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## **EMI Takes a Stake in Band**

### **The music company's all-encompassing deal with Korn could change the way labels profit.**

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EMI Group, the world's fourth-largest music corporation, is expected to announce today a deal with the rap-metal band Korn that some say would fundamentally change how record companies profit from the superstars they help create.

The deal, which would give EMI a stake in almost every dollar the band earns worldwide over at least the next five years, would represent the first time a high-profile American band has wholly partnered with a record company, although similar experiments have been initiated with foreign and first-time performers.

Sources close to the band said that under the terms of the deal, EMI would pay the four-member band an estimated \$15 million upfront — more than twice what the band might expect from a traditional recording contract. In return, EMI would get more than 25% of the band's publishing, merchandising and touring revenue as well as profit from the group's albums.

"This is the direction that the music business is going," said David Munns, chief executive of EMI Recorded Music North America. "The music and records we produce drive an artist's career. But our margins are under threat and our marketing costs are getting more expensive. We should share in the other revenue streams that are created."

Others are skeptical.

The Korn contract "might be one of those deals that revolutionizes the music industry," said Rick Sales, a manager at Sanctuary Artist Management. "Or, EMI might wake up one day and wonder why they just handed Korn 10 years' worth of profits."

Traditionally, record labels have focused almost solely on recorded music. In exchange for putting up the millions of dollars required to produce and package a hit act, music companies have kept most of the profit generated by album sales, leaving the lower-margin concert, merchandise and music publishing industries to others.

But as album sales decline and record labels look for new sources of revenue, many labels have begun exploring partnership deals similar to the Korn-EMI agreement. Music executives and artists say that if all-encompassing agreements become common, they could significantly shift the focus of the \$11-billion recording industry and bring new heavyweights to the concert, merchandise and music publishing worlds.

Supporters of the idea — mainly record label executives — say these partnerships are essential in finding new revenue and innovative ways to promote bands in an increasingly cluttered marketplace.

A&M/Interscope, a Universal Music Group label, recently signed the relatively unknown band Pussycat Dolls to a deal that incorporates promoting the group's cosmetic line in exchange for sharing in all revenue the band collects, including profit from a Las Vegas nightclub operated by the group.

When Warner Bros. Records signed the virtually unknown punk band My Chemical Romance in 2003, the group contracted to have the label manage both its recording and its merchandising. Label executives said information gathered from merchandise retailers helped them persuade radio stations and MTV to play the band's songs and videos.

Moreover, record executives said, labels are more likely to spend marketing dollars when they share multiple business interests with a band.

"Our willingness to fund promotions is more aggressive, because there are more revenue streams," said Matt Serletic, CEO of EMI's Virgin Records, the label that will release Korn's albums. "You look differently at every dollar spent on radio ads, every T-shirt sold."

That's precisely what Korn's representatives are hoping will happen to them. Jeff Kwatinetz, co-founder of the Firm, who brokered Korn's deal with EMI, said his clients expected to see their overall revenue increase because the label would have an incentive to spend more on promoting the group internationally.

"Korn does fantastic touring in Europe, but when the band was signed to Sony, it was hard to get them to spend a lot promoting the band overseas, because they sell fewer albums there than in the U.S.," Kwatinetz said. "This deal increases the size of the pie for promotions and of the revenues everyone collects."

"Something has to be done to change the economics of this industry. This may or may not be the answer, but it's a good step forward."

But some artist representatives disagree.

"The labels don't know how to do anything besides sell records," said Peter Paterno, an attorney who represents artists including Dr. Dre, Pearl Jam and Metallica. "They don't know how to sell concert tickets or T-shirts. Why should I give them a chunk of my

money unless they add something? I'd rather share that money with a concert professional or a T-shirt specialist."

Paterno and other managers say they are also concerned that record companies will use their clout to force artists into exploitative deals. Many musicians rely on concerts and licensing contracts for as much as 70% of their income.

"Some artists depend on those non-recording revenues to live," said Jeffrey Light, a Los Angeles entertainment attorney. "Sometimes labels have a history of forcing new bands into tough deals."

Similar fears are shared by merchandisers and concert promoters.

"We don't want the record companies in this industry," said Tom Bennett, CEO of merchandiser Bravado International Group. "They'll use their size to pressure us into giving them the profits. It's just a money grab."

In the case of Korn, the deal is surprising to some because the band's sales have declined.

Although Korn sold a combined 7 million units in the U.S. of two albums released in the late 1990s, the group's last two records haven't sold more than 1.5 million copies apiece, according to Nielsen SoundScan. And though Korn's 2002 tour grossed \$16 million, the band's 2004 solo series took in only \$3.3 million, according to concert trade publication Pollstar.

EMI executive Munns said he was optimistic about the band's future after listening to its new, unreleased album.

"Korn has made a really exciting and dynamic record," Munns said. "Their touring is surprisingly robust, and they do a lot of it. This band will be a hit for a long time."

But the dollars Korn is receiving from EMI have caused some executives at rival firms to grumble that the company is overpaying and thus dooming the experiment.

Similar criticisms have dogged EMI's one other high-profile all-inclusive deal, with British rocker Robbie Williams. In 2002, EMI paid Williams as much as \$100 million in exchange for a portion of revenue from Williams' touring, sponsorship deals and merchandise sales. At the time, EMI officials hailed the contract as a "groundbreaking" way for the record company to find new profit.

But within days the British press was lambasting EMI. One headline castigated the label for betting "its whole future on Robbie." And one writer said the deal made the company's executives "look like complete plonkers."

When Williams' next album, "Escapology," sold well in Europe but failed to take off in America, executives at other labels began whispering that the deal was a dud.

Even as the ink on the Korn agreement is drying, EMI is fighting to redeem its Williams deal. Questioned about the two deals' similarities, EMI spokeswoman Jeanne Meyer pointed out that Williams has sold at least 11 million albums and more than 1.5 million concert tickets since 2002.

"Despite a great deal of uninformed nonsense about the Robbie Williams deal, EMI's relationship with Williams has been extremely profitable for the artist and the company," she said.

The company is similarly optimistic about Korn and the future of partnership agreements.

"Anything that gives a record company a longer-term commitment to an artist or a band is a good thing," Munns said. "There is so much short-term focus in this industry. Deals like this give us more time to develop a band's career."