

From the book, INDIE POWER: A BUSINESS-BUILDING GUIDE FOR RECORD LABELS, MUSIC PRODUCTION HOUSES, AND MERCHANT MUSICIANS by Peter Spellman (2006, 2nd ed., www.mbsolutions.com)

INTRODUCTION

This book is written for artists, songwriters and musical entrepreneurs who want to control their own destinies. Never before have you had such power at your disposal to actually achieve this goal. Technological tools, combined with a rapidly segmenting music marketplace and ever-increasing musical appetites among consumers, have combined to create almost ideal conditions for independent music companies to thrive and prosper in the 21st century.



Note the following story which appeared in the January 6, 1996 edition of the L.A. Times:

Trauma Records figures on an ecstatic new year since the tiny indie has the No. 1 and No. 3 albums in the country for the week ending Dec. 29. The label's 'No Doubt' sold an enormous 506,000 copies of "Tragic Kingdom," up from 484,000 the past week, while 'Bush' was a stocking-stuffer for 308,000 revelers, up from 300,000. Between the two alternative bands, Trauma has held the No. 1 spot in Billboard for seven straight weeks. That is quite a feat seeing that it was only launched two years ago by Rob Kahane and Paul Palmer. It has done more than \$150 million in billing since then. The record company has only 14 employees, a small fraction of the size of major labels that it out-bills.

This tiny indie took the industry by storm that year through a combination of smart talent-scouting and creative music marketing. And Trauma's success story is not a fluke. Similar label stories have sprouted throughout the music world – Def Jam, Priority, Instinct, Disa, Ruff House, Broken Bow, Windham Hill, Liberty, TVT, Mushroom, Moonshine, Sparrow, Stone Throw, Ubiquity, Word – the list grows all the time. These independent companies are the incubators for today and tomorrow's talent. In fact, not only are they the incubators for musical talent but they have become the very life-blood of the recording industry.

How so?

Today's "major record companies" (Warner Bros., EMI, Sony/BMG and Def Jam/Universal) behave more like distribution centers than production houses. To a great extent, they depend on the indies for discovering and developing talent. The majors themselves are too far removed from the street to get an accurate read of what's hot musically. For this they need the "ear-to-the-ground" indies who are much closer to where the musical action is.

It's not that indies are the good guys and the major companies are the bad guys. Both are quite capable of screwing artists and generally descending into the nether regions of the music biz.

But indie companies, by their very nature, are better positioned to discover and develop talent today than corporate ones. In this mercurial music market it is the small and nimble company that has the advantage. Smart micro-businesses can instantly respond to shifts in the marketplace, make quick decisions, and generally turn themselves on a dime. This is a reflection of the "global paradox" trend-analyst John Naisbett writes about in his book by that title. The subtitle to Naisbett's book says it all: "The larger the world economy, *the more powerful its smallest players*".

Reasons People Start Their Own Music Companies

People start their own record labels and production companies for any variety of reasons:

- **Dischord** Records was started by Fugazi band leader, Ian MacKaye, in order to retain artistic and fiscal control of his career.
- **Antone's** Records was started by the late Austin, Texas club owner Cliff Antone in order to put out some of the great music he was hearing in his club. Same with New York's Michael Dorf and The Knitting Factory.
- In 1984, Rick Rubin and Russell Simmons started **Def Jam** Recordings, one of the most successful Hip-Hop labels in the world in a dorm room at NYU. They didn't know it would become an empire, but they followed their hearts.
- **Rainmaker** Records was started by Paul Nugent & Mike Swinford, managers of the band The Nixons as a way to position their artists for larger industry attention.
- **Rounder** Records of Cambridge, Massachusetts was started by three friends as a hobby because they couldn't find their favorite music in stores.
- **Sugo** Music & Design was started by guitarist Stephen Pasero because he didn't want to do the usual schlep of touring, pushing to radio, retail, etc.
- **spinART** began out of the frustration of an A&R assistant who decided to start documenting all the unsigned bands he couldn't get past his superiors at SBK Records.

Rosie Cohen had a burden for the rampant illiteracy she noticed in many Boston neighborhoods. With little more than enthusiasm, a drive to learn and a thick rolodex of local singer-songwriters, she started her **Big Girl** Records label in order to raise money for this cause.

Guitarist Chris Wilson took his love of old reggae songs and turned it into a business proposal to start an A&R Heartbeat Records, a sub-label within the **Rounder** Records' fold.

The thing all of these label startups had in common was a passion for a certain style or expression of music. The motive was not to become rich (though many have); it was instead a desire to share with the world sounds they felt others also needed to hear. They took their passion, combined it with their entrepreneurial instincts, and created success.

The Power's In Your Corner

"The real social revolution of the last 30 years, one we are still living through, is the switch from a life that is largely organized for us to a world in which we are all forced to be in charge of our own destiny." – Charles Handy

What is happening today in the world of business affects us all. A global revolution is changing business, and business is changing the world. With unsettling speed, two forces are converging: a new generation of business leaders is rewriting the rules of how business is done, and a new breed of "fast companies" is challenging the corporate status quo.

What are some of the manifestations of these forces?

- **The rapid growth of networked business** - Internet and intranets (networks within companies) are allowing for a greater flow of information and quicker decision-making. The Internet alone is responsible for enabling thousands of companies to affordably transact commerce on a global scale, no matter what their size.

- **A rapidly segmenting marketplace** - Mass markets are giving way to "micro markets" as customers demand to *have it their way*. Companies that can meet this market's demands most effectively will be the winners.

- **The use of technology in the workplace** - Affordable desktop computers, fax machines, copiers, scanners, and wireless technology have brought the look and efficiencies of larger companies to the fingertips of micro business owners worldwide. Digital recording technology has literally revolutionized the music business and sparked the emergence of whole new genres of music, most notably hip-hop, dance/electronica and new age.

- **The marked rise of entrepreneurship** - A new U.S. business starts every 14 seconds. The SOHO (small office, home office) movement has spawned an entire industry that serves this market. It includes retail chains like Staples and Office Depot, magazines like *Entrepreneur* and *Small Business Opportunities*, and book publishers specializing in "do-it-yourself" literature like Allworth Press and the *For Dummies* series – all in the service of the micro business owner.

These enormous developments overturn 50 years of received wisdom about the fundamentals of work, markets and competition. No part of business is immune. The structure of the company is changing; relationships between companies are changing; the nature of work is changing; the definition of success is changing. The result is a revolution as far-reaching as the Industrial Revolution was in its day.

We are just beginning to comprehend this new world even as we create it. This much we know: we live and work in a time of unparalleled opportunity and unprecedented

uncertainty. An economy driven by technology and innovation makes old borders obsolete.

Because of corporate downsizing, decentralizing authority structures, relaxing regulations, affordable technology, and a revolution in consciousness, people around the world are gravitating to entrepreneurship in record numbers.

They come in all shapes and sizes – side-businesses, weekend entrepreneurs, web-driven entrepreneurs, part-timers, free agents, cottage businesses, seniorpreneurs, mompreneurs, eBay traders and so on.

We are at a turning point in the history of business practice and its accelerant is the Internet. Because the internet is so new and dynamic, there are few set rules about how to use it to market. Non-conventional, small business tactics are capturing market share from large established corporations. And this trend will continue in most industries, especially those that trade in “information” (music falls under this category).

The industry needs independent record companies and music production houses to both find and nurture artists, and to do it right! This book is written for those who want to start and run these kinds of independent music companies.

The Times Are Bright For Indie Efforts

Indies show us how a combination of intuition and good management can allow a small business to boldly go where the big multinationals have failed: discovering, promoting and distributing authentic styles of music.

I’m sure you have your own story of why you would like to start your own label or production company. No matter what it is, you can be certain that the times are currently favorable for indie start-ups. Here are some reasons why:

- **A rapidly segmenting marketplace** means more opportunity for independents whose releases detail the richness of particular or "niche" musical forms: the blues of Black Top and Alligator, the rap of Priority and Ruffhouse, the industrial dance meshes of Nettwerk and Wax Trax, the world folk of Green Linnet, the rock'n'roll of Touch 'n'Go; the list goes on and on. All began out of a love for a certain style of music - a style the majors didn't want anything to do with initially.

- Accessible **telecommunication and desktop technologies** like cable, the personal computer, wireless media, digital radio, full-featured phone services, e-mail and others are giving small companies the look, efficiency and reach of larger companies.

- **The ongoing failure of larger companies to provide what people want** are making people look elsewhere to quench their musical thirst. Major record labels are too large and ponderous to be in a position to discover and nurture great music and talent. Independents world-wide have been, and will continue to be, the life blood of the music industry. As a result, most significant musical trends have their origins in independent companies and production houses.

- **Consolidation of retail and distribution** is allowing indies to penetrate traditional record retail like never before. By linking up with key national distributors independents can now potentially reach about 90% of the U.S. record-buying public! Online placements in stores like Amazon extend that reach to the entire planet!

- **Indie music is charting like never before.** Beginning around 1992, people began noticing a substantial increase in the presence of indie albums on the *Billboard Top 200* chart (the music industry's key barometer of music sales). By 1996 indie product began *dominating* the chart. While this trend ebbs and flows, it does indicate a large and growing appetite for independently-produced music. All in all, indie market share in the U.S. has grown from 9% in 1990 to about 25% today (2006). Worldwide, it's closer to 40%.

- **New transmission technologies are leveling the playing field.** Probably the greatest threat to the traditional music industry has arrived through computers. Digital transmission of music via power line, satellite and now wireless is transforming the recording industry as we know it. On-line opportunities for independent labels are multiplying rapidly and leveling a playing field that was decidedly tilted in favor of larger companies.

On The Other Hand...

But while the times are bright, there are also some special challenges independent companies must face. Here are the most pesky:

- **You're playing with *your* money not "monopoly money".** Staffers at large record companies are allocated a budget from "corporate" and, as a result, spend the funds with little thought for tomorrow. The waste and misdirected spending at these companies is legendary. You, on the other hand, must raise the money you need in order to operate. You must not only raise it, but tend it as well, like a farmer tends his precious crops. If you don't pay close attention to the numbers, it's like you're running blind.

- **Management with little staff equals long days and even longer nights.** When the company is your baby it tends to encompass more than the standard 9-to-5 day. Hiring staff is expensive and most entrepreneurs will choose to wear several hats themselves before adding staff. The key to getting all this work done and done right, is smart and consistent management (and a lot of stamina!). The Small Business Administration (SBA) found that the number one cause of business failures in the U.S is management incompetence. Company management has multiple facets: first and foremost there's *self* management, then *time* management, *people* management, and *information* management. Within these there's contact management, inventory management, financial management and others. Management is organizing your work so you get the most done in the least amount of time and with the least amount of money. It's a chronic challenge and failure here often means company failure.

- **Finding your pipeline.** Since most musical purchases occur in retail stores, it's incumbent upon you to secure distribution for your catalog. It isn't always a walk in the park convincing distributors to take on your product or, in the case of production companies, getting larger companies to promote and market your

records. A typical response from a distributor might go something like this when you call: "*You're account is difficult to manage. It takes up too much time, too much space in our computer files, too much space in our stock and we don't earn a penny, so thanks, but...*"

It takes tenacity and tremendous creativity, as well as the consistent efforts of your artists to be out there creating a growing demand for themselves through performances and other appearances. Depending on your music style, you may be able to forego traditional record retail distribution entirely, and instead focus on niche outlets like record pools, bookstores, mail-order catalogs, lifestyle shops, or even exclusively online.

• **Dealing with Piracy.** The phenomenal growth of music file-sharing indicates greater customer control of music. "The people have clicked" and this activity is affecting every company that traffics in information content (i.e., books, music, film, etc.). How can a record label survive in the Age of Piracy? This is just one question we'll be addressing later on in this book.

Make no mistake; it's no picnic making money as an indie label. There are two main difficulties to keeping your operation going. The first is getting anybody to take notice of your product in the morass of new releases. The second is generating enough sales to amortize recordings and cover the high initial costs of manufacturing and packaging.

It is really only with *reorders* that you'll potentially begin to make money. Your manufacturing costs on a reorder will be in quarters, whereas your dealer price (the price at which the dealer buys from you) will be in dollars – \$5.00 - 7.00 for a CD and \$1.00 - 3.00 for a 12" single.

Despite the difficulties, it's possible to survive as an indie record label. Indie product represents almost 25% of the US market (even more overseas) and times are better than ever to begin a creative music venture.

This book will take you out of "crisis mode" (always reacting to your business) and put you into "creative mode" (consistently pro-acting on behalf of your business). This book will give you all the guidelines and tools you need to start, operate and succeed in a music business of your own. It's a manual you can refer to again and again to help keep you on track toward your goals.

Record Company or Music Production House?

You might be a bit confused by my terminology, so before going further, let me clarify what I mean by the terms "record company" and "music production house".

A "record company" is a business that finds talented performers, records and produces their music, then packages, distributes and sells the finished product. It's normally a full-service, "soup-to-nuts" music company.

All of the companies mentioned so far in this book are record companies. Some of these are "first-level" record companies, meaning they control both the production

and the distribution of their products. Others on this list are “second-level”, or even “third-level” labels, meaning they control music production but have a deal with a larger company for distribution and, perhaps, some marketing services as well.

A production house (PH), on the other hand, does the same thing as a record company, except that it leaves the final steps – those of physically packaging and distributing the product – to the record company. The production company “team” is usually made up of record producers, songwriters and recording artists. Very little marketing of product goes on in production companies. Instead, it is the production company itself that is marketed to larger companies as a reliable and desirable source of music production talent.

Some famous music production houses include Babyface’s Edmond’s Entertainment Group, the Swedish Cheiron collective (Max Martin, Rami and friends), Jimmy Jam and Terry Lewis’s Flyte Tyme Studios, Emilio Estefan’s Miami Sound Machine, and The Neptunes (Chad Hugo and Pharell Williams).

So you need to ask yourself which one, a record company or music production house, do you want to be. If your passion is just to make music, and you don’t mind giving a hefty cut of your revenue to others, then a music production house might be the best choice for you. On the other hand, if you enjoy the challenges of both producing music and getting the music to market, then you’ll probably want to experience the full control of record label ownership.

But, as Chris Morris of *Billboard* reminds us, “there’s a vast difference between a title you make to interest larger record companies or sell at gigs and one that will attract the interest of retailers, journalists, and radio programmers. And that gulf is what separates an artist engaged in self-promotion and a true record label. Please understand the difference and keep us all sane,” (*Billboard*, 10/5/02, p. 68). ‘Nuff said.

Risky Business

Would-be record moguls should be clear that they are entering a very risky business. Then again, what business isn’t risky today? A little industry analysis can help put this risk into perspective.

Nine out of every ten major label and major-distributed records released fail. That's only a ten percent success rate and one that would be considered very poor performance by any standards in any industry. Take General Motors, for instance. If they designed and manufactured ten new cars, and only one out of those ten new designs sold and was profitable, they would soon be out of business.

I think it's safe to assume that most of us feel we have the same one in ten chance of success as a major label does, right?

Here’s another way of looking at it: In 2003 the record industry released over 27,000 CDs. Out of these 27,000 new releases over 24,000 sold less than 1100 units each!

I suppose there are two ways to respond to this:

1. Why bother?

or

2. Here's a golden opportunity for low-volume sales!

Since you're an indie, you don't have to be so concerned with the big numbers. Your production costs are lower, your overhead is cheaper and you'll be focusing on local and regional-scale markets (at least at first) for your sales. If you sell 1000 units, you'll probably break even. At 2000 you'll be into profit, and at 5-10,000, you're golden.

What's Inside?...Chapter-By-Chapter

In **Chapter 1** the focus is on you, the independent music executive. Are you ready to undertake this task? Do you have the state of mind needed for an entrepreneurial venture? Better find out now before you flush your hard-earned money down the drain. Starting and running a label or production house will require a good measure of skill, personality and stamina. We'll look at these dimensions, as well as a number of crucial questions you must answer before jumping into your venture.

Chapter 2 explores the players and dynamics of *today's transforming music biz*. The immense shift from the traditional music biz paradigms to "new economy" paradigms is creating unprecedented opportunities for music entrepreneurs of all stripes. We'll look at how the money flows in this industry and where some of the key areas for profit lie for those starting labels and production houses today. This chapter also traces the stories of *successful indie labels* and production houses. What makes them tick? How did they make their mark? And, most importantly, what can we learn from them for our own projects today?

Chapter 3 introduces the *key business information resources* you will need to run your fledgling company creatively and intelligently. Throughout history it has been those with the best information and contacts who have had the power to steer the course of their times, no matter their size. Today the right information often makes the difference between success and failure in business. Fortunately, business information is hyperabundant today and this chapter filters out the best information and support resources for operating a label or production house today. Pay close attention; these may someday save your life.

Chapter 4 gets into the nitty-gritty of *planning for success*. What is your company's mission? What are its short- and long-range goals? How will you legally structure your business? Should you incorporate now, wait, or not incorporate at all? What kind of budget will you need and how will you raise the necessary funds? How do you write a formal business plan and how do you prepare it for investor formation? These and many other related questions are tackled in this chapter.

Chapter 5 addresses ways you can *finance your business*. Everything from traditional approaches like bank loans and self-financing, to special micro-loan programs and "angel" investments are covered. The age-old arrangement called

bartering is also explored and realistic guidelines for giving yourself the money-hunting edge when appealing to the investor community are laid bare.

Chapter 6 goes over all your *paperwork checklists*: required business licenses, tax obligations, insurance coverage, music copyrights, business trademarks and servicemarks, barcodes, union agreements and, of course, contracts. These documents will provide definition and description to your many business transactions. Keeping all this paperwork well-managed and current will save you countless headaches in the long run. We'll look at some practical ways to make this as painless as possible.

Chapter 7 looks at the *essential equipment* you will need to run your business smoothly and efficiently. From creating the right physical space to the best kinds of software to run your business; from guidelines for setting up a project recording studio to ergonomically correct chairs – this section provides you with all you need to know for setting up the optimal music business office for your specific needs.

The first seven chapters cover the **FOUNDATIONS** of a successful music business. Beginning with chapter 8 we move into **STRATEGIES** for managing a successful music company today.

Strategy focuses your time, money and energy. **Chapter 8** digs into the elements of *successfully building your team*. Discussed are ways to define your talent requirements, create effective job descriptions, build your advisory board, make the most of meetings, and develop your company internship program.

Chapter 9 applies strategic planning to the process of *finding, signing and recording your artists*. How do you discover talent? What are some guidelines for negotiating with your artist/partners? What about signing minors? What is 'artist development' and how can you apply it in your company? Where can you find producers and, once found, what's the best way of working with them? How do you insure having optimal recording sessions?

If it's true that management incompetence is the #1 reason for most business failures, then it is crucial for the indie music executive to learn and practice good management skills.

Chapters 10 and 11 explore tried-and-true ways for *managing your company* and its processes both effectively and efficiently. In chapter 10 we'll look at management in two of its many expressions: management of self, and of your team. Chapter 11 covers management of time, information, inventory and money. These form the nervous system of your business success.

Chapter 12 digs into the elements of successful strategic planning and how you can apply those principles to your label or production company. It's been said that those who fail to plan, plan to fail. Planning will help you flesh out your vision.

Chapter 13 provides guidance for *future company growth*, primarily through "diversification" – conceiving and developing different expressions of your business and their possible revenue streams: songwriting and music publishing, music marketing, performance booking, contracting your studio, producer gigs are just some of the areas you can develop. We'll look at these, as well as explore joint

ventures with larger companies and other creative alliances. Also included are some key tips to follow when planning to expand internationally.

Finally, **Chapter 14** assembles all the *important contact info and resources* discussed in the book into an *easy-to-use directory*. Included are all the essential addresses for label and production house owners, tons of music biz resources based on chapter contents.

This Is Book #1

INDIE POWER: A BUSINESS-BUILDING GUIDE FOR RECORD LABELS, MUSIC PRODUCTION HOUSES, AND MERCHANT MUSICIANS is the first of a two-volume set. Volume 1 looks at how to properly set up and manage a small record company, production house or music-related business. It's a treasure-trove of "best practices" from the world of small business entrepreneurship.

A good part of this first volume is about getting you organized for the tasks ahead. Once you're organized, you'll have a method behind your madness (after all, starting a record label can be a bit of a crazy undertaking), you'll stop wasting precious time, money and energy, and start realizing your vision.

Volume 2, **INDIE MARKETING POWER: THE RESOURCE GUIDE FOR MAXIMIZING YOUR MUSIC MARKETING**, addresses how to effectively promote & market that which your company produces. It covers everything from defining your market niche to writing powerful marketing plans for your products and services.

Both books are based on the premise that *information is power*. Give a motivated individual the right information and watch out! My hope is that all who read it will be in that group the great ambassador, Benjamin Disraeli described:

**"As a general rule, the most successful people
in life are those who have the best information."**

Feast and succeed with *Indie Power* and *Indie Marketing Power*!

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