



RECORDINGS

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## Introduction

In this report there will be an analysis of XL Recordings (XLR), which is said to be 'not so much like a record label [but] an art gallery', owned by 'music veteran' Richard Russell (Wang, 2017). It will include a brief history of how the independent record label started and compare it to other major labels, as well as examining the economics such as the macro environment and market. There will be a discussion about the finance of the label and an explanation of what lean business is to then see how it can be applied to help the company develop. Moreover, there will be a review of how Covid-19 has had an effect on the music industry as a whole as well as XL Recordings to see how the company has stayed relevant with what they have had to face and compare XLR to other major record labels such as Sony Music and Universal Music Group.

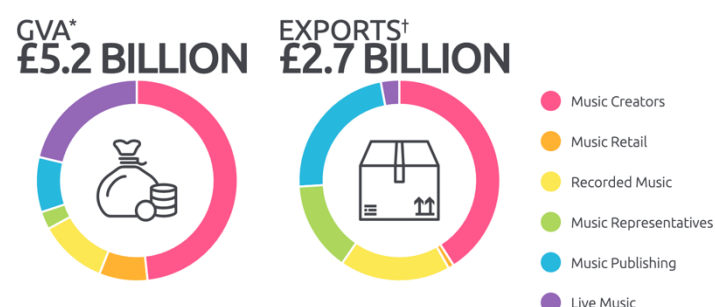
## XL Recordings History

The origins of XL Recordings started with Richard Russell in the 'rave scene'. Richard Russell founded XLR in 1989 with a sole purpose of making '12-inch vinyl singles for rave DJs' (Ganz, 2012). Russell spent his early years north of London, gazing through record shops, 'launching pirate stations, and promoting his own parties' calling it 'putting on clubs' (Trammell, 2017). One of the first groups to be released by the label was The Prodigy. XL Recordings then progressed to being more diverse with a wider variety of genre's being added to their roster such as, Adele, Basement Jaxx (a dance music producer), Dizzee Rascal (a rapper) and 'garage duo' The White Stripes (Ganz, 2012). The Prodigy managed to reach number 1 on the 'Billboard 200' with their album 'The Fat of the Land' in 1997. In an interview, Russell mentions his 'secret to running a good record label' is all about three main objectives: 'The music's got to be great, it's got to be sold as well as possible, and everyone's got to get paid' (Ganz, 2012). In 2011 Adele's album '21' brought a lot of success to XL Recordings as the turnover went 'from £21.4 million in 2010 to £111.7 million'. This was classed as an 'exceptional year' as everyone expected the figures to fall back down after this year because they know that XL Recordings only put a handful of releases out each year (CMU Editorial, 2012). This is what confuses the public as they know XL Recordings have the chance to be really successful if they did more publications, however, they don't plan to hire more staff to accomplish more record releases as they like to stay how they are. Russell mentioned that the label gets around '200,000 unsolicited demos a year and yet only sign about one artist a year', and they are also distinguished artists too (Jonze, 2011). Russell remains XL Recordings' top executive, contrariwise, he no longer takes on 'daily oversight of the company' because he is devoting most of his time to producing his own music and creating a debut album (Trammell, 2017). He has always been very creative himself, which is most likely why he has 'built up a particular reputation and respect amongst artists' because he can understand what it is like from the artist's point of view (Wang, 2017).

## Economics

### The Market

The music industry is ever evolving and in the UK it 'has contributed £5.2 billion to the economy' as shown in graph 1 extracted from the Music by Numbers report for the year 2018 (UK Music, 2019). The total for 'export revenue of the music industry was £2.7 billion' with employment within the industry at a total of 190,935. As shown in the graph, music creators contributed near half of the gross value added (GVA),



Graph 1 – Extracted from Music by Numbers 2019 Report

which shows how much they contribute to the music industry and does make you question, morally, if artists should receive a higher royalty percentage. The graph also shows how much live music has generated for the economy. Since the year 2020 has put a stop to live music, because of the virus causing a worldwide pandemic, it has had a massive impact on how much music creators have received this year, leaving them completely dependent on the income of streams and physical sales. It is analysed in the report that even though ‘music creators contributed £2.5 billion in GVA to the UK economy’ their income for the year 2018 was an average of £23,059, which is said to be ‘below the national average of £29,832’ (UK Music, 2019).

If we consider the average ‘payout’ to labels and artists from streaming platforms, an article written in 2015 shows that Spotify’s average ‘payout for a stream to labels and publishers is between \$0.0006 and \$0.0084’ and the artists’ ‘portion of that is \$0.001128’ after the label’s share (Dredge, 2015). The graph shown in the article (seen in appendix 1) highlights the percentages received by retailers, labels and artists from CDs and Albums sold. When an artist is signed to a label, they usually only obtain around 20%-30%, whilst labels take around 50%. In 2018, Spotify paid the artists ‘\$0.0032 per stream’, which most consumers may think is very low because Spotify is popular and would have enough to pay the artists’ more from streams, however, as shown in graph 2, Spotify is not even in the top 5 of all streaming services (Pastukhov, 2019). As the volume from streams increases, the stream rates paid to music creators are decreasing. This explains why music creators are more likely to be ‘self-releasing, self-managing and self-publishing’, although it can be perilous to their careers as they do not have a team around them to advise and help to proceed and expand their careers (UK Music, 2019). Even so, ‘the UK is estimated to be the biggest digital music market in Europe, with a revenue of approximately 1 billion U.S. dollars...by the end of 2020’ but the traditional way of buying music physically has decreased in revenue ‘amounting to 432.3 million British pounds in 2012...to 180.7 million in 2019’ (Statista, 2020). On the other hand, ‘UK sales of vinyl records are set to reach a three-decade high’ this year. Research shows that the reason for the inflation in sales is due to consumers being unable to ‘attend live music events’ because of Covid-19, which results in them spending money in other regions of the music industry. This has resulted in vinyl sales being improved by ‘10% this year...on track to break the £100m mark by the end of 2020’ (Sweney, 2020). The number of sales are ‘set to beat last year’s 4.3m’. However, CD sales are still declining as they are estimated to reach £150m by the end of this year, ‘the worst year since 1987’. The year 2020 ‘will mark the first time that more than half of total sales of physical music products will be online – with Amazon’ taking most of the share, but all independent retailers and other chains selling physical products online have significantly benefited from the pandemic (Sweney, 2020).

‘The pandemic has forced the music industry to get creative’, this means artists now have to find ‘new forms of media into their routine’ to keep their audience ‘engaged’ (Grant, 2020). This could be what the music industry needs in order to expand, keep on growing, and to make sure they still have their consumers attention. It gives artists a chance to connect with their consumers, or fans, in another way. From May of this year, Spotify has offered more ways for artists and their team to gain access to the artists’ analytics. As artists are now collaborating more, ‘a helpful analytical feature that would refine an artist’s marketing strategy would be to see similar artists by country’, this then can be used to target the consumers that enjoy that music through advertisements on social media like Facebook and Instagram. Getting the knowledge on similar artists by each country would benefit local targeting and ‘increase return on investment in marketing for artist teams’ (Grant, 2020). The growth



Graph 2 – Extracted from Soundcharts Blog 2019

in streaming music has increased in live streams as well. The music and performance arts category on the streaming platform Twitch has risen in viewership 'by 524%, from an average of 92,000 viewers to 574,000 viewers'. In March 2020 'there was a reported 70% increase in Instagram Live Video Streaming...compared to February' in the United States. The musician Dua Lipa used YouTube Live to advertise the release of her new album 'Future Nostalgia' 'by playing and commenting on each song', and another artist premiered their new songs on a live stream using YouTube (Grant, 2020). Streaming will be in the future and will remain, as it has helped the music industry grow in a positive way by reaching a wider audience collectively. This is what marketing teams in record labels need to get used to.

### The Macro Environment

Macro environment helps to evaluate the economy as a whole rather than specific provinces. Macro environment uses a set of conditions that are most likely to affect a company's overall performance, whether that be positive or negative. One major factor in the UK for the music industry is Brexit. Putting aside the fact that touring is not available as of this moment due to Covid – 19, 'touring musicians and their teams are awaiting a decision on their status after 2020' (Paine, 2020). Three main problems that touring will face is the cost of visas, 'the imposition of carnets for equipment crossing the channel' and any physical products that plan on being sold at the shows. The Musicians' Union has led a campaign in order to get a 'Musicians' Passport' and this has gained extensive support. The 'Musicians' Passport' would be used to allow musicians and their teams to tour, covering 'all EU member states and [would] replace the need for carnets and other permits' (Paine, 2020). It means that travelling around Europe for work would be easier for everyone involved, but there is still uncertainty on whether this will be able to happen.

Geoff Taylor, the chief executive of BPI and Brit Awards, has mentioned that in the long term 'we must seize on the opportunity to ensure that strong copyright protection is locked into all future trade deals' so investments in new markets for labels can be beneficial. Conversely, Horace Trubridge, the Musicians Union general secretary, has confirmed that the 'government will not implement the Copyright Directive...as a result of Brexit' (Paine, 2020). In the XL Recordings financial report, it is mentioned that they are 'concerned with the uncertainty around post-Brexit plans' included with the Copyright Directive that passed in the EU the former year and 'believe such laws are needed in the UK' to protect intellectual property rights (XL Recordings, 2019). In an interview with Music Week Trubridge has expressed his feelings towards the government helping the music industry: 'the government has got to protect our industry and they've got to take steps to make sure that we can work freely around Europe' (Paine, 2020). The government does need to help the music industry as the major record labels like Sony Music Group can adapt easily because they make enough to do so, yet smaller independent labels like XL Recordings are more at risk. Trubridge has said 'The Music Export Growth Scheme...has proved a great success over the past six years – producing a 12 to 1 return on investment,' and the artists, independent labels and companies that have used this would be happy to have a 'renewed commitment from the government given the vital importance of exports and promoting British music around the world' (Paine, 2020). Singer-songwriter Ady Suleiman, who supported Anne-Marie on her European Tour, has said that when he releases music it is 'available everywhere because of streaming' and sometimes the music generates a bigger following in other countries than in the UK (Blake and Connolly, 2019). For example, in Poland there was a remix of one of Suleiman's songs, which he then added to his set and received the most interaction he has ever had with fans. Not only that, it was the most they had sold on their merchandise stand. To add visas on top with all the extra costs, musicians and their teams will be making a big loss on profits and also the connections to their fans, who are really the main source of their income.

To add on, the worth of the pound coin has declined since announcing Brexit, so the profit loss will be even bigger. After the Brexit referendum in 2016 and the value for sterling declined, 'imported goods have become more expensive but UK exports have become cheaper' (Mustoe, 2019).

To check the value of the pound, it needs to be compared to the price of other currency. This means that since the referendum there are still some currencies that sterling is worth more than, 'notably the Turkish lira and the Argentine peso' (Mustoe, 2019). However, deflation in the pound fell '10.4% against the euro from €1.3017... [in June] to €1.1663 [in July] 2016' (Barton, 2020). Brexit wasn't the only event that had an impact on the value of sterling. Following the 2017 general election results where Theresa May lost her majority government, 'the pound fell to a 7-month low of €1.1287'. XL Recordings are managing the exchange risk by 'holding sufficient levels of sterling and foreign currency receipts to service payables in the same respective currency' (XL Recordings, 2019).

Deal negotiations that discuss the future for Britain and its 'political relationship with Europe and the rest of the world' will fluctuate the value of the pound (Barton, 2020). In the report uploaded to Companies House by XL Recordings, it mentions that if there were to be a 'no-deal Brexit [it] may interrupt [their] physical supply chain in the short term' but in the long term it can be detrimental to the 'domestic market for vinyl'. This is called a bear case when someone only sees the negative and thinks the market value will drop (XL Recordings, 2019). Other businesses that rely on foreign imports will most likely suffer 'from the falling price of the pound', but online businesses that have adapted their websites for customers worldwide so that they can pay and understand in their own language, have managed to capitalise on the lower value of the pound. 'PayPal has confirmed that in the second half of 2016 it saw a 34% increase overseas sales for...UK businesses' (Barton, 2020). An article on the Pound Sterling Forecast has said that the exchange rate is 'climbing 0.4% during...trading as optimism around a trade deal increases'. This is called a bull case when the public have hope and see the positive from the negotiation and believe the market value will increase again (Doane, 2020).

The future of the music industry is also dictated by how Covid-19 has affected it and what can be done to resolve the issues it has caused. As the virus has had a negative impact on the live performance revenue, which has caused all live shows to 'shut down' for six months, this has cost the industry 'more than \$10bn in sponsorship, with longer delays being even more devastating' (Hall, 2020). As reviewed in the market part of this report, more consumers are taking to online music subscriptions. 'The number of online music-paying users reached 42.7 million, a year-over-year increase of 50.4%'. The way consumers listen to music is also changing, as they are more likely to use 'home applications on TVs and smart devices' (Hall, 2020). Music video streams have increased, and the virus has deepened the population's focus to the news, 'especially tv'. This is all due to everyone having more free time and wanting to stay informed on what can and can't be done. On the other hand, some consumers have 'opted out of subscriptions under financial pressure' (Hall, 2020). Services that have a 'dual business model' are able to maintain their relationships with customers during the pandemic using a 'free-to-customer, ad-funded model' until the economy recuperates. The music industry, especially independent labels, will have to reduce how much they are willing to spend on advertisements in order to save money. A survey by the Interactive Advertising Bureau shows 'around a quarter of media buyers and brands have paused all advertising for the first half of 2020' and now 46% more have lessened their spending (Hall, 2020). A lot of artists have delayed their distribution dates as they can't go on tours to promote the release of their new albums. An extensive number of concerts and events have been cancelled or delayed until the year 2021 depending on whether it is safe to do so. Now that live shows are slowly coming back, large gatherings are still banned and venues are only allowed to sell a limited number of tickets to avoid spreading the virus further, but then the question is, is it worth it? A lot of money would be given to the venue out of the ticket sales, which would amount to little or no profit made. Not only would the musicians and their teams lose profit, all the venues will too. 'As many as 90% of indie music venues could disappear': this is according to the National Independent Venue Association (Titlow, 2020). Beggars Group have said in their report, as well as XL Recordings (XLR) that they are 'closely monitoring the Covid-19 situation' (Paine, 2020). The report declares they have a 'limit to promotional activity on new releases' when the UK was in a lockdown, and 'will continue to an extent while social distancing measures remain in place' (XL Recordings, 2019). In the last section of the Covid-19 section of the report, it does bring to light that

the business will 'benefit [from the] strong back catalogue generating a significant portion of its sales' (XL Recordings, 2019). This means that they are able to survive until the economy improves.

## Finance

### Major Competitors

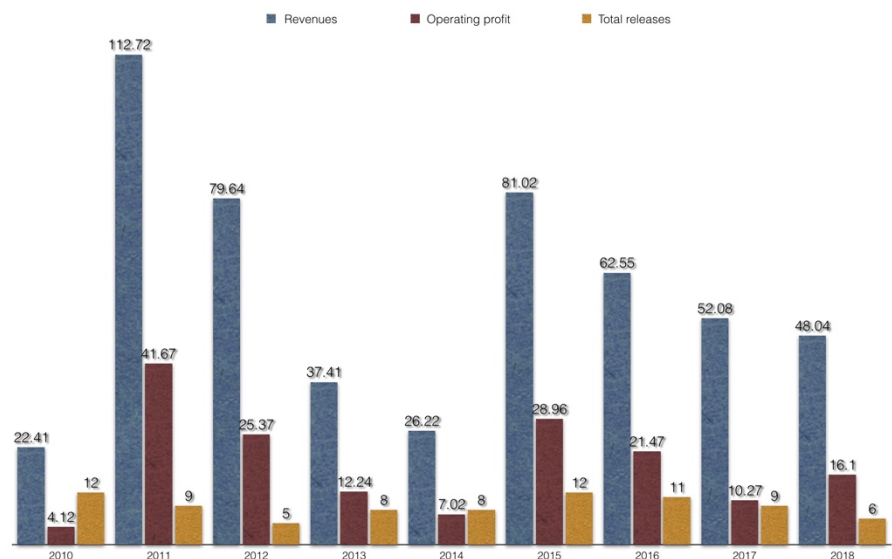
XLR 'likes to break new artists and build the foundation blocks of an emerging scene' (Jonze, 2011). What is meant by this is that XLR likes to take matters into their own hands by highlighting what genre their artist is a part of and expand it. At the same time, by doing this, it makes their artists successful. To add on, Richard Russell likes to 'take a backseat to artists' ideas' as they are 'unlikely to waste time' because they know what they want, and he helps them by giving the guidance and advice that they need in order to make sure everyone gets to achieve their goals (Wang, 2017).

The office where Russell works in London is compared to 'an old house'. This isn't something you'd expect when talking about a record label that has had many wealthy stories. When you walk into Universal Music Group in London you are presented by big empty spaces with enormous windows and their logo is lit up with bright white lights. You can tell that you are in a more formal setting, but XL Recordings has more of a 'cosy house' atmosphere with 'stuff all over the walls' and 'couches' to make it more of a comfortable environment (Ganz, 2012).

XL Recordings is at the top of its game when compared to other independent labels, but the record label operates differently to major labels as they have different goals. In the music industry the record labels are always competing with each other to try and be the best and make the most money. But because XL Recordings conducts their business differently, they don't particularly know how their revenue will go each year and this can be risky for their business. Nevertheless, in spite of only releasing a couple albums in the year 2017, the company, 'which is 50% owned by Beggars, turned over £52.08m' and that includes the operations in the United States of America. The total profit, including subsidiaries, 'stood at £10.27m' (see Graph 3) (Ingham, 2018). This was because XL Recordings, who are partnered with the independent label Young Turks, 'released just nine new albums/projects in total'. One of the projects in question is a debut LP record from an artist called Sampha, who won the 'prestigious Mercury Prize in 2017' (Ingham, 2018). Another of the nine releases that XLR did in 2017 was a 20<sup>th</sup> anniversary 'reissue of Radiohead's OK Computer'.

The profit number then increased by 36.2% in 2018 reaching £16.1m but the revenue number has been decreasing every year since 2015 (see graph 3). Apparently, this was due to 'XLR's Spotify share sale in 2018' (Ingham, 2020). It is still a noteworthy achievement since XLR only released six albums in that year, of which included 'a collaborations project produced and creatively directed by... Richard Russell' himself. Comparing this to Universal Music Group (UMG), where the company's full year

### XL Recordings: Revenues vs. Operating profits (£m)

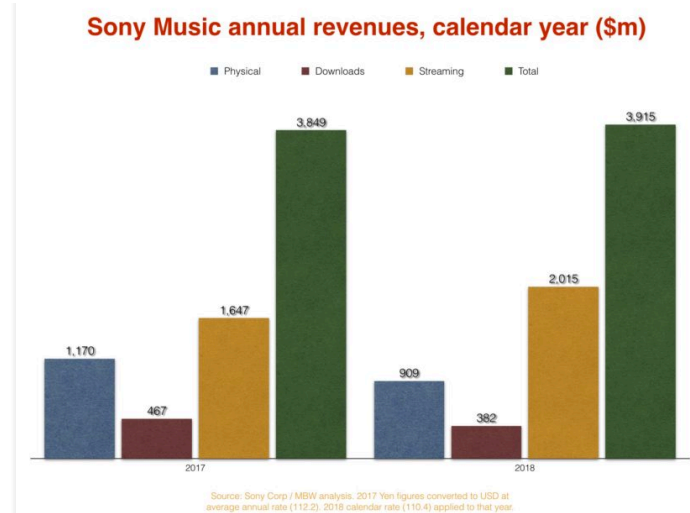


Source: Companies House

Graph 3 – Extracted from Music Business Worldwide 2019

earnings before interest, taxes and amortization (EBITA) in 2018 was \$1.07bn. It is reported to be ‘up 22.1% year-on-year at constant currency’ (Ingham, 2019). In 2018, Universal Music Group released music from well-known artists such as Drake, Post Malone and a reissue of The Beatles’ ‘White Album’, which means the recorded music for the label turned over \$5.73bn which is 9.8% more than the previous year. Universal Music Group makes a considerably large amount more than XL Recordings as it is quite clear which is the major record label, and which is the independent label. Universal Music Group is constantly competing against the other major labels, whilst XL Recordings (XLR) is more laid back.

Another competitive major label in 2018, and still is today, is Sony Music, and their ‘global recorded music operation generated \$3.92bn in revenue...with streaming claiming over 50% of this sum’, only rising 1.7% from the year before as shown in graph 4 (Ingham, 2019). However, in the last quarter of the calendar year, there was a decline in revenue, ‘down 8.4% on the prior year quarter’s \$1.13bn’. This was allegedly affected by an accountancy adjustment, but the streaming revenues increased in the fourth quarter of 2018 by ‘12.9% year-on-year to hit \$555m’ (Ingham, 2019). Sony’s top selling artist that year was Travis Scott with his album ‘Astroworld’ selling 270,000 albums (Alvarez, 2018). Sony also released, amongst other artists, George Ezra’s album ‘Staying at Tamara’s’ which ‘has sales of 308,955...[and] it moved [to] 691,333’ (Paine, 2019). The physical sales amount to 63.8% of the total revenue and the streaming equates to 27.4%. They still don’t amount to the sales that Universal Music Group have with their artists, but Sony is still generating more than XL Recordings for the same reasons that UMG are, and that is because they have a bigger team, not only in the UK but the USA as well.



Graph 4 – Extracted from Music Business Worldwide 2019

In the year 2019 the total operating profit for XLR stands at £5.8m and the EBITA is £6.09m, which is a 64.09% decrease calculated from the documents uploaded to Companies House (Ingham, 2020). Whilst only releasing six albums in 2019, the same as the year before, the albums ‘included the Grammy-nominated ‘Anima’ from Thom Yorke’ and a Grammy nomination for ‘Best Music Video – Cellophane by FKA Twigs’. FKA Twigs is signed to Young Turks, but XLR ‘owns a 50% stake’, which has now been reduced from 75% in January 2019, and has become a ‘Joint Venture label’ (Ingham, 2020). Universal Music Group (UMG) instead has hit \$8.04bn, 14% more revenue than 2018 and ‘representing a 15.7% EBITA profit margin’. UMG’s streaming revenues have increased by 21.5%, which means that the streams have contributed around ‘59.1% of UMG’s total recorded music revenues in 2019’ (Ingham, 2020). This is because they had artists like Billie Eilish on their roster, who ‘reportedly [had] the second biggest selling album of 2019’ (Aubrey, 2019). Billie Eilish ‘sold up to 275,000 albums during its first five days on sale...and over 118 million on-demand audio streams’ (Aubrey, 2019). Ariana Grande, who is also signed to UMG, was the biggest album selling artist of 2019 with 302,000 sales (Trust, 2020). On the other hand, Sony’s recorded music revenue for 2019 managed to reach \$4.17bn, which has increased by 6.5% from 2018. Sony ‘saw the release of global smashes including Lil Nas X’s Old Town Road’ which amplified Sony’s annual recorded music streaming revenue by 19.3% year-on-year to \$2.4bn (Ingham, 2020). Although, their ‘annual physical music sales dipped by \$106m...to \$803m’ and their downloaded sales decreased ‘by \$61m to \$321m’. The ‘recorded music projects’ that produced the most global revenue ‘for New York based Sony Music’ included ‘Fine Line’ by Harry Styles (Ingham, 2020). The LP by Harry Styles generated ‘230,000 units, of which 193,000 were pure sales’ (Rolli, 2019). Sony also released Celine Dion’s debut album ‘Courage’, which ‘topped

the billboard 200 chart' with 109,000 physical copies (Lavin, 2019). Unfortunately, a week later 'the album fell out of the top 100' and it was reported on NME that it was 'the biggest fall ever for an album debuting at Number One'. The sales for the album drastically fell '95 per cent in its second week' (Lavin, 2019). This shows the difference between XL Recordings and major record labels, which is that XLR wants to spend more time working on perfecting fewer records to make sure they have the best possible outcome, whereas UMG and Sony Music have bigger teams working more hours in order to work with more artists to put out more records in the year. It shows that XLR truly wants what is best for the artist and to let the artist have more control, compared to bigger labels that have everything planned out and sometimes it doesn't always go according to their plans.

### Lean Business

Lean business is a technique or method that companies use in order to grow in the industry and waste less time and money doing so, by improving everything that the company does. 'Lean business model originated in the manufacturing industry' but can be applied to any industry (Lynn, 2020). It works by optimising how a company identifies the value streams of a business, how they check the system of activities, and the process that takes place for the end result to be delivered to the consumers in a quick way. To make sure that this works, a lean business environment can be tested through small and progressive experiments, but first there needs to be a hypothesis from the team. Once the product has been tested the feedback can be used in order to make any changes to the product itself, the target audience, the price or overall vision. Once practiced, lean business should be made quickly to receive faster feedback from the customer to create more value by understanding what they want and need from the product.

One of the benefits of using lean business is that it is more efficient for a company by reducing costs and generating more revenue through consumer feedback. It also increases team productivity and determination, but more importantly customer value through the increase of product quality that satisfies the customers. A critique for lean business is when conducting the tests for feedback, the customers can be biased, which can lead to wrong delivery of the final product, 'people have a hard time assessing their feelings objectively' (Ries, 2011, p.g. 50). Miscommunication from feedback and/or the team working on the technique can be unconstructive to the final product, but also not knowing when to stop the testing to move onto the actual release.

The Lean Startup by Eric Ries has used examples of how lean methods can be applied to businesses that already exist, which can, therefore, be used by XL Recordings to improve their revenue from projects released but also to release more projects in the year, expand the team and eventually become a major record label. However, Richard Russell has said that he prefers to keep the employee number down because he prefers the way the company works now. It can help XL Recordings financially and keep the revenue from dropping each year, but it won't work as they will need to employ more people or hire a company to do so.

### Summary

To summarise, XL Recordings has to adapt to the constantly changing environment, especially with Brexit and Covid-19, to make sure they can keep the independent label from closing. The label will have to keep up to date with the market and find ways to make streaming more engaging for consumers so that they can continue to progress in the music industry. They also need to work out how to benefit from vinyl sales increasing as the pandemic continues. XL Recordings will need to work together with other music companies to make sure that the government protects intellectual properties. They will also need to establish how their musicians can freely move from the UK to Europe following the conclusion of Brexit. They should look into researching lean business to see how it can

benefit the label and to possibly expand the company so that they can see more positive outcomes. The way XL Recordings works now may not work next year and they will need to be ready for that as they are relying on the back catalogue of their artists and they cannot depend on this forever.

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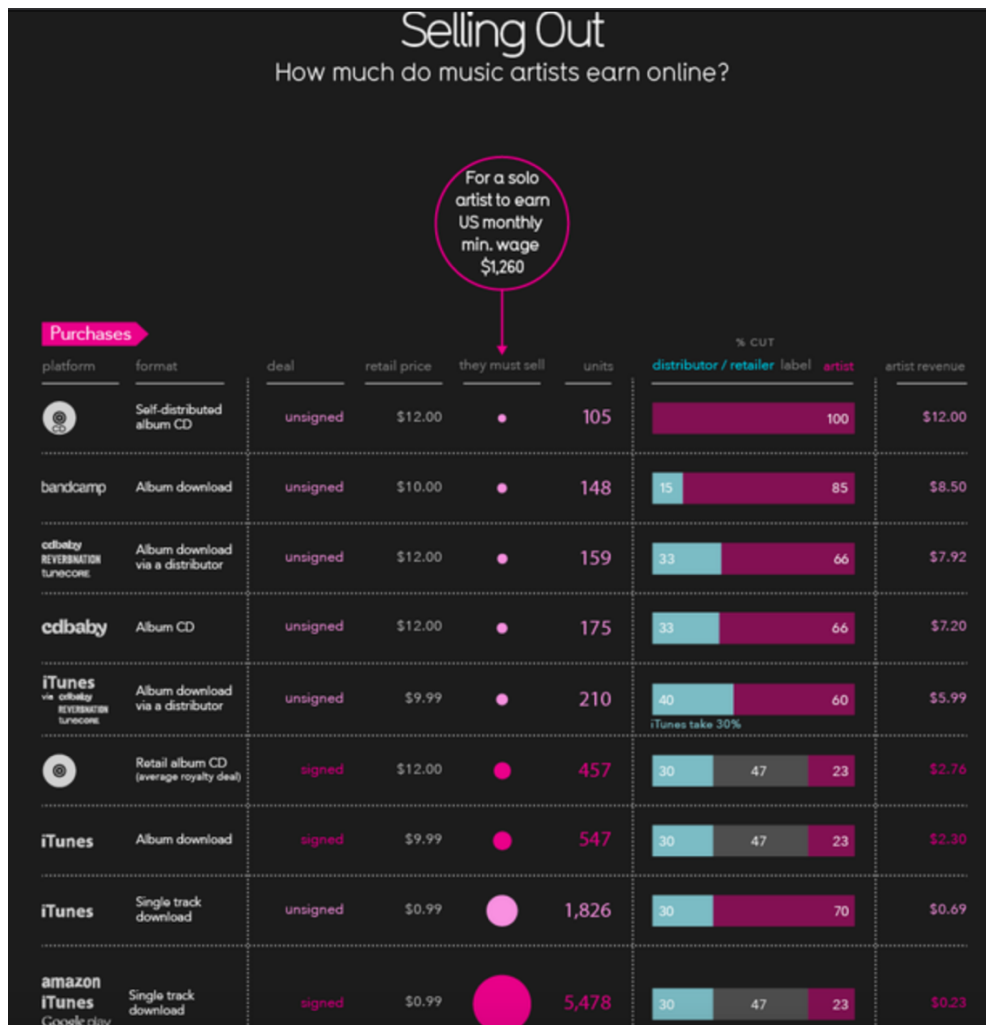
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1. Appendix 1) Graph extracted from: Dredge, S., 2015. *How Much Do Musicians Really Make From Spotify, Itunes And Youtube?*. [online] the Guardian. Available at: <<https://www.theguardian.com/technology/2015/apr/03/how-much-musicians-make-spotify-itunes-youtube>> [Accessed 30 November 2020].



The graph shows a variety of music platforms where a consumer can purchase CDs and albums including details on whether the artist is signed, the retail price of the music bought, and how much they receive in the end. It also shows a percentage of the price the retailer and label receive. It is arguably better not to have a label when selling music as the content creators retain more money from sales, but then the labels help the artist reach a bigger audience.