

THE MUSIC INDUSTRY - Example Case Study



EMI is a major British, independent, leading, global music company. It produces and distributes music throughout the world with artists such as **Coldplay** and **The Verve** on its books. It is considered one of the big four record companies. It employs around 5,500 people and operates in 50 countries.

Financially it is a world player with revenue in 2007 of over £1,751 million and profits of over £62 million. The **EMI group** comprises over 100 recording labels. It is the second-largest global music publisher (i.e. music scores).

There are two main sides to the music business recorded music and music publishing.

The **recorded music division** signs bands, manages bands and makes records – CDs and downloads.

The **music publishing division** (based in New York) collects royalties every time their songs are played on radio, television, video games, films, ring tones and advertisements. The royalties are small but they all mount up to be a profitable business.

EMI has the rights to the published songs by **Amy Whitehouse**, **Arctic Monkeys**, **Duffy**, and **Jay-Z** as well as perennial favourites like *Over the Rainbow*. This arm of the business is so successful that it is said to be worth 80% of the value of the company. **EMI publishing** owns or manages 1.3 million copyrights.

EMI is a **vertically integrated company** because it creates music to sell on CD and as downloads on the internet, and it publishes the songs, lyrics and music of many of its own artists and many more artists. So it **produces and distributes its own products**.

By producing music and publishing it, the institution owns, controls and sells all aspects of the music process and product. It now no longer actually makes the CDs and DVDs it sells, as the manufacturing was transferred in 2004.

The company is owned by a **private equity firm** (wealthy, private investment company that buys up other companies) called **Terra Firma** headed up by **Guy Hands**, who bought **EMI** in a reported £3.2 million takeover in 2007.

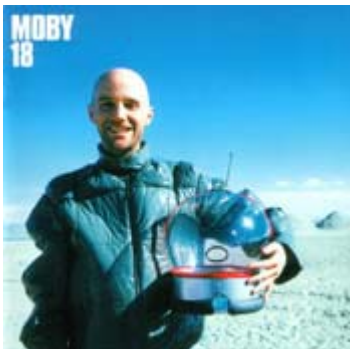
Changing patterns

EMI whose recorded music headquarters are in London was in the news in 2008 because it is trying to adjust to the changing patterns of the recorded music business.

The way consumers buy their music is changing from CDs to downloads and there is a lot of piracy and illegal downloading, which means the profits of the recorded music division are not as healthy as they should be. Most recorded music companies are finding the digital age is reducing their profits.

The headlines suggest that the talent on which the company bases its music recording business is not staying with the company. **The Rolling Stones** left in July 2008, after 16 years. **Radiohead** have left, and **Robbie Williams** is on a go-slow. **Sir Paul McCartney** left the company in 2007 after 45 years with them.

EMI Patterns of Ownership



In 2002 **EMI** acquired the independent record label **MUTE** for £42 million, home of **Moby**, **Depeche Mode**, **Goldfrapp** and **Nick Cave & The Bad Seeds**, and many other 'alternative' music artists.

This is an example of a takeover which is a characteristic of the constantly changing nature of the music industry. **MUTE** specialised in alternative bands and artists that had commercial success and a wide audience.

Major companies look to increase their value by acquiring more assets and intellectual rights. **EMI** also wanted to widen its global appeal. By taking over a record company they automatically acquire the music and songs of artists who attract different audiences to build up their catalogue.

In 1992 the company was very busy buying up record labels including **Virgin Music Group** for US \$960 million from **Richard Branson** and Japanese company **Fujisankei**, as well as **Sparrow** (largest US Christian music company) and Denmark's **Medley Records**. Later in 1996 it bought 50% of **Jobete** music publishing from the very famous **Berry Gordy** for US\$132 million.

This is how this institution became one of the big four music companies in the world and in 2008 worth over £2 billion pounds.

In 2004 **EMI** transferred its CD and DVD manufacturing assets in the Netherlands to **MediaMotion**, as well as closing its CD and DVD manufacturing plant in Illinois, USA. It also sold its Australian CD manufacturing unit which was a joint venture with **Warner Music**, to **Summit Technology Australia**. Now it no longer actually manufactures CDs and DVDs.

Here in the UK in 2006, the **HMV** subsidiary of **EMI Waterstone's book shops** paid £62.8m for the independent book chain **Ottakar's**.

In 2007 **EMI** agreed to a £3.2 billion takeover by **Terra Firma**, a private equity firm.

Further details on the comprehensive website www.ketupa.com/emi2.htm

And the **EMI Group** website www.emigroup.com



Content is the most valuable asset in the contemporary convergence culture of digital downloads and digital distribution. Music copyrights, or the intellectual property rights of song writers and composers and publishers, are very valuable assets as audiences have greater access to more content.

EMI has a huge back catalogue of great artists such as **The Beatles**. This back catalogue generates high yearly profits which the company ploughs back into new recordings, and research and development of yet to be discovered artists, new musical forms and musical diversity.

Context

In America **EMI** is not the largest music company. It has 8.4% of the US market whereas its rival **Warner** has 20.3%. **Sony/BMG** has 24.1% - although **Sony** in July 2008 bought out **BMG** from the German multi media conglomerate **Bertelsmann** for approx \$900 million. (**Sony** and **Bertelsmann** united their recorded music divisions in August 2004 but the joint company suffered loss of market share, although it has **Britney Spears** and **Oasis** on its books).

The world's largest recorded music business is **Universal Music Group International** with labels such as **Polydor**, **Mercury** and **Island**. The company's share of the UK market is 33.2 %.

Londoner **Lucian Grange** is chairman and chief executive (CEO) of the world wide part of the operation that is outside the US. He has helped steer the careers of **U2**, **Amy Winehouse**, and has just signed **The Rolling Stones** (July 2008). The **Universal Group** is owned by a parent company, the global media giant, **Vivendi**.

Grange is seriously concerned about illegal downloads – It is estimated that more than 6 million people in the UK alone have used the internet to download songs illegally. **Universal** has signed a deal with **SKY** which is the latest company to offer an alternative music online subscription service to **Apple's iTunes** which has cornered 70% of the legal download market.

Music Piracy

It is illegal to download or share music online. This is stealing money from all the people who actually produce and create the music.

Actually you may be amazed to hear that it is also illegal to download CDs to your iPod, although this is a less contentious area. Britain's six largest internet service providers (ISP) have agreed a deal to send warning letters to hundreds of customers whose accounts are being used to download or share pirated songs

Further research...

- **What is the future for this company?**
- **What cross media synergies is it exploring?**
- **What does EMI's audience want from the company?**
- **How do you as a music consumer respond to the anti pirating arrangements currently in place – such as targeting YouTube for copyright infringements?**