

Madonna leaves Warner Brothers Records

The famous lady of pop – Madonna – is known for reinventing herself. Now it appears that she is helping to reinvent the music industry. After a 20-year relationship Madonna has left Warner Brothers Records. With Warner Brothers, Madonna has had more number ones than any other female artist.

On leaving Warner Brothers, Madonna signed a \$120 million deal with Live Nation Inc. Live Nation is the world's leading venue owner and promoter, managing Wembley Arena and owning the Brixton Academy.

The deal is for 10 years and when it ends Madonna will be nearly 60. It is believed that the arrangement would see her making at least three studio albums, whilst also promoting concert tours and selling her name.

Madonna's decision to leave Warner Brothers is thought to have been driven by the falling volumes in the CD market. This year alone, sales of CDs are down 14 per cent. Major record labels have traditionally acted as the main route to market for recording artists and major talents like Madonna have made millions from recorded music sales. But with music sales moving online, margins and volume have fallen.

mp3 recordings sell for less than CDs and despite the success of sites such as iTunes, downloaded music has not offset the fall in CD sales. Another problem is that downloaded music is portable and easily copied. This is nothing new; CDs and tapes were copied, but generally amongst a small group of friends. The global Internet enables pirated copies to be distributed widely and freely to millions of individuals who wish not to pay. This is especially the case with youthful, income-constrained music lovers who have come to expect that music is free.

Madonna's deal with Live Nation is more focused upon concert revenue. Confessions, Madonna's 2006 tour, is reputed to have generated \$260 million through ticket sales and merchandise. As a result, artists and concert promoters are keen to forge stronger relationships.

Madonna is not the only one thinking about the future of the music industry. Radiohead recently decided to let fans decide how much they were willing to pay for their latest

album. Downloading from Radiohead's own website, fans could pay as little or as much as they liked for the album. When the record company launches the album later in the year, they are unlikely to be as flexible on pricing.

Prince recently gave his latest album away through a UK daily newspaper. But the result was a sell out of his London concert. The move is thought to have netted Prince £250,000. So there are riches to be made in music, if not in the record market.

Questions

1. What is the elasticity of demand for recorded music? Explain why you think it is elastic or inelastic.
2. What is the elasticity of demand for live concerts? Explain why you think it is elastic or inelastic.
3. What is elasticity of supply for recorded music? Explain why you think it is elastic or inelastic.
4. How can your answers to the above be used to understand the changes in the music industry?