

FEATURES

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Recording industry changes its tune

New flexibility at music labels is brightening the outlook for Internet start-ups

BY BRAD STONE
NY TIMES NEWS SERVICE, SAN FRANCISCO

With CD sales dropping fast, it is not hard to imagine how the major music labels could benefit from the growth of Web start-ups like Imeem. The company's service lets people listen to songs, discover new artists and share their favorites with friends. And in return, Imeem owes the labels licensing fees for use of the music.

But two months ago, Imeem's founder, Dalton Caldwell, was ready to pull the plug. While 26 million people a month were using the service, Imeem owed millions of US dollars to the music labels, and income from advertising was nowhere close to covering expenses. "It reached a point where it was not even clear it was worth doing any more," Caldwell said.

Then the ground shifted. Last month, Warner Music Group forgave Imeem's debt, and both Warner and Universal Music agreed to relax the terms of their licensing deals with the site. That allowed Imeem to raise more money from investors and plan for a profitable future.

Imeem's amnesty is one sign that a new accommodation is being forged between Web music start-ups and the companies on which they are almost wholly dependent, the major music labels.

The recording industry is considering an all-digital future in which it needs popular Web services like Imeem, both as sources of revenue and as supplements to older channels of promotion like radio and MTV.

As a result, music labels are now striking more favorable terms with Web companies, and the start-ups have come to realize they can't rely on Web ads to support themselves.

For example, as part of its new plan, Imeem will try to push users into buying more T-shirts and concert tickets, and will soon add its own MP3 download store similar to iTunes, sharing revenue with the labels.

It is not yet clear whether any of this is enough to produce sustainable online businesses — or even to help mitigate the chronic pain of the music industry. But it is offering some hope.

"We are trying to figure out how to restructure partnerships and

develop a healthier ecosystem where entrepreneurs can continue to innovate," said Michael Nash, executive vice president for digital strategy at Warner Music. "Entrepreneurs are also realizing they need to spend as much energy on their business model as they do on technological innovation."

The changes stem from an unavoidable and unpleasant reality facing the music business: The economics of offering music free on the Web do not work. Companies like Imeem, striving to create an alternative to Apple's dominant iTunes store, signed complex deals with the labels that required them to pay large up-front fees and then small royalties — typically a penny or less — each time a song is played online. Advertising recouped only a fraction of that considerable expense.

As a result, the online music landscape is littered with the wreckage of failed or troubled music start-ups.

SpiralFrog, a free music download service supported by advertising, went out of business in March, citing financial difficulties. And music executives have roundly expressed disappointment with the money trickling in from MySpace Music, their high-profile joint venture with the News Corporation, which started last year and was talked about as a savior for the music business.

For many digital music entrepreneurs, there is new hope that music labels will now give them room to experiment and perhaps succeed. Last fall, Lala, a

Silicon Valley start-up, introduced a distinctive service that lets people listen to a song once at no charge. Then it costs US\$0.10 to stream that song repeatedly on the Web and up to US\$0.99 to download it. Lala executives credit the labels' cooperation on the unusual licensing arrangement and say they are selling hundreds of thousands of songs a month.

In April, the mobile phone operator Vodafone introduced a music service in Spain that gives subscribers unlimited access to a broad catalog of songs on their phones for 16 euros (US\$22) a month. The songs can be played on the phone or transferred to a computer. The service was only possible because the major music labels altered the underlying economics of their licensing deals, said Rob Glaser, chief executive of RealNetworks, which is supplying the music service. "That flexibility wasn't there in 2008 anywhere in the US and Europe," he said.

Napster, a pioneer in peer-to-peer music sharing that became a paid music service owned by the retailer Best Buy, reduced its subscription rate to US\$5 from US\$12.95 a month two weeks ago as a result of new deals with the labels, according to Chris Gorog, Napster's chief executive.

The same week, Pandora, the rapidly growing Web radio service, said it would increase the number of audio commercials on its free service and offer an ad-free version, Pandora One, for US\$36 a year. The founder, Tim Westergren, said he expected the company to reach profitability next year.

"There was a generation of Web companies that signed up for deals that didn't make sense, and unfortunately they set a precedent," Westergren said. "Now that those deals turned out to be unsustainable, it made the labels realize that there was actually not hidden money they were missing out on. I think labels have a much better understanding of the economics of the business."

Dalton Caldwell, founder and CEO of Imeem, was ready to pull the plug on his popular but unprofitable digital music start-up when Warner and Universal agreed to relax the terms of their licensing deals with his site.

PHOTO: NY TIMES NEWS SERVICE



Daniel Ek, left, and Martin Lorentzon, founders of Spotify, a European music service that is free and plastered with ads.

PHOTO: NY TIMES NEWS SERVICE

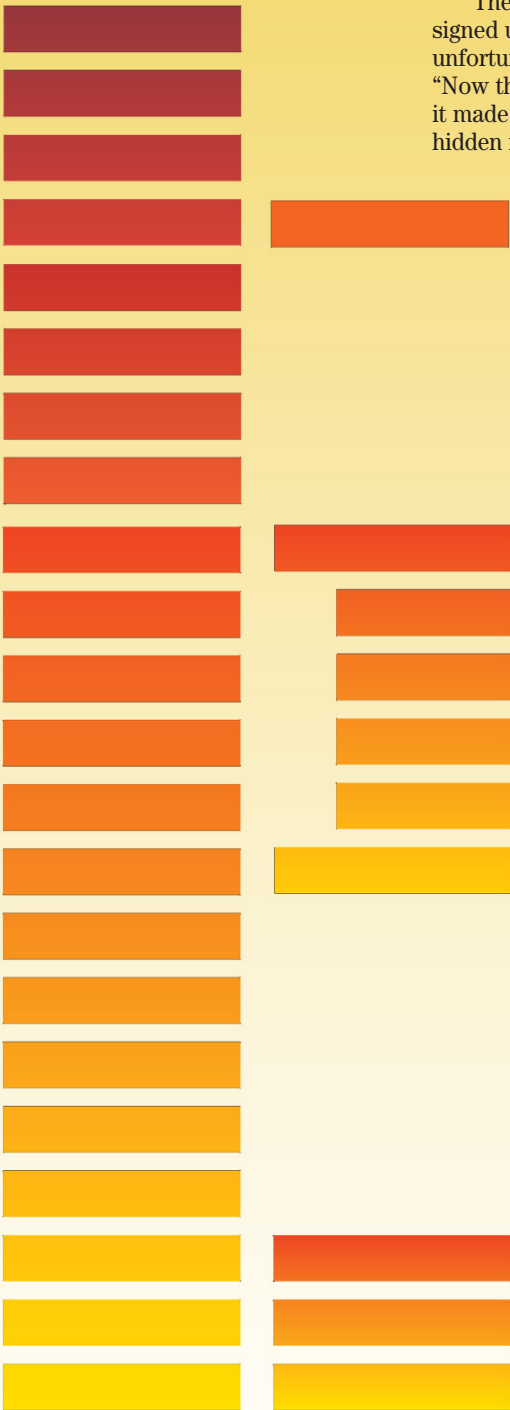


ILLUSTRATION: NY TIMES NEWS SERVICE



Locals gather at Blackburn's community center to cheer on Susan Boyle during the final of Britain's Got Talent on Saturday.

PHOTO: AP

Dream over: Susan Boyle loses in final

BY JENNIFER QUINN
AP, LONDON

She gave a final curtsy, a shimmy of her hips, and walked off stage, leaving the winners to perform an encore.

But it's unlikely that finishing second on *Britain's Got Talent* Saturday night to a dance troupe called Diversity will be the end of Susan Boyle's showbiz dream.

The 48-year-old church volunteer became an Internet phenomenon after she auditioned for the television talent show, her show-stopping voice combining with her frumpy appearance to make her a must-see on YouTube.

For the finals, she returned to the song that made her famous, *I Dreamed a Dream* from the musical *Les Miserables*. She wore a glamorous but modest sparkly floor-length dress, and her once-gray frizzy hair was a soft brown halo.

She appeared more polished and animated than in previous performances, but seemed uncomfortable during banter with the judges after her song. Judge Simon Cowell said Boyle had a rough brush with fame, but that she was "a nice, shy person who wants a break." The week leading up to Saturday's performance had been a tumultuous one for Boyle. She lost her cool during a confrontation with two reporters, and the police intervened. Another contest judge said Boyle had contemplated pulling out of the program to soothe her frazzled nerves.

"A lot of people said you shouldn't even be in this competition, that you weren't equipped to deal with it," Cowell said. "I totally disagree with that."

"You had the guts to come back here and face your critics and you beat them." Asked about her career plans after the show, Boyle told broadcaster ITV that she hoped to get an album out, and will "just play it by ear." Millions tuned in to the live program and voted by telephone afterward.

Boyle's hometown of Blackburn, Scotland — a working-class village about 16km west of Edinburgh — rallied round her, stringing up signs declaring their support. Her defeat was greeted with shouts of "no" and gasps of disbelief at the Happy Valley Hotel, where neighbors and friends had gathered to watch the program.

"She lost because people didn't bother voting for her because they thought she was going to win it," lamented 21-year-old Gordon Mackenzie. "I didn't vote for her because I thought everyone else would."

Winning group Diversity are a 10-person dance troupe who range in age from 12 to 25 years old. Their act won praise throughout the competition, but they weren't seen as front-runners.

Their victory earned them £100,000 (US\$159,000), and the right to perform for Queen Elizabeth II at the Royal Variety Show in December.

It was Boyle who had always been expected to win, and British bookmaker William Hill offered 10-11 odds on her victory Saturday.

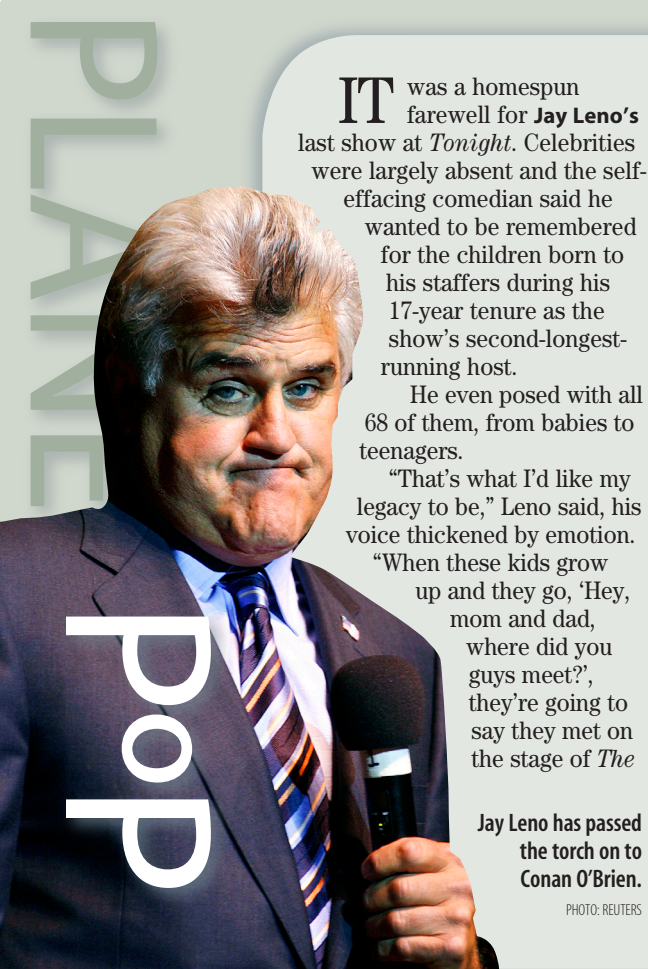
The betting service had briefly lowered its odds when the reports of erratic behavior seemed to show "there might be a chink in her armor," according to spokesman Rupert Adams. But he said William Hill "got absolutely hammered" with bets and quickly went back to predicting a Boyle victory.

Boyle's entree into the limelight has been viewed millions of times, the fifth-most watched clip in history on YouTube. And it was a moment that has become reality-show history.

She introduced herself on camera as someone who lived alone with her cat, Pebbles — neighbors and relatives were taking turns looking after the feline while Boyle was in London for the show — and who had never been kissed.

Those details combined with her matronly appearance sent the audience into titters when she walked on stage.

But then she began to sing. And as Boyle hit a high note at the end of her song's first line, Cowell's eyebrows rose along with her voice.



Jay Leno has passed the torch on to Conan O'Brien.

PHOTO: REUTERS

Tonight Show. The show also included jabs at favorite targets, including politicians and his own network. He noted proudly that he took over the top-rated late-night show from **Johnny Carson** and was passing it on with the same No. 1 ranking to **Conan O'Brien**, who begins as host today.

"Which means I get my security deposit back," quipped Leno.

Leno received a chilly reception when he beat out Carson favorite **David Letterman** for the *Tonight* job in 1992.

Carson, who was host for a record 30 years, taught him that no matter what happens in the world the host has to have a nightly monologue, "because that's your job," Leno said.

Giving O'Brien a pre-debut boost, Leno welcomed him as his final guest.

"You were the perfect choice. You've been an absolute gentlemen in private and in the press," Leno told O'Brien, lauding him for his "sharp" material.

"Conan rocks," a studio audience member shouted. "I

agree, Conan rocks," Leno replied.

A clip was shown from 1993, when the 30-year-old O'Brien, a TV newcomer, appeared on *Tonight* hours after being signed to host *Late Night*. Leno, his hair dark then and gray now, was ushered on stage Friday with a **Jimi Hendrix**-flavored version of *The Star-Spangled Banner* by bandleader **Kevin Eubanks**.

"Welcome to the exciting season finale of *The Tonight Show*," said Leno, greeted by a standing ovation. "I want to thank all the people who made it possible: **Michael Jackson**, **Monica Lewinsky** and **Bill Clinton**." After noting that former US presidents Clinton and **George W. Bush** were participating in a joint speaking engagement in Canada, Leno remarked wistfully: "I wish I had one more day."

Leno also fit in a last shot at **O.J. Simpson**, another monologue favorite. In cleaning out his office, the comedian said, "I found O.J.'s knife. I had it the whole time."

After keeping his private life out of the spotlight for years,

David Hyde Pierce has announced his marriage to longtime partner Brian Hargrove.

The former *Frasier* star spoke candidly in an appearance on ABC's *The View*. Wearing a wedding band, Hyde Pierce revealed they tied the knot "very quietly" in California on Oct. 24.

The actor and Hargrove, a producer, are still legally wed despite the California Supreme Court's decision last week to uphold Proposition 8. The gay-marriage ban was approved by voters in November, stopping legal nuptials going forward.

Angered by the ruling, Hyde Pierce said Thursday: "It's like, 'Oh great, we made the cut.'" He called it a "very odd thing" that strangers have a vote on his private decision to marry.

A former TMZ photographer is suing **Britney Spears** over an incident in which his foot was run over. Ricardo Mendoza filed a civil lawsuit in Los Angeles Friday against the singer. The lawsuit claims that Spears negligently operated her car and committed



Britney's being pursued by a paparazzo — in court.

PHOTO: AP

during a turbulent period for Spears, who hours earlier had lost custody of her two sons. She has since regained visitation rights.

Rapper Tone Loc, who performed the 1980s hits *Wild Thing* and *Funky Cold Medina*, was released from the hospital Friday after collapsing during an outdoor concert in Florida, officials said.

A spokesman for the Escambia County Sheriff's Department said it appeared Tone Loc collapsed and had a seizure because of overheating.

Tone Loc, who was born Anthony Terrell Smith, collapsed early Friday morning at the Capt'n Fun Beach Club. The *Pensacola News Journal* reported he was taken away in an ambulance.

The rapper's manager, Bobby Bessone with B.A.M. Management/Entertainment Artists Agency, said flight delays and heat contributed to the collapse. He said the rapper is recovering.

—AGENCIES