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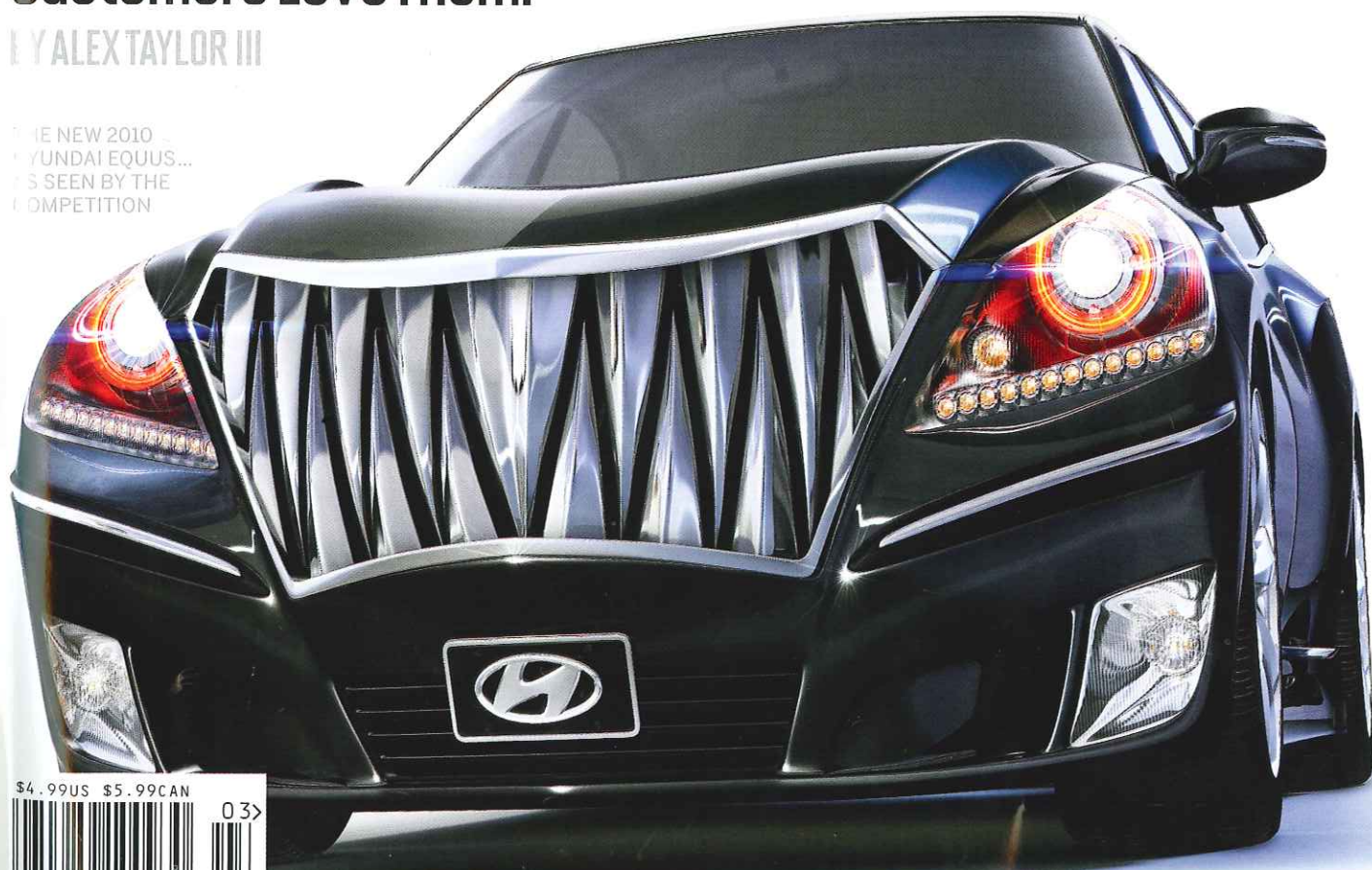
# FORTUNE

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BY ALEX TAYLOR III

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THE BUSINESS OF /music


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*A&M/Octone's JAMES DIENER has a maverick approach to music management: TAKE CARE OF YOUR BAND, demand the world of them, and the business will take care of itself. Guys like BlackRock's Larry Fink are betting on him.*

*by* **MINA KIMES**  
*Photograph by Benjamin Lowy*





A man with a shaved head and a goatee, wearing a dark suit jacket over a light-colored striped shirt, is talking on a black telephone. He is holding the receiver to his ear with his left hand and has his right hand near his mouth. The background shows an office with several framed pictures on the wall. One picture on the right shows a tree in a landscape. Another picture on the left shows a group of people. The lighting is dramatic, with strong shadows.

A&M/OGTONE  
FOUNDER DIENER,  
HERE DOING A CARD  
TRICK, HOPES TO  
WORK HIS MAGIC  
ON THE RECORDING  
INDUSTRY.



**I**n a cramped dressing room littered with potato chips and half-empty \$6 bottles of wine, the rap-rock band Hollywood Undead gets ready for its performance at a rock festival in Noblesville, Ind. The group's five members, all thin, tattooed males in their twenties, fiddle with masks painted with bloodstains and butterflies. A few of them jostle against one another in front of the vanity as Hollywood Undead's lead singer, Aron "Deuce" Erlichman, warms up his vocal cords, his long black bangs covering one eye.

By the time the band files onto the stage, masks in place, it's after 9 p.m. Beyond the heavily pierced kids in the front row, the crowd of 19,000 stretches back, boxed in by starlit cornfields. Hollywood Undead launches into its first single, "Undead," and the audience starts thrashing, pumping fists as if hammering nails into the air. The band darts around the stage, jumping off amps and rolling on the floor as the musicians scream the mostly profane lyrics.

Few adults over the age of 30 have ever heard of Hollywood Undead, whose fan base consists largely of teenagers enthralled by the band's dangerous image. Most of these kids discovered the band on the Internet. When Hollywood Undead posted its first song on MySpace four years ago, it was an overnight sensation, garnering tens of thousands of online friends in a few months. An overnight sensation—but not a profitable one until the band signed with a traditional record label.

That is good news for an industry struggling to stay in the black. When iTunes and other Internet music providers exploded onto the scene, the worry was that bands would bypass the four big music companies—EMI, Sony, Universal, and Warner Music—and earn their bling by self-publishing on the web. And indeed, more artists than ever are putting out albums online—there were 106,000 new releases in 2008, compared with 44,000 five years ago, according to Nielsen SoundScan. Precious few, however, ever break through. Of the 63 new releases that sold more than 250,000 copies last year, 61 were issued by major music companies. Yes, occasionally a singer-songwriter like Ingrid Michaelson, whose self-released hit album, *Girls and Boys*, has sold 286,000 copies since 2006, makes it big. But as the story of



A&M/OCTONE CEO DIENER (CENTER) HELPED THE MASKED MEMBERS OF RAP-ROCK BAND HOLLYWOOD UNDEAD STRIKE GOLD. HIS SECRET? GIVE THEM ENOUGH TIME TO BUILD A FOLLOWING.

Hollywood Undead suggests, the record labels will continue to play a major role, albeit a new one.

The rub is that those 61 hit albums are not nearly enough to breathe new life into an industry whose biggest challenge is bringing fresh talent onto the market. In 2008, just 35% of album sales came from new releases, the lowest percentage since Nielsen began tracking the data in 1991. Instead of breaking new acts, major labels are increasingly relying on legacy artists and their catalogues. Case in point: EMI with the Beatles. "EMI is run on catalogues," says Steve Knopper, author of *Appetite for Self-Destruction*, an account of the record industry's demise. "It prevents them from ever being completely destitute."

Enter James Diener, founder and CEO of A&M/Octone and the man who made Hollywood Undead a gold-record act. Diener and his small label have thrived by returning to the industry's roots. He is an old-school talent seeker who is determined to discover new superstars and "grind" them, or spend years promoting them until they are ready to break into the mainstream. Then he taps into the marketing muscle of Universal—A&M/Octone is a joint venture



with the music giant—to catapult his bands to stardom. The model is not unlike the way the pharmaceutical industry works: As big drug companies produce fewer blockbusters, they need to partner with or purchase small, innovative biotechs to keep their marketing pipelines full.

A&M/Octone has just six acts on its roster and 16 employees, including Diener. Yet the small label has scored huge hits with bands like pop stars Maroon 5, Christian rockers Flyleaf, and now Hollywood Undead, whose debut album has already sold 600,000 copies. Recently the label signed the band Paper Tongues, which is managed by *American Idol* judge Randy Jackson. Since its formation in 2000, the New York City label has released nine albums, three of which have gone platinum, and one of which—Hollywood Undead's *Swan Songs*—is headed there. (A gold record stands for 500,000 copies sold, a platinum record for 1 million.) Compared with the major labels, which are known for enlisting hundreds of new acts while generating scant successes, that's a killer batting average. With about \$20 million in annual revenue, A&M/Octone is no powerhouse, but it continues to turn a tidy profit and expand its staff.

A&M/Octone is part of a growing trend. While indie labels have long partnered with major labels, they are playing an increasingly important role in feeding megahit bands to the major music companies. Sony Music, for example, has built a large umbrella division called RED that does marketing for dozens of indie labels. And some bigwigs on Wall Street like this new model too. BlackRock CEO Larry Fink, an early investor in A&M/Octone, is a believer in the way Diener does business: "We have connections with a large distribution platform and a unique ability to handhold artists," he says. "We can provide the attention and financial resources that really help in artist development."

**JOREL "J-DOG" DECKER**, a high school dropout, is Exhibit A. He started Hollywood Undead with Aron Erlichman in 2005, when they were teenagers. They posted their first song, "The Kids," on MySpace and asked their friends to promote the band on their profile pages. Decker recruited others to make music, blending rock and rap with tales of drunken debauchery and money troubles. The band members took pictures of themselves wearing hockey masks. It wasn't an aesthetic decision: Member George "Johnny 3 Tears" Ragan says he didn't want college football recruiters to find him out.

Within just three weeks Hollywood Undead attracted 20,000 online friends; in two months visitors played the band's songs more than 1 million times. One day Decker received a message

*"We can provide the attention and FINANCIAL RESOURCES that really help in artist development," says BlackRock's Fink about A&M/Octone.*



from MySpace founder Tom Anderson ("I thought it was a joke," says Decker), who asked if the band was using tricks to gain so many friends. When Anderson determined that they were legit, he too became a fan. Originally MySpace signed Hollywood Undead, but that fell through, and Diener swooped in and cut a deal.

One imagines a predatory record executive sweet-talking naive teenagers, but the band members sound surprisingly savvy when they explain why they decided to sign with a label rather than use their Internet popularity to go it alone. Ragan, a rapper, says that he wishes he were making more money and that he knows he could have retained more of the band's profits had he not signed with a label, but he still believes he needed business backing in order to break into the mainstream. "If you want to

be a huge band, you have to have a record label," he says.

Few artists have the time and money to orchestrate the type of campaign it takes to break into the mainstream. Before success hit, Hollywood Undead's members worked day jobs as jewelry salesmen and security guards. Most musicians would rather focus on their craft than drive around promoting songs, booking shows, and cold-calling radio stations. Of course, they could outsource those tasks—but then they'd be running their own label.

**SO WHY NOT LET JAMES DIENER** do it? The 40-year-old looks the part of a slick, rapid-talking music executive: shaved head, goatee, velvet blazer, and pointy shoes. He grew up immersed in the music business. His father was president of ABC Records, home of Steely Dan, and as a student at Johns Hopkins he played in cover bands and worked at local recording studios. He later took a marketing job at Sony's Columbia Records.

After five years at Columbia, Diener became senior vice president in charge of developing artists and marketing. Yet he wasn't satisfied. He wanted to create new stars, and he was frustrated because he could give so little attention to emerging artists at Columbia, which oversaw hundreds of acts at the time. So in 2000 he started talking to investors about launching his own label, which would be a joint venture between a new entity, Octone, and Clive Davis's RCA Music Group. With the help of partners David Boxenbaum, a former executive at PricewaterhouseCoopers, and Ben Berkman, a colleague at Columbia, Diener persuaded Howard Lipson, a partner at private equity firm Blackstone Group, to invest, as well as Lipson's pal Larry Fink, who as a kid thought he was going to have a career in entertainment. "When they started talking about the project," says Fink, "we determined that there was something there. Quite frankly, they



remind me of the young team I had at BlackRock 11 years earlier.”

When Octone was first launched, its business model was a novelty. Diener was responsible for nurturing and developing a small stable of artists. When an act sold about 75,000 albums, he could “upstream” it to RCA for a larger marketing and distribution push. The partnership proved its worth through the ascent of a pop-rock band from California called Maroon 5. After several labels rejected the group, Diener signed it in 2001 and released its debut album, *Songs About Jane*, in 2002, to little fanfare. Two years later the album exploded, eventually selling 10 million copies. Diener says his label’s willingness to wait—and his insistence that the band spend four years on the road—is key to A&M/Octone’s philosophy: “We want to see it through the way labels used to.”

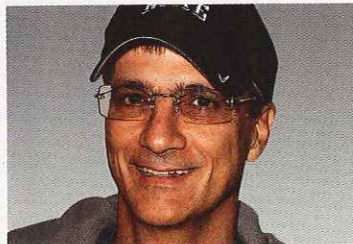
Big record labels used to be patient—Bruce Springsteen, for example, didn’t become famous until he released his third album, *Born to Run*, in 1975—but the prevailing method during the past decade has been to cast a wide net for artists, then abandon most of them after their first attempt. Now labels are taking on fewer artists and aiming for sales of digital singles—it’s either make it big on iTunes quickly or die. Jools Holland, a legendary British musician and television host, recently told British music magazine *Uncut* that classic albums from artists like Stevie Wonder would probably not exist today. “If downloading had been around in the mid-’70s, I’m sure there [would have] been no *Songs in the Key of Life*—just ‘Song in the Key of Life.’”

Nor has the industry’s focus on hit singles paid dividends. Sales of individual tracks topped \$1 billion last year, according to the Recording Industry Association of America, but album sales—including digital versions—declined by 23%, or \$1.8 billion, to \$6 billion. Why buy the whole package when you can choose a couple of songs à la carte?

Diener ditched his deal with RCA in 2007 to form a joint venture with Universal’s Interscope Geffen A&M. In exchange Universal gets half the label’s profits. When Interscope Geffen A&M chairman Jimmy Iovine forged the deal—spending an estimated \$35 million—critics argued that it was a hefty sum to pay for just Maroon 5. But Iovine insists he was placing his money on Diener. “He picks artists who have a real future,” he says. “The way Diener breaks records is really hard to do—over a long period of time he grinds it out, and we stand behind him.”

A&M/Octone operates out of a light-filled penthouse loft in downtown Manhattan. On a fall afternoon most of the staff met to discuss the release of albums by Hollywood Undead and Flyleaf, as well as new music videos shot by famous producers and costing

**“The way Diener breaks records IS REALLY HARD TO DO,” says Interscope’s Iovine. “Over a long period of time, he grinds it out.”**



hundreds of thousands of dollars. At the moment Hollywood Undead was on tour—which runs the record label hundreds of thousands more. Part of the reason A&M/Octone can devote that kind of money to its bands, says Diener, is that it has all-rights, or 360, deals with them. That means the label takes a cut of all revenue streams, including merchandising, touring, and licensing. In 2008, Octone also launched its own publishing service, which profits from getting songs placed in videogames. (“Undead” is in *Madden NFL 09*.) Diener won’t reveal the terms of the deal, but many labels with 360 deals take cuts of 10% or more, according to industry insiders.

All-rights deals are becoming the norm for record labels, which now prefer to be called “music companies” to dissociate themselves from their older, less profitable product. Executives

started floating the deals in the early part of the decade, when file sharing rendered recorded music essentially free. Concert giant Live Nation announced in 2008 an all-rights deal with the rapper Jay-Z, paying \$150 million for an undisclosed chunk of his future revenue; Warner Music Group CEO Edgar Bronfman Jr. said in 2008 that all the company’s future contracts would be 360s.

It’s not clear whether this strategy will pay off for the big labels. Most artists hate the deals, viewing them as desperate money grabs. Now that established stars can market and distribute albums on their own, music companies like Warner and Live Nation will need to pay big dollars to persuade an artist of Jay-Z’s caliber to agree to a 360. The economics, however, often work better for small labels that are willing to take the time to build a band’s fan base. New York City’s Fueled by Ramen, which has 11 employees, delivered one of the biggest 360 success stories to date with Paramore, a pop-punk group that hit platinum in 2008. Downtown Music, another New York City indie, scored a huge hit with neo-soul duo Gnarls Barkley and has since launched a booming publishing unit. Says Josh Deutsch, the company’s founder: “If you sell 200,000 albums but you also have licensing and publishing, it’s the same economics as a gold record.”

Eventually the industry could be dominated by one or two companies that do everything—the type of touring and music monolith that concert giant Live Nation is trying to become. A small label like A&M/Octone will never fill that role, yet it and other small firms will remain a key weapon for those giants that do survive. After all, the music industry thrives on turning nobodies into superstars—even if they are six guys from the Internet, wearing clown masks and wailing at the audience as they weave around one another onstage. ■

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