Sites of sound: recording studios and the musical economy

Andrew Leyshon
School of Geography
University of Nottingham
Nottingham NG7 2RD
andrew.leyshon@nottingham.ac.uk

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Background

This is a summary report of on-going research into the UK music industry conducted at the University of Nottingham. It is part of a broader study which is considering the implications for copyright-based economic activities in an era of digital reproduction and distribution. The focus of the study is the musical economy which in recent years has been subject to a significant crisis of reproduction which has been exacerbated by the advent of Internet 'piracy' (Leyshon et al., 2005). The project is exploring the consequences of this crisis for key actors and institutions within the music industry. Currently, the research is investigating the recording studio sector in UK. Over 30 interviews have been conducted with key informants since 2005, building on earlier interviews within record companies in both the UK and the US.

To some observers, it might appear that the music industry has, after a long struggle, managed to convert the Internet into a successful distribution channel. There are now as many as 335 sites that offer legal music downloads and the most successful of these, iTunes, chalked up one billion downloads by the beginning of 2006. iTunes exceed $billion a year in sales, has a library of two million songs, and delivered 420 million tracks via download in 2005 alone. However, iTunes is dwarfed by Peer-to-Peer (P2P) networks which are the main conduits of illegal downloads (Leyshon, 2003). The top ten P2P programs have been downloaded over 640 million times worldwide and an estimated 2.3 billion music files are exchanged across these networks *every month*. For example, Kazaa has a user base of over 140 million computer users, which is more than more than double the membership of Napster at its peak.

The growth of Internet piracy coincided with a decline in global music sales –by 15% between 2001 and 2004 – which led many in the music industry to argue that there is a direct and causal relationship between the two phenomena. In fact, it is probably more accurate to see Internet piracy as a 'tipping point' in the music industry, which brought into sharp focus the already precarious nature of the musical economy. The traditional 'recovery rate' within the industry of 10% has fallen to just 3%; that is, in some record companies only 3% of recordings actually recover the costs of their production. Thus, an entire industry is predicated on the sales of a very small proportion of total production. Although Internet piracy has played a part in the crisis facing record companies, other factors such as competition for the 'share of wallet' of the under 24 year old consumer market is significant, as the consumption of music has to compete with new passions such as computer games, mobile phones, DVDs, etc.

The response of record companies to a collapse of sales and earnings has included job cuts, a shrinking of artist rosters and contractual changes, as well as cuts in A&R budgets. Given the central role of record companies within the music industry these developments have inevitably had significant impacts on the musical economy more broadly (Leyshon, 2001), which included the recording studio sector.

The recording studio sector

There is very little available information on the economy of the recording studio sector, and most of what does exist is in the form of estimates. One of the most authoritative sources of data is a report produced by Dane et. al. for the National Music Council in 1999 (Dane et al., 1999). This work argues that in the late 1990s recording studios in the UK were responsible for overseas earnings of £3.7m, generated a turnover of £30m and directly employed 660 people. The value added of the studio sector – that is, the combined sum of income from employment, self-employment, gross-trading profits and rent received – amounted to £15m per annum. Meanwhile, record producers generated an additional £14m in value added. However, as Table 1 illustrates, value added per employee within the recording studio sector was below the average for the musical economy as a whole.

Table 1: The value chain of the musical economy (Source: adapted from Dane et al., 1999)

	Value-added (£M)	FTE Employment	Value-added per employee (£)
Composers	930	1,500	620,000
Publishing Companies	96	1,275	75,000
Collection Societies	26	913	28,000
Performers	350	46,000	8,000
Record Companies	405	7,128	57,000
Record Producers	14	750	19,000
Recording Studios	15	660	22,000
Manufacturers	87	3,000	29,000
Distributors	86	2,578	33,000
Retail	279	16,090	17,000
Total (average for column 3)	**2,288**	**79,894**	**29,000**

Recording studios may be understood as socio-technical spaces that utilise a number of different assets. These include space, time, technology, expertise and 'congeniality' (that is, an atmosphere of support and care that helps to inculcate the creative process). They utilise these assets in collaborations within project-based work. However, unfortunately for studios, the significance of all these assets – congeniality excepted – are being eroded due to technological developments which undermines the role of dedicated recording space for certain kinds of recording. But it is also a product of the buyers of the services provided by recording studios – that is record, TV and motion picture companies – putting downward pressure on prices, which means that, according to studio managers, studio rates in 2005-06 are little different to those charged in the mid- to late 1980s. One of the key problems that studios face is that they exist within an *oligopsony*; that is, in a market of few buyers. Such markets are characterised by asymmetric power relations that allow buyers to exert deflationary pressure on sellers over time. A further problem facing studios is that there are low barriers to entry and a tendency to overcapacity in the market, which has been exacerbated by a trend which might be described as the democratisation of technology, as recording equipment shrinks in both size and price. In addition, studio capacity has been extended by what might be described as 'vanity' or 'emotional investments'. These are often funded by successful musicians who build studios for their own use, which they may later then rent out at commercial or near-commercial rates.

However, as some studio managers recognise, some overcapacity is important to recording centres being seen as world-class sites that can cope with vagaries of demand:

> " … people always say to me … when a studio that's similar to ours goes under …. 'Oh, that must be good for you because you'll get more work". Well, in some senses, yes: when I'm quiet I might not be as quiet because I gain some work. But people will stop coming to London as a centre of excellence [if there are not the] back-up places … if they can't get into [Studio A] they don't moan about having to come here, but then if there's absolutely nowhere … for them to go and they can't get into one … of the places here then they'll stop coming and they'll take the work [elsewhere], stay in America or whatever" (Interview 2, Studio Manager, female, 40s, 2005).

Thus, the current spate of closures within the recording studio sector may bring short-term benefits to those studios that survive, but may also bring long-term costs. Nevertheless, it is clear that the UK, and London in particular, remains a leading global recording studio centre. An analysis of studio credits on the best selling UK CDs in 2003 confirms this (see Table 2).

Table 2: Credits on the best selling 80 CDs in the UK in 2003 revealed the following top ranked recording studios (Source: author's research)

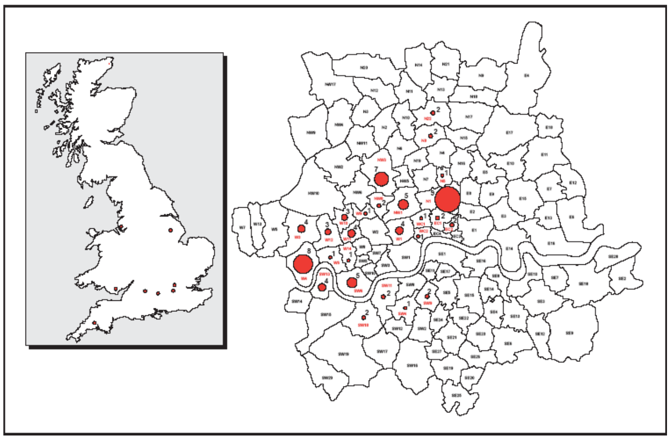
Number of credits	Studio(s)
8	Angel Recording Studios (London)

7	Air Studios (London)
5	Mayfair Recording Studios (London); Metropolis Studios (London); The Record Plant (Los Angeles)
4	Conway Studios (New York); The Hit Factory (Miami); Sarm West Studios (London); Olympic Studios (London); Sanctuary Townhouse Studios (London); Whitfield Street Studios (London)
3	Britannia Row Studios (London); Capitol Studios (New York); Eden Studios (London); Encore Studios (Los Angeles); The Hit Factory (New York); Ocean Way Studios (Los Angeles); Sony Music Studios (New York); Stargate Studios (Trondheim)

When analysed by city, London emerged significantly ahead of Los Angeles and New York (Figures 1), and the global significance of the West London studio cluster is clear (see Figure 2).

Figure 1: Location of studios used in production of best selling UK CDs, 2003: by number of credits

Figure 2: Location of UK studios used in production of best selling UK CDs, 2003: by number of credits



However, the recording studio sector in London, and elsewhere, is currently faced with a number of problems and dilemmas, which have been gestating since at least the early 1980s. Studios were shielded from the effects of these problems for many years by a boom in post-production work for CDs, videos and, more latterly, DVDs. But from the mid-1990s on, clear signs of economic problems within the recording studio sector became evident, for at least four reasons:

i) Reduction in recording budgets: these have fallen significantly to as little as £20,000 per album, as record companies seek to reign in costs in response to falling revenues;

ii) A decline in demand for large recording consoles and the rise of smaller computer-based recording systems: although these software-based recording systems – such as ProTools – are considerably cheaper than the large recording desks, they require continuous additional investment as the software needs to be constantly updated. Moreover, the shift to digital recording has led to a reduction in the need for space and time, two of the main assets of studios, in part because recording projects are increasingly incorporating pre-studio preparation work which saves time in the studio. Finally, digital recording has also meant the end of tape as an income stream for studios, which was supplied to recording projects at a mark-up.

iii) Runaway production: many London studios have benefited from 'runaway production' from Los Angeles as the motion picture industry has sought to save money on orchestral soundtrack work, film scoring, etc. For 'top end' London studios, this lucrative work has acted as an important buffer against some of the above trends. However, some studios have reported signs of runaway production beginning to bypass London for central Europe as cities such as Prague and Budapest which have become competitive sites for orchestral recording.

iv) The consumer demand for 'lo-fidelty' products such as MP3s: the rise of the iPod and other MP3 players cuts against the grain of the recording studio culture which is focused on high-fidelity recording and playback. The market penetration of MP3s contrasts strongly with that of 5.1 and home cinema, which many studios hoped would be a lucrative income stream.

v) The market failure of UK artists in the US Market: some studio managers argued that the failure of UK acts to generate significant sales in the US since the early 1990s has lowered the demand for UK studios by US-based artists.

Implications

Thus, recording studios are facing falling budgets, a falling demand for studio space and time, an erosion of barriers to entry and being bypassed by runaway production from Los Angeles. In response, many studios have closed altogether, while those that remain area often characterised by underemployment and a deterioration of working conditions.

One of the key consequences of the current crisis facing the musical economy as a whole has been an accelerated vertical disintegration of production. On the one hand, record companies have increasingly devolved responsibility for delivering albums to management companies. Record companies appear less interested in A&R than hitherto, and have become more focused on marketing. Partly in response to this development, management companies have emerged as key intermediaries in the industry and seek to develop artists to pitch to record companies, who can then benefit from successful marketing campaigns. This development may serve to strengthen the industry's ties to London and the South East region as 'networks of creativity' are populated with more firms located in and around the geographical centre of the industry. On the other hand, studios are also devolving responsibility for filling time and space to producers by renting self-contained rooms to independent producers. This externalises risk to producers and is attractive to producers in that it provides producers with an alternative to home studios. However, some studios have found this to be an unstable market, with many entries and exits, as producers find it as difficult to escape the vagaries of the market as do the studios.

Options for studios

One option for studios is to attempt to capitalise upon the vertical disintegration taking place within the musical economy. They could utilise their recording assets to become quasi-management companies or perhaps production-publishing companies. They could use studio assets (such as technology, labour, and expertise) to develop creative talent and seek to keep some rights to products they sell on to record companies. However, such endeavours will need money to fund the development of artists, while few recordings cover the cost of their production. Developing talent is a highly risky business. A second option would see studios become facility managers, converting most of their available space to producer rooms, in an attempt to capitalise on the trend towards smaller and more generic recording technologies. A third option for studios would be to seek to open up a new income stream by capitalising upon their buildings as part of the 'musical heritage' industry, as some studios have successfully achieved in the US. However, such a strategy has the capacity to interfere with the normal management of facilities in a working studio.

In meantime, further restructuring in studio sector in response to broader problems facing the music industry is likely, and a crisis for motion picture companies is on the horizon as new generation broadband is rolled out which will reduce the time it takes to download a film to less than 5 minutes, which will also have an impact on the recording studio sector given the close links between the two industries.

References

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