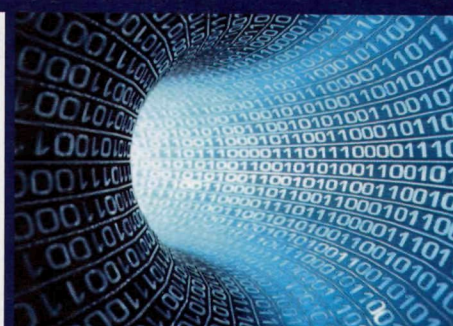
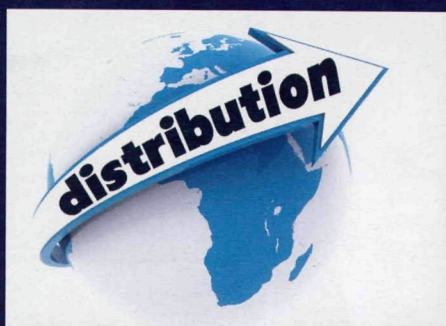


FEATURE DISTRIBUTION



The role of distribution companies has evolved into new and unforeseen areas - but the industry itself is no less reliant on their long-standing expertise

DELIVERING TO A DIGITAL WORLD



SECTOR FOCUS

■ BY TOM PAKINKIS

The modern music industry's water-cooler topics don't exactly paint a very distributor-friendly picture.

The CD is quickly giving way to the digital format, which can be distributed with the tap of a button. Even while physical product is still dominant, a big slice of High Street custom could slip from distributors' fingers very quickly should HMV fall, with indie retailers not colossal enough

to make up the difference. Wrap all that up in the chip paper of economic strife and you'd allow anyone in distribution a moment or two of self-pity.

But actually talk to someone in the sector and you're likely to find a personality that's more determined than anything else. Are today's distributors cautious about the future, perhaps even a little nervous? Of course, but they also seem acutely aware of the situation in front of them and, more to the point, confident in their ability to roll with the punches and command their own fate.

"The challenge across the industry is the decline

ABOVE
From stock lines to online: while physical is still the larger part of most distribution companies' business, digital delivery is something they can no longer ignore

in the physical market," director of sales and distribution at PIAS Richard Sefton tells *Music Week*, reminding us that the toils of today's music industry are indeed shared by every sector.

"It isn't as severe as some would have us believe," he adds, however. "Physical is still very much the larger part of our business, but clearly there is a move to the digital world.

"The challenge is moving business across in such a way that you don't damage either side of it, so that digital and physical can sit side-by-side healthily and provide the labels we represent with that clean route to market."

FEATURE DISTRIBUTION

PHOENIX FROM THE FLAMES HOW SONY DADC WILL TACKLE THE BIGGEST CHALLENGE OF ALL



From this last August...

LAST YEAR SONY DADC's Enfield distribution centre was one of a handful of sites completely destroyed during the London riots. Just like the rest of our distributors though, Sony DADC is determined to overcome adversity even if it is on an almost inconceivable level.

Plans for a new, enhanced distribution centre to rise from the ashes of the Enfield site are already firmly in place.

Containing three office floors (one more floor than previously) stretching over 24,000m² the new building will be two metres higher than its predecessor and incorporate high technology investment needed to support "a strongly growing business."

'Sony DADC is determined to overcome adversity even if it is on an almost inconceivable level'

The new Enfield centre will offer enhanced B2C distribution and retail services in addition to its existing B2B services. A so-called super structure holding more weight, will set a new standard in warehouse and distribution services.

Most importantly, the new hub will call on the skills of the Sony DADC staff that worked at Enfield before the blaze.

"We are determined to keep this fantastic team together, to strengthen their resources and to create a great place to work while supporting our current client base in their growth strategies," said general manager Distribution UK at Sony DADC Natasha Tyrrell.



...to this, a newly planned distribution centre



ABOVE
Distribution men: Markus Schmücker (Arvato), Richard Sefton (PIAS), Brad Navin (The Orchard) and Jonas Stone (EPM)

How exactly can distributors manage both physical and digital product under one roof when there is continued talk about the latter 'cannibalising' the former so viciously? Sefton offers a structural solution: "It's important that you have the same team of people looking over both areas so they have a more rounded view. If they're involved in both aspects it motivates them to see that whole picture."

"It's key that you don't separate the two, otherwise they could lock horns," he explains. "At the end of the day, it's about getting as much music to the market as possible. There are people who like buying their music from indie shops, there are people who like downloading and there are people who like picking it up in supermarkets: you have to provide those different options."

Arvato MD Markus Schmücker agrees with Sefton's assessment in terms of the challenges posed by digital evolution, implying that if distributors don't adapt in order to remain appealing, their role could begin to slip.

"With the advent of digital and e-commerce platforms supporting the traditional retail market, the industry is being forced to look at new, innovative routes to market and new ways of working – either by developing new sales channels with existing customers or developing entirely new revenue streams," he says.

"By moving to a multi-channel e-commerce approach and selling via websites where traffic already exists, such as eBay and Amazon Market Place, labels are able to capitalise on existing consumers at a relatively low cost."

Like Sefton, Schmücker believes distributors can remain in demand by embracing these new routes to market rather than resisting them.

"Distributors need to be able to support the music industry by developing new service offerings to help drive growth while controlling costs," he advises. "For example, with multi-channel fulfilment held at a centralised warehouse, a single inventory can be leveraged for both business-to-business accounts and direct-to-consumer channels."

"By focusing on robust planning, flexibility and communication, all parties will continue to ensure that they deliver quality levels of customer service to retain loyal customers in a difficult time."

Essential Music & Marketing offer a range of distribution services including global physical and

digital distribution, retailer sales, retail marketing and co-op campaigns. Working with multiple physical distribution partners across the world, the company recently established their own US based sales and marketing team. Labels distributed by Essential include Cherry Red, Tru Thoughts, Snapper, Astral Music, Lojinx and No Sleep.

"We offer a fully integrated physical and digital service – but we're not a tech company," explains MD Mike Chadwick. "We're still a music company and we're run by people who've seen music evolve. We've embraced digital wholeheartedly because it's a great area for the music business. We're constantly looking at digital, how we can develop it and the partners we can reach. You look at some of the Scandinavian countries where digital is 50 or 60% of overall market revenue. Some might see that as scary – but you're actually seeing financial growth in those markets. That's got to be taken as positive, and one that offers opportunities to those companies who keep up with the changes."

Of course, while digital distribution has accelerated in recent years, it's not exactly new – and there are companies that have always focused solely on the non-physical.

"Our core business is digital distribution," says The Orchard CEO Brad Navin, "so the rise of digital distribution has greatly

improved our business and allowed us to significantly expand our global reach."

"It's certainly given independent artists and labels a more level playing field," he continues. "The fact that all digital retail placements are based on merit, rather than co-op advertising budgets, gives developing and niche artists a discovery platform and a much greater chance of exposure."

EPM is another distributor for which the rise in digital has seen business continue to sustain strong growth over the last five years. Does that mean that, while traditional physical distributors may have trouble sleeping, their digital brothers are kicking back without a care in the world? Not exactly. EPM's Jonas Stone points out that more digital product will generate more complicated sales data.

"This will need to be integrated and assimilated quickly and efficiently to all distributors' label partners," he explains. "This will make transparency between distributors and labels and labels and artists an even bigger issue over the coming 12 months."

For The Orchard's Navin, there's still reason to keep a close eye on the state of physical affairs, even

"Our core business is digital distribution so its rise has greatly improved our business and allowed us to significantly expand our global reach. It's certainly given independent artists and labels a more level playing field"

BRAD NAVIN, THE ORCHARD

FEATURE DISTRIBUTION



"We are building fan-acquisition widgets on Facebook, running online marketing campaigns, offering anti piracy, developing branding initiatives and expanding marketing partnerships with the likes of YouTube and Spotify"

HENRY SEMMENCE, ABSOLUTE

though he is operating in a digital world. The future of the High Street is particularly concerning.

"Any reduction in revenue for labels means that they are working with restricted budgets to sign and develop new and existing artists," he tells *Music Week*. "For artists and labels of a certain size, digital services are a complement to, not a replacement for, the 'bricks and mortar' record store discovery experience."

Of course, the ever-fluctuating position of High Street retailers has a more overt effect on physical distributors - who must box clever to take

ABOVE
From left:
Henry Semmence
(Absolute),
Ben Farrar
(Plastic Head),
Wilf Mann
(Nova Sales
and Distribution),
Alan Lynch (GEM
Logistics) and
Mike Chadwick
(Essential)

advantage. GEM Logistics' operations director Alan Lynch and head of Client Services Stephen Duke explain: "Retailers holding less stock can lead to inventory being replenished more regularly but with smaller order volumes. We continue to adapt to ensure our service offering meets the ever-changing requirements of our partners. We have to evolve and fortunately we have both the facility and team to achieve this."

"Since opening our dedicated third party facility in Northampton some 18 months ago, our aim is to continue to offer partners an agile, efficient and cost effective solution."

Laurie Staff of Cadiz Music, which distributes both physical and digital product, agrees that the good health of the High Street remains crucial to everyone in the industry.

"Online and digital sales are vitally important but we must never forget that the High Street stores are literally the shop window for music in all

its guises," he enthuses. "Specialist music and specialist stores go hand in hand, it's the life-blood of the industry. There's still no greater thrill than hearing something vital and new playing in a store and walking out with an unexpected gem. That's why we're all in the business, or at least it should be!"

Increasingly, companies that were once known primarily as a 'distributor' now offer a range of other services to artists and labels. For a company like Absolute Marketing, that kind of business model makes life a bit more comfortable, even exciting.

According to managing director Henry Semmence: "Absolute is not just a distribution company, it's a 'Label Services' company and therefore we are already at the forefront of the changes that need to take place and which will develop even further over the next few years."

"It is an exciting time at present with the ever-expanding routes to market, and change and development are vital to maintain growth."

Digital prominence has opened up new doors for Absolute, says Semmence, who suggests that companies that focus purely on distribution alone could be missing out on linked opportunities.

"We have an innovative digital department and we are constantly expanding our digital offering," he explains. "We are building fan-acquisition widgets on Facebook, running online marketing campaigns, offering anti-piracy, developing branding initiatives and expanding marketing partnerships with the likes of YouTube and Spotify."

"Without these elements attached to the overall

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service, a 'distribution' company would be missing out on a huge section of the marketplace."

The potential need to branch out into new sectors for clients is something well recognised by Plastic Head's senior label manager Ben Farrar.

"Plastic Head has always tried to maintain a forward-thinking outlook on the direction of the company," he says. "Whilst ensuring we consolidate our position as music distributor continuing to offer the best service to our suppliers, we will also be developing other aspects of the business further to expand our customer base and be able to offer a wider range of media products over a variety of mediums."

But rather than ditching struggling sectors to run towards whatever's new and thriving, there's a wide

consensus that distributors need to show support to the High Street.

"It would be dreadful to think that the problems in the High Street could spell the end of music being available anywhere other than online specialists and supermarkets," says Farrar. "We want to continue to support this part of the sector and I believe other retailers don't want to see music and media stores disappear either. It's up to distributors to be bold and find new ways of working with High Street retailers to keep product available there."

Absolute's Semmence is similarly keen to see High Street retailers survive. "The situation in the High Street is obviously a concern, not just with HMV, but the uncertainty of what direction the supermarkets will take," he says. "I firmly believe there is still a huge appetite for CDs - if priced and packaged correctly - and it would be a shame if High Street retailers did not embrace this."

Essential's Chadwick observes: "Retailers face tough rents and rates on the High Street, and our industry works in low-value goods, which makes it even harder. Maybe there's a future in a UK music or entertainment retail chain that doesn't operate on the High Street - but on smaller side streets."

Still, Nova Sales and Distribution Wilf Mann expects a relentless shift to

digital to ultimately force distributors to rely on niche physical product.

"A gradual shift to digital will clearly continue, with digital generations growing while the CD buyers get older and purchase less," he predicts.

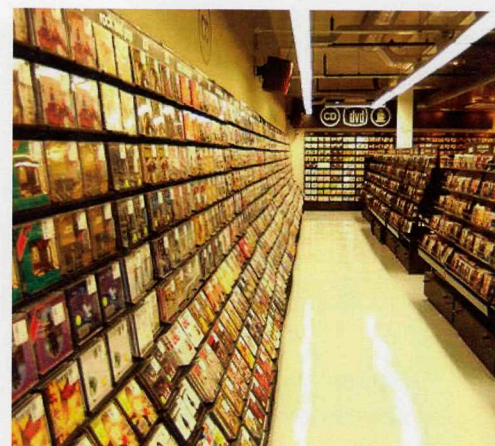
"Special music formats such as box-sets or limited runs of CDs will become the leading physical formats on many items - and I think we'll see the so-called 'long tail' of sales slow over time."

EPM's Stone echoes the words of Absolute's Semmence and Plastic Head's Farrar when it comes

"Online and digital sales are vitally important but we must never forget that the high street stores are literally the shop window for music in all its guises. Specialist music and specialist stores go hand in hand, it's the life-blood of the industry"

LAURIE STAFF, CADIZ

RIGHT
The shop window:
music and
specialist stores
go 'hand in hand'
according to
Laurie Staff
of Cadiz



to anticipating what the distribution sector will look like in the future.

"I think distributors will become more and more involved in the promotion and marketing of its clients releases - in effect becoming an extension of the very labels that it serves," he says.

The Orchard is prepared to expand the services it offers on all fronts in order to help the entire industry remain healthy, says Brad Navin: "We must help labels and artists navigate the new music industry. Whether that means offering marketing support, the best rates from the newest services, neighbouring rights collection, song synchronisation, robust real-time analytics or simply a conversation with a person who can offer pricing advice. We believe that distribution in the 21st century is this entire suite of services and, at The



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FEATURE DISTRIBUTION



Orchard, we're always on the lookout to expand the role of a distributor."

PIAS's Sefton takes that idea one step further - predicting that distributors could actually see themselves working directly with artists.

"I think there will always be a vibrant independent sector and independent labels will always have the ability to exist and, outside of labels, bands trying to bring music to market," he ponders, "maybe not signed to labels but signed to distributors on their own."

Cadiz's Laurie Staff agrees: "We will still be the conduit between the artist and the customer via varying retail routes, but there will be more artists branching out on their own, outside of a traditional label structure. We are ideally suited to this approach as we can offer the guidance and close working relationship needed."

ABOVE
Lightening the load: Digital may have reduced the weight of the physical market, but many in the industry are determined to find new ways of working with and getting music to high street retailers

PIAS's Sefton is aware of the possibility that crowd-funding and other artist-based initiatives may grow - but ultimately feels there will always be a place for distributors. "Clearly people may move towards working directly with the public, I suppose, but I find it hard to imagine a world without a retail sector of some shape or form," he says.

The message from distributors of all ilk is similar; we must remain flexible, cooperate with newcomers into the industry - and keep the art form in mind. The third is especially important if the industry will ever curb the 'culture of free'.

Absolute's Semmence promises to "embrace new technologies and services, but always have an eye on the key and core elements - the artists, the music and the routes to market".

Cadiz's Staff is similarly keen to emphasise the importance of the product: "It's time to stop

devaluing music by giving it away with newspapers, racking it up next to dog food or using it as background for adverts.

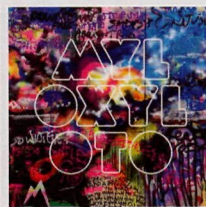
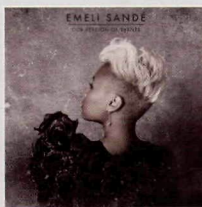
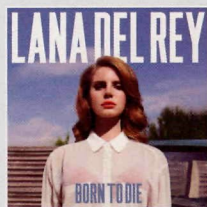
"Maybe then audiences might start to value it once again."

PIAS' Richard Sefton feels that the word 'industry' is the key when it comes to dealing with challenges ahead. After all, the business of music is far more than a clutter of self-interested parties - it's a long chain of equally important links.

"For us, it's not all about PIAS," says Sefton. "Perhaps a bit more cooperation between people would prove fruitful. That's something that the music industry has been criticised for from the outside.

"People say it's a dysfunctional business, which it isn't at all, but I think we could work more harmoniously to try and secure a better future."

DISTRIBUTING THE NUMBERS THE MAJORS ARE LURED BACK BY DIGITAL



■ BY PAUL WILLIAMS

ALTHOUGH MOST OF THE MAJORS bowed out of the physical distribution sphere some time ago, the rise and rise of digital has seen them stake a claim in the distribution landscape once again.

Arvato, which handles physical distribution for Universal, Sony and Warner, remained by some distance top albums distributor in Q1 with a market share of 42.5%. This was more than double that posted by closest rival EMI, which scored 16.1%, and it handled the physical distribution of 34 of the 40 biggest-selling artist albums of the quarter, led by Polydor act Lana Del Rey's *Born To Die*.

However, Arvato's total was down from 44.8% in the same period of 2011 and from 56.3% two years ago with some of that share redistributed to its clients distributing their own releases digitally.

This shift has resulted in Universal, Sony

and Warner being in Q1 the third, fourth and sixth leading album distributors respectively with all of them showing sizable year-on-year growth. Universal's albums distribution share was up on 12 months ago from 2.2% to 9.6%, while Sony's rose from just 0.8% to 4.9% and Warner's improved by 0.8% to 4.2%.

EMI alone among the majors handles both physical and digital distribution for its releases, hence a superior market share to its three rivals. Its own share was up by 4.1 percentage points on the year as it cashed in on releases by the likes of Emeli Sandé, Coldplay and David Guetta.

Going the other way, PIAS Sony DADC's albums share dropped from 11.3% in Q1 2011 to 4.8% a year later, a fall easily explained by it being the physical distributor for XL Beggars and

therefore Adele.

But the multi-honoured singer was still keeping it busy in the first three months of the year with 21 the top artist seller again and 19 finishing in 13th position.

The company also scored a top five album with Enter Shikari whose *Ambush* Reality-issued *A Flash Flood Of Colour* sold 33,852 copies in the quarter. PIAS UK also controlled another 0.9% of the market thanks to its digital distribution.

Among the other distributors for independent product, Sony DADC was ranked seventh with a 3.5% share that included successes with Demon's Justin Fletcher and a Union Square best of from Gilbert O'Sullivan, while Proper was eighth with a 1.3% share, ADA Arvato ninth with its business including another Top 10 album for Dramatico's Katie Melua and Beggars Group 10th with a 1.1% share.

Given the sector is now almost entirely digital, distribution market share for singles largely mirrors the corporate group figures so Universal leads with 34.1%, up from 28.8% a year ago with Sony second on 18.1% (11.0% a year ago), EMI third with 14.1% (11.2%) and Warner third with 14.0% (5.7%). However, one significant change is with Arvato, which in the first three months of 2011 handled 17.1% of the singles market, but this slipped to only 0.3% a year later.

Ministry of Sound's digital distributor Fuga claimed 2.1% of the singles market with DJ Fresh featuring Rita Ora's chart-topping *Hot Right Now* its biggest seller, while other independents finishing among the Top 10 singles distributors of the quarter were PIAS UK (1.5%), IODA (1.3%) and The Orchard (1.0%).

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