



How Do I Set Up A Record Label?

Remi Harris of AIM explains how to harness enthusiasm and passion and start your own imprint.

Owning your own record label. It's the dream of many of us, from the artist who wants to get their music heard, to the manager, producer or promoter who has found the next big thing. Sometimes it seems like the only alternative to securing a release with another label, although it can become a destination and brand in itself. Here I offer some suggestions to get you on the right track with your plans. The exciting thing about the music industry is that, despite the rules and regulations, there are lots of opportunities for us to come up with innovative new ways of doing things. In fact, as with any business idea, a music product that is high quality, that people want, that is exciting and original, stands the best chance of success.

Funding Your Label

In a survey (Banking on a hit - The funding dilemma for Britain's music businesses, Department of Culture Media and Sport, 2001) the five most common ways of financing music businesses were:

- Capital or personal savings of owners (77% use this sort of finance)
- Bank overdraft 19.7%
- Loan from family or friends (15.8%)
- Loan from bank (11.9%),
- Loan from owners or directors (10.3%).

There are small pockets of public funding available, in the form of grants and loans. These tend to be limited to economically deprived areas, or for businesses that have been turned down for bank finance. More often support tends to be available in non-financial form such as office space, training or business advice (see Business Plans section for more on where to access funding and advice).

Where this funding is not available, a typical way of raising cash is from running another music business; club promoters, DJ's, or former artists are all amongst those who have turned their industry knowledge, brand name, and the cash they have built up into successful labels. If you are not in the position to put in a lot of capital, one way some labels start up on a very small budget is to get one or more partners to put in a start up sum, say £250 or £500 each. This could be paid into the label fund over time, say your first six months while you continue to work at your 'day job'. These funds could enable you to record and release some product. The key to the survival of this type of company

will be making your money back (breaking even) on every product you release. The low budgets may mean that you cannot afford extensive marketing of your products, and will probably have to get out there and market them yourself. If you can't raise the money to get your first release out that way, you could look into getting a bank loan. This is obviously only going to be a good idea if you have a business idea that will make back the money plus interest (plus hopefully some profit) within the time of the loan. This is the essence of running a business, and starting small and building a track record, contacts and experience will enable you to leverage more money and support in the future.

Income And Expenses

When calculating your budget, consider the following sources of Income and Expenses, it is not exhaustive, and unfortunately unexpected costs seem to arise much more often than unexpected sources of income!

Income

- Record Sales (from selling your physical product (CDs, vinyl) in the UK, and via export deals which can include the budget market, singles market or compilations or artist albums market)
- Broadcast Income (income from having your recordings broadcast on radio or television, or played in public places. This will be collected for you and paid to you when you join Phonographic Performance Limited - see below for more about collection societies)
- Licensing (giving a licence to other record companies to release your recordings on compilations, or under an exclusive licence for a whole album, for which they pay you a licence fee or royalty on the records they sell)
- Secondary licensing (getting your music licensed by the producers of advertisements, computer games, films or television programmes - also known as 'synchronisation licensing' as it involves the synchronisation of your music with their pictures)
- Merchandise, touring, fan club, website, branding, sponsorship (if these are part of your deal with your artists, you can sell concert tickets, t-shirts and other items, and can do so on behalf of your label if it builds a brand name of its own)
- Digital sales and ringtones (still tiny compared to record sales at on average under 5% of revenue, but a growth area of the business that some have made profit from).
- International broadcast and licensing income from international airplay and from companies who have exclusively licensed a piece of music for their country (territory).

Expenses

- Overheads (rent, electricity, business rates, telephone, computers, insurance, office equipment and furnishings, stationery)
- Staff Costs (including accountancy and legal advice)
- Taxes such as VAT and National Insurance
- MCPS bills (publishing)

- Recording, mixing and mastering recordings
- Producers fees
- Artists advances and expenses
- Travel expenses
- Manufacturing costs (or digitising costs for digital downloads)
- Artwork and design (including pack design, photography, websites, logos, promotional materials)
- Videos
- Radio and TV promotion for records or videos (plugging)
- Press (PR)
- Advertising (above the line) and Direct Marketing (below the line) promotion of your product
- Distribution fees and sales costs

Note that some of these are fixed costs, meaning they will have to be met and are unrelated to how many records you are likely to sell, for example the overheads. On the other hand, if you get the promotion of your record at the appropriate level for your release then hopefully your sales and other income streams will increase relative to the amount you have spent on promotion.

Keeping fixed costs as low as possible will help your label deal with successful and less successful times. Also, remember that costs are often payable well in advance of the related income (for example manufacturing bills may be payable months before record sales income, or radio promotion payable in advance of broadcast income), so you must make sure that your cash flow doesn't dry up before you can get the income from your activities. It's a tricky balancing act.

Business Plans

If you do decide to try and attract funding from outside your company, you will need to put together a business plan. This is a document that sets out in detail what the business will be doing, who will be running the business and how the business will generate turnover and profits. This is too specialised a document to detail here, but think of the TV show Dragon's Den - if there is a flaw in your figures or product the investor will try to find it, they will need to see a reasonable indication of how your plan will repay their loan or generate them a profit for their share of the business.

As the bank, funder or investor are risking their cash, they will want to see a business plan which answers questions like:

- What are the skills of the people who are running the business, and do they have a track record in this type of business?
- How much of their own money are the directors investing in the business, and compared to this how much equity (investment) or debt (loans) are they seeking?
- What exactly is the product, and is the market (demand) for the product proven? What is original or innovative about this product?
- What are the costs of starting this business, how long will it take for the business to earn

all these costs back (known as the payback period), and will the business have enough cash to keep going until this point (cash flow forecast)?

For more advice on business plans, and also on business support and funding, the national government organisation Business Link or the Small Business Service is a good place to start. You may find that there are local organisations such as a Chamber of Commerce, Business Enterprise Centre or Local Council Business Development Unit that are specifically set up to encourage local people to set up businesses, and they may be able to refer you to an adviser. You can often book an appointment with an expert who will guide you through the process. Look out for anything with Creative Industries in the title if you want specific help for creative companies. For companies in Wales, Welsh Music Foundation is an economic development agency for the music industry in Wales. See: www.welshmusicfoundation.com.

Joining Collection Societies

Collection societies are non-profit making organisations set up on behalf of copyright owners to license their rights, collect fees and distribute them to their members. Examples of music industry collection societies are MCPS (Mechanical Copyright Protection Society), PRS (Performing Rights Society), and PPL (Phonographic Performance Limited). For record companies, the one to join is PPL. As a member of PPL, you assign them the right to collect money from broadcasts of your recordings. You register any recordings you make with PPL, using their database of recordings (known as 'CatCo'). PPL then license broadcasters (such as BBC, Channel 4, commercial radio and streaming services) for the use of their members' music. If your recordings are played on radio or television, you should receive money from PPL for these uses. They also collect fees from shops, hairdressers, pubs and clubs - anywhere that uses recorded music. It's free to join, and means that any performers on the recordings will also be able to collect their share (50%) of the income generated. PPL cannot collect money for your recordings, unless your record company has joined as a member. You should make sure that you have agreement from all artists and producers involved in making the recording that the record company will have the ownership of the copyright in the recording.

Joining Trade Associations

As an independent record company, you can join either AIM (Association of Independent Music) or BPI (British Phonographic Industry) to represent you. Unlike joining PPL, you pay a subscription to be a member of these associations. These associations are similar to a union - they represent the views of their members to the government, and provide advice and information on running your company. The main distinction is that BPI represents the major record companies (Universal, Warner, Sony/BMG and EMI) as well as independents, whereas AIM represents only the views of independents. There are also associations for managers, songwriters, musicians, singers and promoters.

Personnel

As a small label, you may end up doing most of the work yourselves. Some of the key roles in the running of a label are: Lawyer (Business Affairs Person), Accountant, A&R, Sales and Marketing, Promotions, International and New Media. If you are lucky enough to have some of these skills within the team already, you will be off to a good start.

Typically small labels do as much as they can in-house, and bring in specialists (such as radio pluggers, PR company, music business lawyer or accountant) on a freelance basis as and when needed. Most start with a clear idea about the creative side, usually working with a small roster of artists

that they already know. You will then have to make an honest assessment of your skills and knowledge, as well as your budget on deciding whom to bring in. If you are already experienced in the business, hiring an admin person to help with following up all your leads can help speed up your work rate.

Contracts With Artists

In your contract with your artist, the main thing to consider is what you are going to commit to do for them, and what you want them to give in return. For example, you may be able to offer a commitment as to how many singles or albums you will release and when, how much you can spend on recording and promoting their records, and what sort of royalty (percentage of the sales or the profits) you will pay them.

In return you may want them to commit to recording exclusively for your company for a certain period and producing an agreed amount of material, and to assign you the rights to their recordings and do an agreed amount of promotional work. The absolute basics of a simple agreement would set out how profits are going to be split between artist and record company (or equally between business partners or the members of a band). For example, you could agree to recoup (earn back) all the money spent on the recording and split any profits after that equally. At least coming to a simple arrangement like this and making a written record of it will put into place a contract, so that everyone knows where they stand on this basic point. With more complex agreements, you will probably require a contract to make it enforceable, and you should advise your artist to take their own independent legal advice on the contract. All music industry professionals would recommend you use a specialist media lawyer to draw this up for you.

Timeline

Both setting up your company, and producing and selling your first products will take time. How quickly things move will depend on how much time and money you are able to put into the company, and what genre and format of music you are releasing. If you have no experience in running a label, it might be worth getting some work experience at a label, getting some advice from a label owner you know, or attending some training or workshops. There are also a number of music industry books and websites you can check for advice, AIM offers a list on its website www.musicindie.com. The BPI offers a list of music business courses at www.bpi-med.co.uk. An alternative way to get things moving

may be to start small by licensing a recording to a compilation or to another label, or by releasing a small run of singles (7" or 12" vinyl can be good for selling in specialist shops) or an EP. Sometimes selling recordings at gigs or via your website, and helping the act to gig and get fan base is a good way to build up music industry contacts, a market for your recordings, and some experience. Managing and promoting artists is a typical way to get into the record company side of the business.

Once you are confident that you can handle a release, a typical lead in time for promoting an album release could be around 12 weeks to pick up coverage from monthly magazines, radio, and reviewers. You will need to have absolutely everything in place, and co-ordinated from the contacts with the press to your distribution deal before starting your campaign, as it is important to build momentum and hit the marketplace at the peak of the public's awareness of your product. All of the media and business partners involved will want to hear "the plot" - the story about the artist, and what makes them and their music so special, but also whom from the media is supporting the record, where the artist is gigging, how much money you are investing in the promotion of the record; basically to be assured how huge a success critically or commercially it is going to be and that they will be one of the lucky few to have supported it when it was underground.

For more information on starting an independent record label, here are the top five signposts:

- AIM Guide

Get a copy of the AIM Guide to Survival and Success in the Music Industry CD-ROM, the only UK guide to running a record company.

- Contacts

Get a music industry directory, the Music Week Directory, The Unsigned Guide or the Showcase Directory are all handy references to the organisations and companies you will need to contact, and gives you an instant 'contacts book'. (In Wales, you may want to get the Welsh Music Directory from Welsh Music Foundation)

- Google

Use the internet search engines to find a wealth of sites out there with ideas about how to run a record label or manage a band, plus you can sign up for membership of many collection societies and trade associations online.

- Gossip

Subscribe to an industry newsletter or publication such as Record of The Day or Music

Week. These will keep you in touch with record industry issues, and make sure you are clued up about the wider business.

- Network

Make sure you communicate with other people in the music industry about your business and your artists. Collaborations, tip-offs, favours and friendships with them will be a lifeline as you build your business. Be nice to people and give them your time, and you will often be rewarded as they talk of you when they are meeting others in the business, and enhance your reputation in the industry.