

Megastores like Tower Records/Video have taken over the record business, but they themselves are now threatened by technology and economics.

Endangered species?

By Peter Newcomb

THE 5,000 subscribers to Nautilus, an electronic monthly issued on compact disc, can listen to 60-second samples of Windham Hill Records. If they like what they hear, they can order the full CD for mail delivery just by using a modem command. No traipsing off to a record store, no standing in line before a cash register.

Soon new software from Dublin, Ohio-based Metatec Corp. will take that process one step further: Nautilus subscribers will receive encrypted discs with a whole album's worth of Windham Hill music. If the sound bite is pleasing, a modem command will trigger a response from a host computer that "unlocks" the rest of

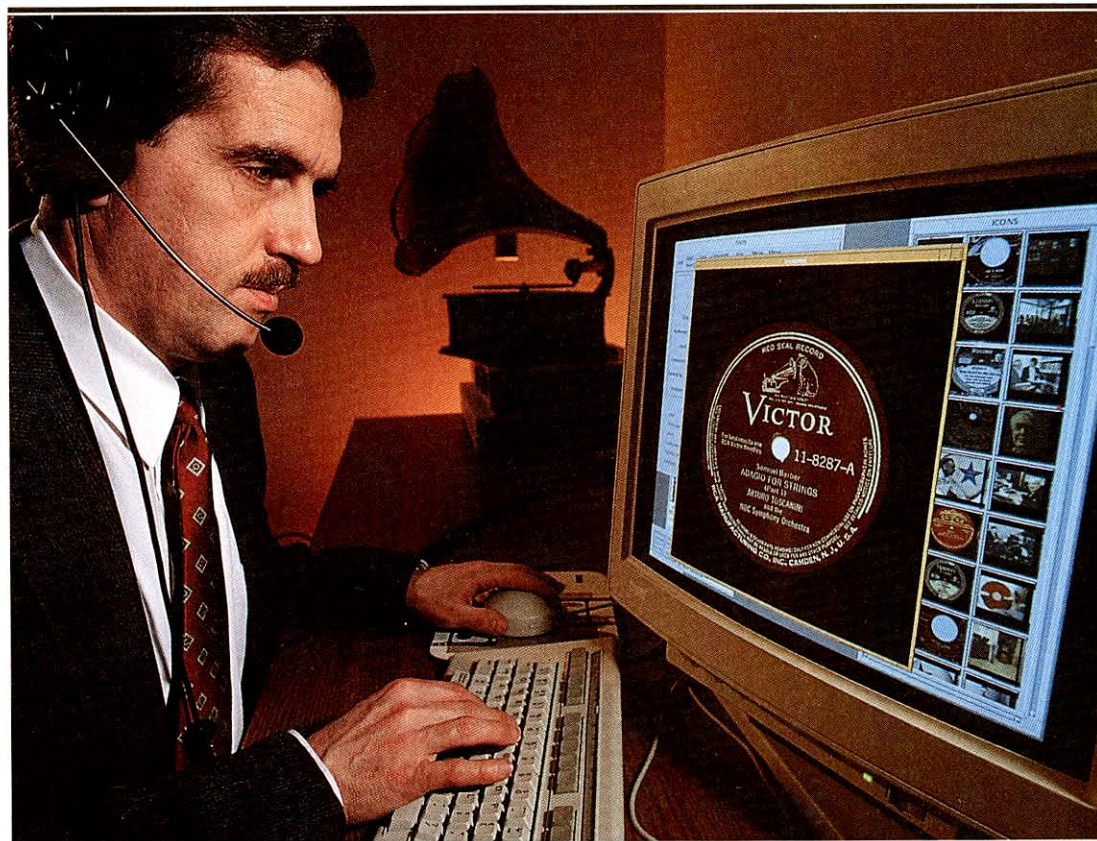
the music. Your credit card would be automatically charged. And you've never left the comfort of your living room. "The information is already on the disc," explains Mary Vaughn, Metatec's vice president of marketing. "But you cannot get at it until you pay for it."

Welcome to the new age of record retailing. So far, these are modest efforts—only about 0.5% of Nautilus subscribers actually order CDs each month. Record merchants hope that music buyers will still like to browse in stores. But they may be wrong. For one thing, record labels can make more money bypassing the distributors and the retail stores. Thus direct-

to-consumer marketers can undercut the big stores.

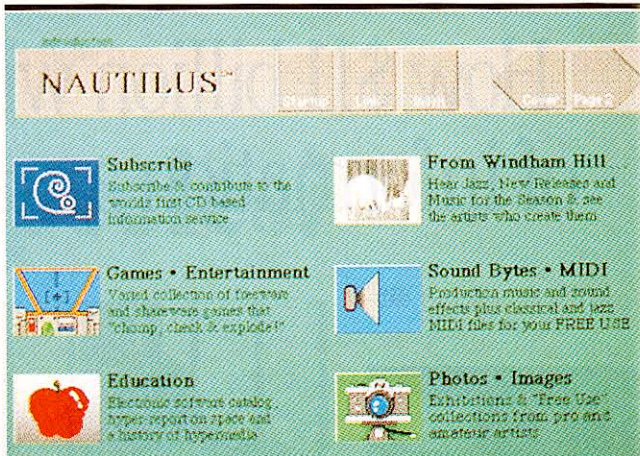
At this time the chief beneficiaries of the new distribution method are smaller record companies. There has been enormous consolidation in the record business, and scores of labels, including Geffen, Virgin, A&M and SBK, have been acquired by giant record companies. Bertelsmann Music Group (a division of Germany's Bertelsmann A.G.) alone has bought 23 small independent labels since 1990. One consequence is less shelf space for the remaining independents.

At the same time, record chains are getting bigger and fewer, with more and more of the trade concentrated in

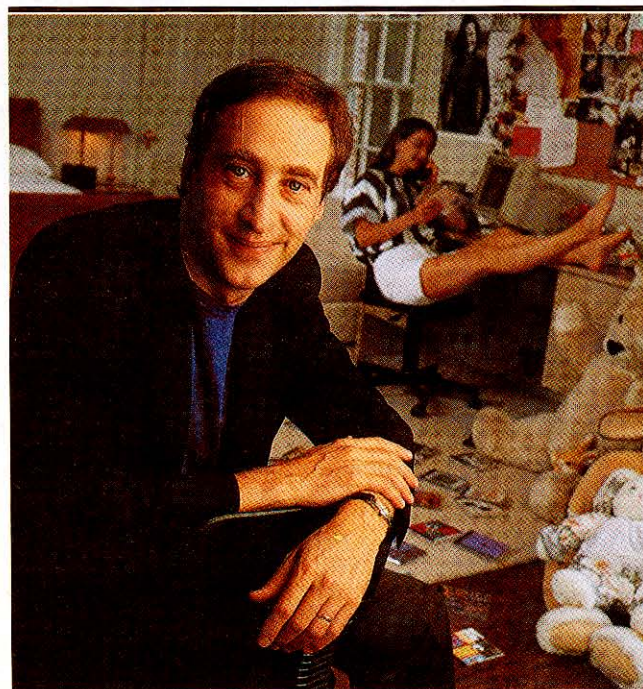


Michael Greiner

William Storm, director of Belfer Lab at Syracuse University **Creating the technology for a celestial jukebox.**



Windham Hill's Anne Robinson and Nautilus magazine **"We're setting a standard out there."**



Pam Francis

Justice Records' Randall Jamail **Ordering a new jazz CD takes just a few strokes at the keyboard.**

the hands of retail giants like Tower Records/Video and Musicland Group Inc.'s Musicland and Sam Goody stores. These big retailers are less inclined to carry product that doesn't have high turnover.

Seeking to survive in this clash of titans, small labels like Windham Hill (which features ambient New Age music) and independents like Justice Record Co. (a Houston-based label that specializes in jazz and R&B) are

seeking new ways of getting their products to consumers. "We're setting a standard out there that other people are going to catch up with," says Anne Robinson, chief executive of Windham Hill, speaking of her experiment with Nautilus magazine.

For its part, Justice Records recently signed a deal with CompuServe Inc., the vast computer network owned by H&R Block. It gives CompuServe customers access to an elec-

tronic record store—where they can browse through a catalog, read biographies of the featured acts and check out the album liner notes. Compact discs ordered by modem come by mail within two weeks.

Direct-to-the-consumer retailing isn't the only threat to the big record retailers. There's also digital radio, distributed via cable. There are already two major digital radio suppliers in the U.S. Each transmits up to 30 channels of finely targeted, digital music programming over existing TV cable networks.

Digital radio seems to be having some success with pay-per-listen events. Hatboro, Pa.-based Digital Cable Radio is a service available to some 3.5 million cable subscribers. DCR offered the Metropolitan Opera's 25th anniversary special as a pay-per-listen event last fall to its 15,000 paid subscribers. The show was also being sold over television on a pay-per-view basis. Neither was a big success, but the cheaper radio broadcast drew about three times the buy rate of the TV version.

However, this was a tiny experiment. Points out David Del Beccaro, DCR president: "When you're distributing to millions of people, you need just a small percentage to participate for it to make economic sense."

The specter of consumers lifting large amounts of recorded music directly off cable onto digital tape (now on the market) and recordable CDs (coming this fall from Sony) makes the record people very nervous.

"This may eventually become a distribution mechanism as opposed to just a performance one," frets Jay

Berman, president of the Recording Industry Association of America. "You may have a celestial jukebox, putting all recorded music in digital format on a satellite, permitting people to listen to what they want when they want, thereby avoiding having to go to a store to buy product."

Pie in the sky? Not really. Right now GTE Spacenet Corp. has nine satellites orbiting the earth, all capable of delivering digital information to the home.

Syracuse University's Belfer Audio Laboratory & Archive has developed a digitized archive that will contain hundreds of thousands of recordings that can be downloaded by computer onto blank digital tape or recordable CDs. A linkup with the U.S. Copyright Office would even make sure the performers automatically get their royalties.

William Storm, Belfer's director, envisions a global network: The music might come from Belfer, the liner notes from the Bibliothèque de France, the performer biography from the BBC. "You will not have one site distributing all the data," Storm predicts. "Instead, you'll have different sites, but all with a common data distribution management system."

Some record retailers are already fighting back at these inroads. Russ Solomon owns Tower Records/Video, one of the nation's bigger record chains, with 77 U.S. locations. Solomon has forged a relationship with DCR. Listeners can dial an 800-line, get song information, and if it's what they want, get dumped directly into a Tower order line, where they can order tapes and CDs at a discount.

The nation's largest music retailer, Minneapolis-based Musicland, has aligned itself with Prodigy, the computer network jointly owned by Sears and IBM. Musicland has a catalog of over 20,000 music titles and 8,000 video titles that Prodigy users can order by modem. The response has not been overwhelming. Still, Musicland isn't taking any chances; it plans to continue the experiment.

In the last resort, economics and convenience may be on the side of the direct-to-consumer marketers. That's a combination hard to beat. The record stores' near lock on the market may be in jeopardy. ■

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