- Marketing research—various studies of consumer buying trends, demographic preferences, and other relevant studies that help members in their businesses

- NARM schedules additional conferences and meetings for its members, and it lobbies to represent members' interest in local, state, and federal legislative matters.
NARM's loss prevention initiatives spearheaded the effort to adopt a universal technology for electronic article surveillance (EAS) at the point of manufacture. NARM's Annual Survey and Sounding Board newsletter provide useful information to its members.