Clockwise from bottom right: Moss (left) and Alpert (center) with Friesen (right) in 1965; with Seventies star Frampton; as the A and the M in the late Sixties; and in a recent photo

STEVE GRANITZ - RETNA (TOP RIGHT); JAMES FORTUNE (BOTTOM LEFT)

Changing Times at A&M

The classy, formerly independent label tries for a comeback

By Michael Goldberg

NEARLY THREE DECADES AGO, IN THE FALL OF 1962, an unknown trumpet player named Herb Alpert and his buddy Jerry Moss, a record promoter, started A&M Records in a Los Angeles garage with an investment of $1000. Their first release was "The Lonely Bull," a Latin-flavored jazz instrumental. Performed by Alpert and some backing musicians they dubbed the Tijuana Brass, the record became a Top Ten hit.

That was the romantic beginning of a company that for twenty-seven years remained independently owned by Alpert and Moss, a company that became known as one of the classiest in the record business. But in October 1989, the two partners sold A&M for nearly half a billion dollars to PolyGram N.V.

It was an unprecedented sum to pay for an independent label with only a few superstar acts and a relatively small back catalog. Only two years earlier, Sony had paid $2 billion to buy CBS, the biggest record company in the world. Not only did Sony acquire several major stars – including Michael Jackson, Bruce Springsteen, Billy Joel, Bob Dylan and the Rolling Stones – it also got a catalog that includes some of the greatest rock, jazz, country, soul, blues and classical recordings ever made, a worldwide-distribution company, the Columbia House record club and several manufacturing plants. Sony's acquisition of CBS also gave it about sixteen percent of the U.S. recorded-music market (based on 1989 figures). By comparison, A&M's share of the market is only two percent. The magnitude of the A&M deal can be defined in terms of what was paid for each percentage of market share: For Sony, each point cost $125 million; PolyGram paid $230 million a percentage point, or almost twice what Sony spent.

"I'm the luckiest guy in the world," says Moss. "I was lucky to run into a pretty good trumpet player named Herb Alpert in 1961, and we did some amazing things together. And timing had a place in this [the PolyGram deal]. Yes, we probably achieved a good realization of what we had. But this company still has greatness attached to it."

In the initial year after PolyGram took over, however, A&M had a rough time adjusting to the sometimes harsh realities of life in the corporate music industry. "Traumatic" is the word A&M's recently named president, Al Cafaro, uses to describe 1990, a year in which A&M lost an estimated $8 million. "We went through a considerable transition period," says Cafaro.

But Cafaro contends that business is improving. He cites the success A&M has had with Sting's new album *The Soul Cages*, which reached Number Two on *Billboard*'s pop-album chart, as well as a recent string of Top Ten singles by Sting, Styx and Amy Grant. Cafaro also has high hopes for Grant's new album *Heart in Motion* and for forthcoming releases by Simple Minds, Bryan Adams and Aaron Neville.

But the company's current good fortune doesn't alter the fact that the new A&M is a cog in the big wheel of an international conglomerate: the Netherlands-based Philips N.V., which owns eighty percent of PolyGram N.V. No longer does A&M reflect the personality and style of the two men who founded it. No longer do Alpert and Moss,

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answerable only to each other for more than a quarter-century, have the final say over the company's direction.

"They prided themselves on having the freedom to do things in their own fashion," says Ron Fierstein, who manages Suzanne Vega and the Blue Nile, both A&M artists. "This was a label that was very artist oriented."

UNTIL THE SALE, A&M WAS A COMPANY where music really did come first. It was a company known for its commitment to its artists. Performers on its roster included Wes Montgomery, Cat Stevens, Gil Evans, Fairport Convention, Carole King, Joe Jackson, the Flying Burrito Brothers, Phil Ochs, the Police and John Hiatt.

Hand in hand with A&M's reputation for signing – and breaking – hip acts was its chart success. Over the years, A&M sold millions of albums by such commercial entities as Styx, the Carpenters, Bryan Adams, Peter Frampton, Supertramp, Janet Jackson, the Police and Sting.

PolyGram CEO Lévy

"A&M is very important to me. I've put my life on it. We won't fail."

Top record executives, from Capitol-EMI chairman Joe Smith to Arista president Clive Davis, have in past years raved about A&M, and Virgin Records' comanaging directors, Jeff Ayeroff and Jordan Harris, learned the music business while working at the label. "It's the record company I most admire," said Island Records head Chris Blackwell a few years ago.

But now many people in the music business wonder whether A&M can maintain its identity and indeed flourish under PolyGram, a company that Janet Jackson's former manager Roger Davies recently referred to as "a big faceless corporation." Davies's opinion, expressed in an article in *Musician* magazine, was seconded by Dire Straits manager Ed Bicknell, who said PolyGram's executives "could be just as successful flogging condoms." (Dire Straits is signed to PolyGram outside the U.S.)

The A&M deal was engineered by a forty-four-year-old Frenchman named Alain Lévy. Lévy, who oversees PolyGram's worldwide operations, readily admits that in terms of "listening to music for pleasure – I don't do it."

A European music-industry magazine recently described Lévy as having "the reputation for an abrasive, even brutal management style." Accurate? "I've met a lot of inflated idiots [in the music business]," says Lévy. "I have no patience for idiots."

Though A&M began its slide a couple of years before the PolyGram purchase, the label virtually bottomed out last year. The continued success of Janet Jackson's *Rhythm Nation 1814* and the several singles it spawned were the only bright spots in an otherwise dismal year for the company. (To make matters worse, A&M lost its biggest star when Jackson signed a $50 million-plus deal with Virgin Records in March.)

Not only did A&M fail to establish a single new artist during 1990, it also fumbled good albums by some of its rising stars: John Hiatt, the Blue Nile, the Neville Brothers, David Baerwald (formerly of David and David) and Suzanne Vega.

Vega had been a classic example of how A&M could take an offbeat performer and through creative marketing and promotion turn her into a commercial success. Through a strong alternative campaign that portrayed Vega as a cool, idiosyncratic singer-songwriter in the tradition of Joni Mitchell, A&M was able to sell 250,000 copies of Vega's debut album. Her second record, *Solitude Standing*, contained "Luka," a song about child abuse that featured an infectious melody line. "All of a sudden they had a hit, and the album went platinum," says one record executive. "That was typical A&M."

But Vega's third album, *Days of Open Hand*, released last year, was a commercial dud, selling about 350,000 copies. Though Vega has been working hard to forge a new relationship with A&M, she feels the label didn't come through for her last year. Two months after *Days of Open Hand* was released, Moss himself indicated to her over dinner that the company would not be spending any more money to promote it.

"He told me, 'Well, Suzanne, you've made a brilliant record and they're just not playing it on radio,' " says Vega. "He said, 'You're the kind of artist who will be making records when you're sixty-five. You should just go ahead and make another record.'

"At first it sounded like a compliment," Vega continues. "But after the dinner, I realized that had been the final blow. He was basically telling me that was it for that album."

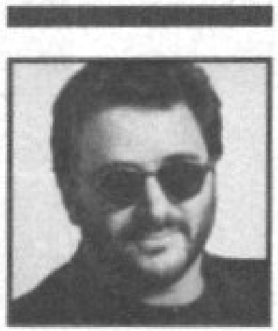
Vega believes A&M lost sight of what she is about as an artist. "Suddenly, I felt like, because of the success of 'Luka,' that I had been redefined," she says. "Somehow they had forgotten what I represented, what I stood for – *that* had been lost. I never started making songs in order to get played on the radio – that was just a nice bonus. My intention was never to be in competition with Top Forty acts."

Other young A&M artists had similar problems last year. "I don't think anyone foresaw the kind of nightmare 1990 turned out to be," said David Baerwald's manager Peter Golden in an interview this past December. According to Golden, A&M wasn't prepared to stick it out and find creative ways to market Baerwald's solo album. But Golden insisted that he has confidence in the company and its future.

Still, in the same breath, Golden added: "If I had a record right now, I would not deliver it. That would be a death wish."

"THEY WERE BUYING ALPERT AND MOSS," says Jerry Moss. "No doubt about that."

When PolyGram paid $460 million to buy A&M, much of what it bought was the prestige, the reputation and the credibility that the former independent label had earned for itself. Worldwide, PolyGram is a potent force in the record business, the third most successful company. But in America the company has long been considered a wanna-be despite success with lowbrow bands like Def Leppard and Bon Jovi; prior to the purchase of A&M, PolyGram's share of the U.S. recorded-music market was about ten percent.



A&M president Cafaro

"It's a different place. There's a sense that this is a new beginning."

Thus the sale of A&M was initially seen as a coup both for Alpert and Moss and for PolyGram. The former owners – who both got five-year employment contracts with PolyGram as part of the deal – were instantly rich beyond their wildest dreams. PolyGram upped both its credibility and its market share while striking a blow against the distribution arm of one of its competitors, the Bertelsmann Music Group (BMG), which had distributed A&M in the United States for the past eleven years.

But an evaluation of A&M's assets indicates that PolyGram severely overpaid for the company. If A&M's yearly profit returns to its 1989 level of about $14 million, it could take about thirty years for PolyGram just to recover its investment.

A number of sources told ROLLING STONE that PolyGram believed that Janet Jackson would be with A&M for many years. "When PolyGram bought A&M they thought they were buying her [Jackson]," Roger Davies said recently. But Lévy says that his company was well aware that Jackson's contract was up and that A&M was well worth $460 million with or without her.

Lévy cites A&M's market share, back catalog and reputation when asked what the company brought to PolyGram. As to the logic of a deal under which PolyGram might not break even for decades, Lévy counters by saying that on a global scale A&M brings substantially more to PolyGram vis-à-vis income generated by PolyGram's distribution companies.

In specific, PolyGram's half-billion investment brought it these assets:

• Additional market share. Lévy believes that PolyGram needs to up its share to at least fourteen percent, with $500 million in annual sales, in order to compete with other entertainment Goliaths like Sony and Time-Warner.

• The A&M catalog, which earns a profit of about $4 million a year, according to one source.

• The A&M lot, which includes Charlie Chaplin's old movie studio and has an estimated value of between $10 million and $20 million.

• An artist roster that includes such respected musicians as the Neville Brothers and John Hiatt but now contains only one truly bankable superstar, Sting, who owes the label four more albums.

Lévy says that one of the biggest assets PolyGram bought is intangible, the "culture of a company." He is talking about A&M's operating philosophy, which was developed over the years by the management team that ran A&M under Moss and Alpert. Surprisingly, that management team is essentially gone, as almost every senior executive either has been fired or has left by his own choice.

The key departure was that of Gil Friesen, who had been at A&M since 1965 and had spent the last thirteen years as the label's president. Asked why Friesen was let go, Lévy points to Moss. "I only learned about it when Jerry sent us a fax after the fact," says Lévy. "Jerry, and Jerry alone, made these decisions. I had nothing to do with it."

"The company had been cold, and we couldn't keep going like that," says Moss. "The company wasn't operating well as a unit. Also, most of the senior executives were shareholders in the company, and in some cases the cash [those executives were paid when A&M was sold] was substantial. That changes in some people's minds about how hard they're going to work. Where Herb and I were sitting, a change was definitely in order."

Friesen also admits [Cont. on 122]