

Niche marketing of CD albums continues to rise in the US as physical sales overall decline

Sales of physical albums at non traditional outlets in the US in the first seven months of 2006 were 40.7m units, a 48% increase over the same period in 2005, according to Nielsen SoundScan.

Non-traditional retail outlets, which include lifestyle, clothing, food stores and coffee chains, are emerging as important points of sale for premium CDs and music DVDs for the major international record companies at a time when established music chains and independent stores are suffering from falling sales. Moreover, whereas discounting is commonplace at traditional outlets, most albums sold at non-traditional stores are at full price.

For the first seven months of 2006, SoundScan reported that album unit sales in the US were 354m. Non-traditional outlets accounted for 11.5% of that total, compared to 41.8% sold through music chains (148m), 39.8% through mass merchandisers (141m) and 6.9% through independent record stores (24.3m). Offering CDs for sale at specialty stores, as well as other music items such as DVDs and concert tickets, has become a key element of several retail chains' business plans. While Starbucks is the leading non-traditional outlet, other stores have followed the Starbucks mode, including urban fashion and Hip-Hop clothing store Downtown Locker Room and teen Punk/Goth mall outlet Hot Topic.

Following on the heels of last year's Ray Charles hit *Genius Loves Company* (which was 20th best-seller of 2005, according to SoundScan), in October Starbucks will release *Ray Sings, Basie Swings*, a collection of unreleased performances by Charles and the Count Basie Orchestra. It is the second Charles release as part of a joint project between Starbucks' label Hear Music and Concord Records. The album features Charles' vocals mixed over music performed by the current Basie Orchestra – the two did not perform together on the original recordings.

A key element of the strategy of Starbucks that other non-traditional retailers are seeking to emulate is the sale of exclusive and unreleased content at premium prices, setting them apart from the 'big box' such as Wal-Mart and Best Buy, which offer only the best-selling titles at the lowest prices possible. In this vein, last month Starbucks announced that in partnership with XM Satellite Radio it would release a series of compilation CDs of a range of live performances recorded for the in-studio XM series *Artist Confidential*. Included in the series are recordings by Coldplay, Phil Collins, Tori Amos and Joan Baez performing new recordings of their hits. The first volume of the series, which has already been released, is on sale for \$14.95 at Starbucks and \$15.95 on the company's website.

Starbucks and XM began their partnership in 2004 when the satellite radio company started gaining subscribers. XM has since tripled its number of subscribers to 7m. Last year the coffee chain released a similar CD of in-studio recordings, co-branded as *Hear Music XM Radio Sessions*, featuring songs from

Jewel, James Blunt and Jason Mraz. There is also a *Hear Music* channel on XM, which is often piped into Starbucks outlets. *Hear Music* releases slated for this year include albums by Tony Bennett, Frank Sinatra, John Mayer, Barenaked Ladies and Carbon Leaf. Starbucks also has a partnership with the William Morris Agency that is expected to help generate film and other entertainment-related deals.

The sale of premium CDs has proven successful for Starbucks even as other similar initiatives have faltered. Experiments with Hewlett-Packard-built media bars offering custom CD-burning in coffee shops did not lead to a wider roll-out. Earlier this summer the company experimented with start-up Music-On-Demand systems to provide in-store music kiosks, which may lead to support for MP3 players and iPods. The possibility of a digital music download store has also been floated, although the company has already made clear it is taking a cautious approach to its music technology initiatives.

According to California-based music retail research firm the Almighty Institute for Music Retail (AIMR), which maintains a database of 14,000 stores including over 600 specialty retailers, the non-traditional market is an expanding one. According to AIMR, there is generally little discounting in this market with prices commonly between \$11 and \$16 and recorded music accounting for between 1% and 5% of a store's total sales.

AIMR cites Downtown Locker Room (DTLR) and Hot Topic as examples of lifestyle stores that focus particular attention on music, although others are entering the space all the time. Recently, the Crackerbarrel chain of downhome 'comfort food' restaurants has begun experimenting with selling Country music CDs. Baltimore. Hot Topic is a Punk/Goth/Metal clothing and accessories store ubiquitous in shopping malls in the US. Some 600 stores report to AIMR, and sell a range of Punk and Metal albums in outlets and online for between \$9.99 and \$15.99.

Maryland-based DTLR operates 50 stores along the East Coast, Atlanta and Chicago, selling urban and Hip-Hop-inspired footwear and clothing. Almost all their stores now carry CDs, and physical music accounts for 1% of the chain's total sales. DTLR began working with local indie label Unruly Records to select titles for in-store sale, and the music company is now a specialty entertainment merchandising unit within the retail company. DTLR stores sell Hip-Hop, R&B, Rap and underground albums, host in-store signings and release parties – artists that have made appearances include Eve, Kanye West, G-Unit and Cam'ron – and sells tickets to selected concerts and events. Among its best sellers so far this year are TI's *King* (3,000 units), Nelly's *In My Own Words* (2,500 units) and Unruly artist DJ K-Swift's monthly *Jump-Off* mix CDs (which sold 2,000 units in DTLR's Baltimore stores). DTLR has also seen success selling DVDs of reality-style films and street documentaries, doubling the volume of DVDs sold since it started them in 2004.