

Soundscandal: Rigging the Retail Charts

By Yakob Peterseil and Scott Grimm

SoundScan, the research firm that gave a scientific grounding to the once wildly manipulated charts, may not be so infallible after all, according to recent reports. The Los Angeles Times reported that top industry sources have confirmed rumors of widespread manipulation of sales figures, which distorts the standing of new releases in the upper echelons of the Billboard charts.

According to the L.A. Times, SoundScan Chief Executive Mike Shalett acknowledges that there have been some disturbing anomalies in industry sales data. Further, he has heard from numerous industry insiders that major record labels have been hiring outside consultants to manipulate sales figures. According to several music executives familiar with the process, a typical scenario goes something like this:

Someone within a label hires an independent consultant or marketing firm to deliver free copies of a new release and other promotional materials to a select group of small, independent music retailers. In exchange for the free CDs, which retailers may sell for up to three times their normal profit, the retailers agree to swipe each CD numerous times at the register. This data is then sent to SoundScan, which records each swipe as a sale, and in turn gives subscribers false sales figures for that album. By manipulating sales figures in this manner, a new release may shoot up ten or more positions on the charts, according to the Times.

It is still unclear how often such manipulation occurs and which record labels are involved. Representatives from all five major record companies have denied any wrongdoing on the part of the labels in their organizations. Though the majors readily admit to hiring independent marketing firms to assist with promotions, they claim consultants are used to deliver CDs, posters, and displays to independent retailers, which would otherwise not be serviced by the label's distribution leg. Further, the labels require all consultants to sign contracts stating they did nothing illegal while employed by the label.

Shalett says he is growing increasingly frustrated with major label antics: "The labels pay us to run a system that delivers an accurate sales count...what's the point of them paying somebody else to mess with it?" (L.A. Times) Jheryl Busby, former head of urban music at DreamWorks, expressed similar frustration in the Times article: "If ever there was an industry that needed accurate sales information, it's us...one thing we can't afford to do is waste money hyping stuff that's not real." The labels aren't the only ones losing money. The public corporations that own the labels, by giving retailers loads of CDs and other freebies, lose thousands of dollars in potential sales. And, most important, the artists whose work is being promoted make nothing from the transactions.

Adding Science to Sales

SoundScan created a revolution in the music industry upon its debut in 1991 by providing accurate sales data for the recording industry. Previously, chart positions had been compiled from verbal reports given by retail managers, which were not only subject to errors but also to corruption. Accusations of bribery were rampant, and often industry hype overshadowed actual sales figures. A heavily promoted, opening-week record that was lagging in sales could easily be made to crack the top ten through gifts and money given by record labels to prominent retailers. Fringe genres such as rap and country, as well as back-catalog best-sellers like Pink Floyd's "Dark Side of the Moon," were usually cheated out of chart position in favor of releases labels were heavily promoting.

During the last decade, SoundScan gave a relatively scientific backbone to the record industry by introducing a computerized system that tracks CD sales at over 18,000 medium and large-sized retail outlets across the country. The number of times a particular CD's bar code is swiped at a participating retail register is automatically tabulated by that retailer's computers, and forwarded to SoundScan headquarters. The company then extrapolates the data, weighing it against various factors, and delivers a final sales report to subscribers every Wednesday morning.

The entire record industry was reformed as a result of Soundscan. The immediate effect of the new, more accurate figures on the industry was to level the playing field. Suddenly acts that were previously underexposed by mainstream standards, such as Garth Brooks, or back-catalog albums, such as The Eagles' "Greatest Hits," were competing on the charts with the new releases that had hundreds of thousands of promotion dollars behind them. Additionally, the surety granted by accurate numbers allowed for greater awareness of what the actual trends of buyers were -- if a group does not reach the top of the radio charts it does not necessarily follow that the record did not sell well. This led labels to view non-mainstream genres such as "Alternative," "R&B," and "Metal" in a different light, and they began to give more promotion to acts that didn't necessary fall within the middle of the mainstream.

The advent of SoundScan in the early '90s proved to be particularly beneficial to independent artists who were shopping around for major label deals. Since label interest is generated largely by sales buzz, not just musical talent, top-sellers on the weekly SoundScan reports came to enjoy an unprecedented amount of attention from labels. An independent artist who had sold 10,000 to 20,000 records in a particular market or region was cause for serious attention from talent scouts. Previously, labels might have ignored artists who were selling well because of poor visibility or not fitting into the A & R rep's concept of what the "next big thing" would be. Now, the sales figures were right there, staring label execs in the face.

But the precision of SoundScan reports caused serious problems for artists in development. The hard data of SoundScan reports created, in the words of Geoff Boucher of the LA Times, "an environment in the industry similar to Hollywood's fixation on opening-weekend box-office grosses." Previously, the charts would show much-

anticipated albums debuting somewhere in the middle and steadily climbing to the top, lingering for a while before sliding back down. Only six albums before 1991 debuted in the #1 slot. In the decade since Soundscan, 140 records have debuted at #1. Obviously, consumer behavior is different than it once was shown to be. But woe to those records that do not fare well in the first few weeks after release. A developing artist under this type of commercial scrutiny loses out to artists who can immediately connect with an audience and produce better sales figures.

Job Security in the Soundscan Era

The record labels, too, have had to change as a result of the newfound precision of Soundscan. By now, some must be wondering why anyone would go through the trouble to distort the data that is supposed to help them to better run their business? In order to justify publicity costs that often exceed \$2 million for a single album (once you add in the cost of videos and other concurrent promotions), labels feel increasing pressure to make sure opening-week sales figures are high. In the words of George Zamora, president of WEA Latina, the U.S. sector of AOL Time Warner's Latin music division: "The big reason why label executives distort sales data is because they want to try to look good for the corporate bosses upstairs" (L.A. Times). If a CD debuts at #7 instead of #9, that statistic will not generate additional sales of the album; consumers of music don't necessarily care where an album is on the charts. So there is no real interest in inflating numbers from a strictly business point of view, especially since giving away free CDs to the independent stores to inflate the numbers in the first place would be a loss to the labels.

The failure of a heavily promoted new record can be crippling for a label. Radio programmers and concert promoters take notice, as do the so-called "bosses upstairs." One failed project can seriously undermine a label's quarterly financial projections. Since Soundscan reports have become essential, so has the need for an excellent first sale week. Executives who run projects that have budgets of up to \$2 million for a CD must believe that their job is in jeopardy if the Soundscan figures don't show that a return on the promotion money is forthcoming. Most likely, the prime motivation for manipulating the charts comes from this type of internal politicking.

That Soundscan is not impervious to manipulation does not speak badly of Soundscan; rather, it indicates the desperation that exists within the industry. Shalett told the L.A. Times that "[Soundscan has] security measures in place... Some stores that used to report to Soundscan no longer do." It may not be surprising that an industry that has been often under scrutiny for payola in their relations with radio would also be involved in a scandal when it comes to retail. Nevertheless, it is a wonder that any business would subject itself to the masochistic act of skewing its own statistics.