



Warner Music's chief executive is looking for new ways to appeal to artists and listeners.

CEO Interview

Bronfman's Song: Don't Count Us Out

Edgar Bronfman Jr., Warner Music Group

Edgar Bronfman Jr. sat wearily on a red midcentury-style sofa in his 30th-floor office in Rockefeller Center. Madonna, a client of Warner Music Group for 25 years, was all over the papers for signing a \$120 million 10-year deal with Live Nation. "Keeping Madonna would have been diseconomic," says Bronfman in a near monotone,

sounding as if this day had already gone on too long.

Madonna was just the latest example of the lousy news plaguing Warner and the recorded-music industry in general. Artists like the Eagles and Paul McCartney have also sought distribution channels outside the traditional recording labels. CD sales—roughly 80 percent of Warner's business—were down about 20 percent in the first 10 months of 2007 and could drop another 25 percent in 2008, according to Pali Research. Warner's stock price, \$8, is down from the \$20s a year ago.

Even so, Bronfman, 52, thinks that the death of the music business has been greatly exaggerated. "We are in the midst of a transformation," he says. His supporters argue that artists still require the label's marketing and promotional muscle and that Bronfman has what it takes to weather the slump. "Edgar Bronfman is smart and curious and can figure out whatever challenges there are," says Barry Diller, chairman of IAC/InterActiveCorp.

An heir to the Seagram fortune, Bronfman may be better known for his mistakes. He was criticized for selling Seagram's 24 percent stake in DuPont at a low point and buying MCA, the parent of Universal Studios, in 1995. He sold Seagram to Vivendi in 2000 for Vivendi stock, only to see those shares collapse. In 2004 Bronfman won control of Warner Music. He cut \$250 million in expenses while maintaining investments in future artists and making new ones in several music-management companies. Bronfman sat down with SMARTMONEY senior writer Dyan Machan and talked about what others are missing, why artists (listen up, Madonna) need him more than they think, and what his name would be if he were a rapper.

Madonna left. All I can say is, how could she?

Generally, chapter three or four of an artist's recording career is not a profitable

place to be for a recording company. She can still sell a lot of albums, as we saw with her last album, *Confessions*. In my view it was diseconomic [for Warner Music] to make this deal. We love her. We love being in business with her. We love owning the body of her work forever.

Right—you own the good years!

She may have many, many good years.

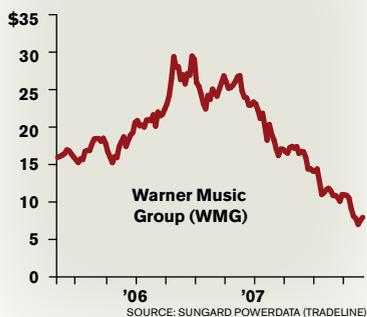
A number of artists are releasing digitally, without a major label. They don't need you anymore.

There's no question that there's an extremely important role in finding, marketing and promoting new artists and building their careers. In my experience artists prefer to receive checks rather than write them. When they go out on their own, it's a costly bit of business.

You have said that you aren't interested in owning just the recording piece of an artist's business.

SOUR NOTE

Warner Music Group's stock has been out of tune in the past year.



It's not that the other rights are more important. It's just that recording rights aren't all of it. The way an artist will reach a broad audience today is different from how they reached a broad audience yesterday. We have to create partnerships with artists to continue our role. We have invested in Front Line Management, the largest U.S. artist-management company. We will continue to invest in other areas

of artists services, like Web-site management, ticketing, merchandising, touring and sponsorship, to be strong partners for all their needs.

Some of the value of your content has gone into Steve Jobs's pocket. How do you get it back?

It's increasingly important that music re-

“It's like sausage being made—not great to watch, but by 2010 the music industry is not going to resemble anything we can even imagine.”

ceive an appropriate compensation for the ecosystem it enables. The old paradigm of pure transaction is not so much the issue anymore. In the case of portals, say YouTube, music is a traffic builder, and we're not getting money for that. We have to change that.

How?

That has to come. But I'm telling you where I think value is derived. We'll share revenue for licensing a catalog with artists. That's not something that artists can do individually.

You're looking at variable pricing models to get away from the 99 cents-a-song model. Is there progress?

I can't comment on ongoing negotiations, but it's a good question.

You are introducing a new format to succeed the CD called MVI (music video interactive). How is that going?

MVI offers a connected experience that is not just listening to music. It's music video, the making of the album, photos and whatever the artist wants. Linkin Park and James Blunt have MVIs, and we're rolling out several dozen in the next quarter or two. It's something we can contribute to energize people to go to stores and buy.

Do people go to the store to buy music? I used to go to Tower Records; now it's defunct.

The demise of the independent retailer is very problematic. I think a lot of people who used to go to Tower are shopping at Amazon. But people like to buy with other people. There is room for new players.

Leo Hindery Jr., a media dealmaker, said in a speech that “not even this management team can do anything except continue to

cut costs as the only means to meaningful bottom-line growth.”

He's suggesting we are a great management team in a bad industry. But we are not in a bad industry. It's like sausage being made—not great to watch, but by 2010 the music industry is not going to resemble anything we can even imagine.

Analysts note your revenue and cash flow are sliding.

It's useful to consider there are hundreds of millions of music-enabled devices. There will be new business models that will allow sharing in the revenue. When the bulk of your revenue starts to decline, it's very difficult for the small percentage that is growing to make up for the decline quickly.

Your stock is down more than 60 percent in the past 12 months.

It's up, it's down. I see how much cash we produce, and our stock is a bargain.

Are we making progress against piracy?

I see improvement in attitudes. There's a greater parental acknowledgment that it's unambiguous stealing.

My kids say, “Yeah, but everybody does it!”

Would you jump off the Empire State Building if everybody did it?

If you gave yourself a rapper name, what would it be? Slump Buster?

Daddy Seven. I have seven kids.

And your theme song?

“The Best Is Yet to Come.”