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A Web Refugee Turns to Music And Says, 'The Sky's the Lid'

By BERNARD WEINRAUB

LOS ANGELES - Jeffrey T. Arnold has seen his future - in a soda cup.

About 16 months ago, Mr. Arnold, a co-founder and former chief executive of the WebMD Corporation, was visiting Los Angeles when a colleague showed him a lid for a 34-ounce plastic soda cup. Tucked inside a transparent pocket were several coupons offered to customers at a convenience store. Mr. Arnold said he was dumbfounded.

"I said, 'Forget the coupons. What if this was entertainment? What if it was music on CD's or movies on DVD's or games?' " Mr. Arnold said. "I thought, 'If this was entertainment, this could be a blowout.' "

By early 2003, Mr. Arnold had formed LidRock to make and distribute the tops. He purchased the exclusive rights to 19 patents which, he said, guaranteed that LidRock solely owned the rights to place whatever it wants in the lids. Then, Mr. Arnold swept into music industry boardrooms in New York and Los Angeles with a proposition: promote new and established artists by putting promotional three- and five-inch CD's in soda lids to be sold in movies, fast-food chains and sporting events.

Remarkably, the industry, which cannot ordinarily agree on anything, took up Mr. Arnold's offer. Arista, Virgin Records, Universal Music, Def Jam and EMI Publishing are among the companies that have joined in the venture. By the end of 2004, said Mr. Arnold, 50 million soda lids with CD's featuring artists like Avril Lavigne, Pharrell Williams and Britney Spears will be shipped across the nation to movie theaters, fast-food chains, Nascar races and theme parks.

"It's an absolutely fantastic form of alternative distribution in the future," said Larry Mestel, executive vice president and general manager for Arista Records. "Most people tend to buy records the traditional way - at stores or online. Why not reach consumers where they're spending money?"

Record executives do not view LidRock as a panacea for the difficulties - like the illegal sharing of music online - that beset

the industry. Already some artists have declined to have their songs placed in lids, and there are questions over pricing. The majority of artists involved receive some compensation, but each deal is structured differently, according to LidRock. Drinks sold with the lids generally sell for an extra dollar or two, but the price is still more or less arbitrary. Beyond this, there is the indefinable mood and taste of the teenage consumer who may - or may not - find LidRock a passing fad. But record industry executives plainly view it as more than the promotional tool.

"When Jeff explained this to me, I really embraced it, and I'm a difficult guy to please," said Robert H. Flax, president of EMI Publishing, the world's largest music publisher. "What's exciting is you could be tapping into a new base of music buyers at movie theaters, at ballgames, at malls. Why not, if priced properly, buy this unique, cool-looking lid? This could be a legitimate vehicle for selling records."

Getting people to buy into his vision is something that comes naturally to Mr. Arnold, 34, who was born in Dallas and raised in Atlanta and has plenty of Southern charm. He first gained recognition in 1994 when, while living in a small apartment in Atlanta with his wife, he took a \$25,000 loan from his father-in-law to start a heart-monitoring business. Four years later, Mr. Arnold and his wife, Meg, sold the business for \$25 million.

After that, Mr. Arnold started WebMD, a medical services Internet service used by doctors, insurers and pharmaceutical companies. The company rode the Internet boom, spending



LidRock is making plastic cups with music CD's in the lid. Movie theaters and fast-food chains are selling them.

The New York Times



Keith Meyers/The New York Times

Jeffrey T. Arnold has reached deals between fast-food companies like Sbarro and his company, LidRock, to sell cup lids with a CD attached

more than \$10 billion on acquisitions, according to news reports at the time, until investors started questioning its rapid growth and Mr. Arnold's grandiose plans to become the dominant figure in the Internet health-care field. Mr. Arnold left in November 2000 - on his own terms, he insists - with what Forbes magazine estimated was a fortune of \$100 million.

By nature and personality, Mr. Arnold is almost giddily optimistic. He formed LidRock as a unit of the Convex Group, a media and entertainment business that he set up in 2002. Recently, he opened a factory in Suwanee, Ga., a suburb of Atlanta. The factory, using robotic machines, has replaced Hong Kong distributors, and is producing 800,000 lids a day. The CD's on the lids are generally usable in all players, with some exceptions.

Mr. Arnold, in expanding his company, relies heavily on three associates: Thomas Tull, president of Convex and LidRock; Dawn Whaley, executive vice president of marketing and communications; and Dan Adler, the Los Angeles-based chief strategic officer who formerly led the new media group of the Creative Artists Agency. Mr. Adler said the company is seeking to offer a new way in which music, games and perhaps even movies can be distributed.

"Ultimately, it's a new network in the broadest sense of the word - offering compelling content for its audience, a unique platform for marketers and a way for creative people to broaden their audience in a changing market."

LidRock, a privately held company, said it would start earning a profit this year on \$50 million in revenue. According to the current business plan, the retail venue, such as the film or fast-food chain, pays LidRock 80 cents for each lid. LidRock uses the money for the manufacturing and content costs of the lid - that is, payments to make the lid as well as payouts to record companies. There are added revenue opportunities because the lid may also contain details about concert tours and information on purchasing the CD's and DVD's of the artists involved.

Anthony J. Missano, president for business development at Sbarro, the national pizza and pasta chain, said he ordered a half-million 32-ounce cups with CD's last summer at 750 locations. The four bands on the CD's were relatively unknown with the exception of Lighthouse. The extra cost on the 32-ounce drink for the CD lid was 60 cents.

"Within seven weeks, we were basically sold out," Mr. Missano said. "I said 'let's find some name groups.' Lo and behold, we got Britney Spears. I ordered two million 32-ounce cups. That is a tremendous amount. We ordered it in November and we were mostly sold out by the end of February." Those drinks cost an extra \$1.50. To coincide with an upcoming Avril Lavigne album, Sbarro is also selling a CD with three of her songs.

A large Pepsi is the drink of choice when it is served with Britney Spears on top.

At the moment, LidRock's biggest customers include the Regal CineMedia Corporation, which is the largest movie chain in the nation with more than 6,100 screens. There, CD's as well as DVD's from such performers as Jessica Simpson, Ashanti and Elvis Presley are distributed at no additional cost to customers who buy large-size drinks. Sample video games have also been placed on the lids by Electronic Arts Inc., the gaming company.

"We know our consumers love the product," said Cliff Marks, president for marketing and sales at Regal CineMedia. Joining Regal this year in LidRock is the Loews Cineplex Entertainment chain, with 1,300 screens.

In the case of the movie theaters, owners are using the lids to entice customers to buy the most expensive sodas. Sodas are one of more cost-effective items in the movie theater

business - and very costly to customers. That could be one reason why movie chains are reluctant, so far, to raise prices further.

The fast-food chains are also joining up. The McDonald's Corporation has started a pilot program, and Taco Bell is starting one on April 15. KFC outlets in the New York City area and in Atlanta last week began selling soda lids with CD's with hip-hop acts Pharrell Williams, Kelis and the band N.E.R.D.

"The sky's the limit. It would be in every store nationwide," said Scott Bergren, executive vice president for marketing and food innovation of KFC and Yum Brands Inc., which owns both KFC and Taco Bell.

Randy Acker, general manager of Def Jam Records, said that the soda lids were a vehicle to stir music fans who are often difficult to reach. For example, Def Jam is considering placing several songs by Lloyd, a relatively unknown Atlanta-based hip-hop artist, on soda lids sold at Nascar events. This is an unusual venue for a black hip-hop artist because, at the moment, most Nascar events are sparsely attended by African-Americans, according to Def Jam and LidRock executives. Nonetheless, record companies say that the audience for urban black music has a large young, white audience.

"You're targeting an active consumer here," Mr. Acker said. LidRock, aware of the value of the Nascar crowds as customers, is sponsoring Nascar's only black driver, Bill Davis, and each month will be releasing a CD of a different musical artist on a lid.

Mr. Arnold has an even bigger goal: selling movies in a soda lid. He said he is considering either older films on DVD's in the lids or a first-run movie that would "self-destruct" after 60 hours.

"The technology's out there," Mr. Arnold said.