

THE DEATH OF THE RECORDING INDUSTRY AS WE KNEW IT

A White Paper

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The music recording industry was built on a brick-and-mortar distribution model: the record label signed an artist, produced and published an album, and the vinyl was off to the store for purchase by the fans. But today is the day of the digital download. There is massive consolidation in the industry and revenues are on the decline. Total revenues of CDs and digital downloads in the U.S. have dropped from a high of \$14.6 billion in 1999 to \$10.4 billion in 2008. According to Forrester Research, by 2013, revenues will reach as low as \$9.2 billion.

Now, more than ever before, artists are making their money on merchandise and concert ticket sales, and they can use new solution providers like music promoter Live Nation™ or Direct-to-Consumer (D2C) platform Topspin™ to help them monetize their music. The message for the music recording industry is clear: Transform your business or die.

THE MULTI-MILLION DOLLAR DILEMMA: Invest in IT to Deliver to Artist and Fan Expectations, or Lose to Direct-to-Consumer Alternatives

A web presence is a standard marketing, and now sales, component of every recording artist's persona. These sites are continually becoming more complex with the additions of eCommerce, user generated content, social media, custom applications and more. Fans want to visit a single website to hear the official news about an artist, download her music, and buy concert T-shirts or tickets. Record labels are being forced to be experts in the IT business and manage tens or hundreds of constantly evolving sites, not to mention the web infrastructure.

When record labels cannot effectively deliver feature-rich eCommerce websites, they cannot capitalize on all revenue streams; when artists establish an internet presence outside of the label to sell merchandise, tickets, digital downloads and more, a single record label can easily miss out on \$100 million annually.

"A PR FIASCO DRIVES THE ARTIST AWAY"

Sam is a senior executive at a major record label. Six months ago he had one of the best and worst days of his career. His label was launching a feature-rich website for a wildly popular artist who enjoyed connecting with her fans on the web. The launch had been hyped for weeks and was much-anticipated by both the artist and her fans.

A demo of the website had worked without a problem, but when the site went live it performed painfully slowly. A flood of fans descended on the website, driven there by Sam's incredibly effective hype-engine. Performance slowed to a crawl and what was billed as a fun, unique and interactive web experience quickly deteriorated into a PR fiasco. The artist was so frustrated by the results that she lost faith in the label's ability to host her lucrative eCommerce site and decided instead to host it with somebody else.

This single incident cost Sam and his label over a million dollars in lost revenue and hundreds of man-hours of time. The indirect costs are harder to quantify, but every time an artist decides to go outside the label for their eCommerce initiatives Sam wonders how much of that decision is being driven by the events of that day.

“ONE SITE DOWN = ALL SITES DOWN”

Alan is another industry veteran with a similar story to share. Alan heads up a record label with hundreds of artists in genres including pop, alternative rock, heavy metal, R&B and more. For reasons he doesn't completely understand, all of the artists in his portfolio share the same Internet plumbing. At first that seemed to be a great strategy for containing costs. The plumbing seemed to work just fine and the accountants were happy. That is until one of his featured artists happened to mention their website address on a recent MTV appearance.

Within a matter of minutes thousands of fans rushed to the site, bringing down not only this one artist's site but every artist site hosted by the label. Dozens of apologies and countless man-hours later Alan came to find out that his team had never tested the plumbing under real-world conditions.

Now Alan feels like he's stuck between a rock and a hard place: the label likes to invest in its artists, not in technology that might never be used. But no one can predict when an interview, a tidbit of celebrity gossip or a user-generated YouTube™ homage might take down all the artists' sites again. As Alan puts it, "I've basically resigned myself to the fact that I'm going to have to live with some pain and that I may just have to become the world's greatest apologizer." How long will Alan's artists put up with his apologies before they look for an alternative solution?

IT'S MORE THAN MANAGING WEBSITES; IT'S MANAGING RELATIONSHIPS

Sam and Alan's stories are not unique in the industry. Every day we hear similar stories from recording industry clients caught between the same rock and hard place. On the one hand artists and their fans are continually pushing the Internet envelope, coming up with new and interesting ways to connect and collaborate and demanding these rich, interactive experiences from label executives. On the other hand are over-stretched IT teams hard-pressed to keep up with the basics, and accountants who hawkishly guard the bottom line.

Years of underinvestment in the Internet plumbing has led to a status quo mentality among industry executives, a somber resignation to the fact that it's not a question of if a site will go down but when. And with the pace of technology accelerating at an ever-maddening rate, website outages are occurring with more frequency, leaving less time between apologies to build back relationships with artists and fans. And all the while the sharks, in the form of new D2C plays, keep circling closer and closer, threatening to disintermediate the recording industry in unexpected ways.

Record labels are trying to figure out how to best manage the multitude of websites for all of their artists. But in reality, the D2C world means that labels must manage relationships – relationships with their artists and their fans. When websites go down, artists and fans get upset, and the artists and their managers take their business elsewhere.

When websites go down, record labels lose real dollars, artist confidence, and the opportunity to build future relationships with additional artists and fans. This loss of music and merchandise revenue, loss of artists to competitors and the loss of IT man-hours attributed to dealing with website downtime is a multi-million dollar problem for the music recording industry.

THE RECORDING INDUSTRY HAS A BROKEN PROCESS FOR DRIVING D2C INITIATIVES

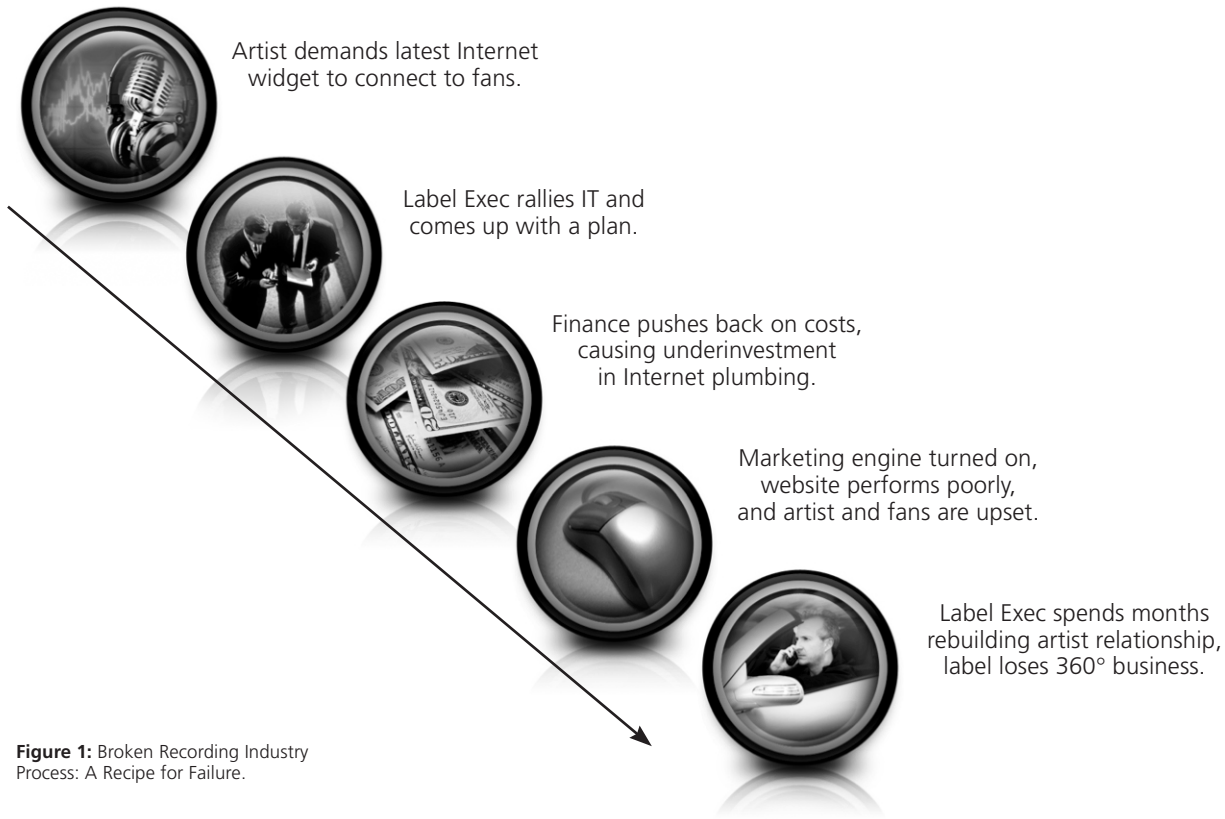


Figure 1: Broken Recording Industry Process: A Recipe for Failure.

RECORD LABELS' COMMON WEBSITE INFRASTRUCTURE CHALLENGES

After many years of working closely with recording industry executives, we understand the challenges of maintaining multiple, constantly-evolving sites. Some major pain points include:

- **Marketing is Innovating Faster than IT.** Marketing monitors artist and fan demand, and is constantly pushing the envelope on website functionality. The legacy web infrastructure simply can't keep up.
- **Well-Planned Promotional Events are Poorly Executed.** Marketing, PR and IT (and perhaps external partners) prepare in concert for a promotional event to take place. Labels do not have sufficient test and development environments, and when websites roll into production, they do not perform as anticipated.
- **Demand is Unpredictable.** Websites and web infrastructures are built for steady-state traffic, and labels have no control over external news sources and social media. When traffic is unexpectedly driven to an artist's site and a major spike occurs, sites perform poorly, or worse, go down all together.

RACKSPACE'S DIRECT-TO-CONSUMER INFRASTRUCTURE FOR THE RECORDING INDUSTRY

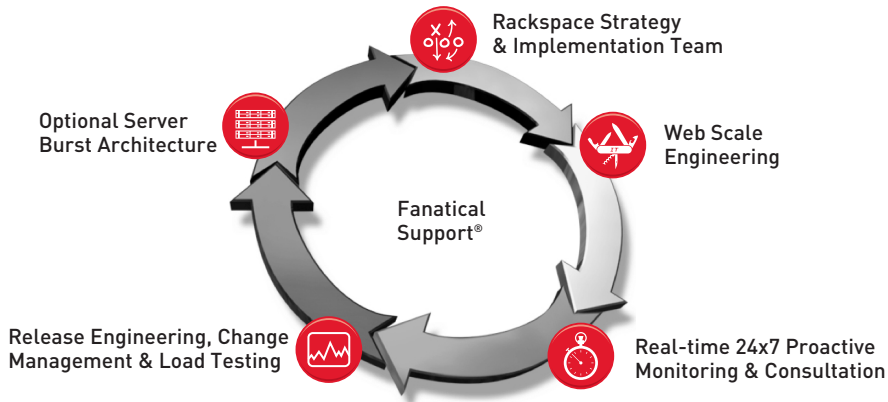
Rackspace understands what it takes for a managed hosting and cloud computing provider to successfully address the challenges faced by the recording industry. Our experiences have enabled us to develop a comprehensive methodology and an impressive array of talent and tools that deliver a rich, immersive and reliable online experience to your artists and their fans.

RACKSPACE'S FOUR-STEP APPROACH TO BUILDING A DIRECT-TO-CONSUMER INFRASTRUCTURE

1. The program begins with a **Diagnostic Study**, an in-depth review and collaboration to identify current business and IT strategy, create the business case and requirements for a robust D2C platform, and provide a gap analysis between current and future state. A critical component of the Diagnostic Study is determining the size and impact of the broken D2C process, both in real dollars and in impact to your brand and future business.
2. It then proceeds to a **Solution Development** phase, in which we create a roadmap and project plan to outline the phased transition from current to future state.
3. The third phase is **Implementation**, in which your team works directly with your Rackspace Dedicated Account Team to execute the plans created in the Solution Development phase.
4. The final phase is **Optimization & Maintenance**, in which we monitor your artists' sites and traffic, keeping one step ahead of demand to ensure reliable performance.

The result is a repeatable process for keeping pace with artist and fan demands that delivers a reliable platform for all of your D2C initiatives. In short, it delivers Internet plumbing that just works.

A DIRECT-TO-CONSUMER SOLUTION THAT PROVIDES REAL VALUE



Rackspace® Hosting
MEDIA SERVICES

Rackspace Strategy & Implementation Team

FEATURES: A dedicated team that assesses the label's current state and creates a customized, implementation plan based on the label's unique strategy to deliver a reliable and scalable D2C website infrastructure backed by URL uptime service level agreements.

VALUE: The Rackspace team provides both the industry understanding and the technological expertise to deliver a D2C strategy solution that will enable the label to monetize new revenue streams.

Web Scale Engineering

FEATURES: The industry's best LAMP technology professionals with years of training and "in the trenches" experience, on the job 24x7x365 to assist with root-cause analysis and remediation to keep your websites online. Web Scale Engineers also handle pre-emptive issue resolution, and run-time optimization and tuning.

VALUE: The label has piece of mind in knowing they have the best experts dedicated to their D2C solution around the clock. Because Rackspace Web Scale Engineers are always focused on the label's websites and infrastructure, the label can now focus on core business needs.

Real-time 24x7 Proactive Monitoring & Consultation

FEATURES: URL and Device Monitoring provide alerting and troubleshooting capabilities along with proactive trend analysis to prevent website outages. Advanced website reporting and analytics are included.

VALUE: Deeper insight and extensive monitoring means your artists' sites stay up and the label maintains credibility with artists and fans.

Release Engineering, Change Management & Load Testing

FEATURES: A structured process to identify and prevent application performance problems prior to live production allowing for seamless push of code changes and simplified rollback.

VALUE: The label can identify problems before going into production, resulting in increased success for marketing promotions.

Optional Server Burst Architecture

FEATURES: The insurance of additional dedicated, secure burst capacity to quickly address the inevitable unplanned traffic spikes that come with success and growth.

VALUE: The label's web infrastructure and all artists' sites can rapidly scale to handle unexpected spikes in traffic.

SOLUTIONS PROVIDED BY THE WORLD LEADER IN HOSTING AND CLOUD COMPUTING, AND BACKED BY FANATICAL SUPPORT®

Rackspace is the recognized leader in hosting and cloud computing, with a legacy of delivering world-class hosting solutions to the Recording Industry and a real passion for delivering unparalleled support to our customers. We're publicly traded on the New York Stock Exchange and have a global reach, with facilities in the US, Europe and Asia.