

## Introduction

My four plus decades in the record industry have been alive with an abundance of wonderful experiences working with outstanding artists and colleagues, many of whom became lifelong friends. There are countless memories of late nights in the studio, untold meetings huddling over seemingly endless possibilities for cover art, and innumerable conferences with artists, managers, and attorneys. It's all been richly fulfilling.

After twenty exciting years with Elektra and Nonesuch Records, I took a sabbatical, and although remaining involved with music, I missed the excitement. So I subsequently started my own label, ROM Records. And I'm glad I did because I learned what it's like to run my own business and be responsible for everything. These numerous lessons have resulted in the writing of this book as an attempt to help other entrepreneurs fulfill their own dreams of starting an independent record company.

Thus, this book is a primer of what you need to know, and what you must do, in order to start your own label. It contains the important facts you'll need and points you to other resources you can access to help get your label off the ground. This third edition has been revised and updated to include more about the digital aspect of our business and the world of the Internet.

Before digging in, however, I think it's important that you look deep inside yourself to be sure you're aware of what you're getting into, and why you want to do it. You must be committed life and soul to the process, because it'll be totally time-consuming and exhausting. It can also be exhilarating and life-enriching. You'll need passion and desire for both music and business in order to have a reasonable shot at success.

From your own standpoint, you must enter into this venture with your eyes (and wallet) wide open, because it will be extremely tough on your energy, financial resources, family, and life. It'll be fraught with pitfalls, but many rewarding opportunities.

If you're considering starting a label for the money you think is in it — don't! Unless you're extraordinarily brilliant or extremely lucky, you won't be making much — if any — in the early years. Later on, however, as you acquire experience and build a catalog, the opportunity exists to earn a respectable, and possibly even substantial income, not to mention priceless knowledge.

Most important, you must love the music you want to release, no matter what genre or style it may be. I assume you do or you wouldn't have picked up this book, but your passion for music has to be so pervasive that it's in your blood and under your skin. After all, the music is what counts and that will ultimately guide your efforts.

You should have, or develop, a thick skin because you'll encounter lots of negativity and rejection, sometimes from surprising corners, and frequently from those closest to you. Train yourself to turn "No" into "Yes!"

Above all, stay focused. Don't let events sidetrack or derail you from your goal. As Yogi Berra said, "You've got to be careful if you don't know where you're going, because you might not get there."

Whether you're a musician who wants to build a label that releases your own performances, or an entrepreneur who loves music and wants to bring the creations of others to the public, you will have much legwork and research to do. You'll need to become familiar with copyright law; artist, publisher, and distributor contracts; how to make a recording, market, distribute, and sell it. You'll need to know a lot about music, and about business. This does not mean that you have to have a conservatory degree or an MBA. That's what this book is for — to guide you from conception to realization of your very own record company.

There are different kinds and sizes of record labels. Some are very small, operated by just one or two people, and issue only a couple of releases a year. Others have extensive staffs and ship anywhere from twenty to forty or more titles annually. And then there are those in between — probably the majority of independent labels today — with modest-size staffs, releasing half a dozen to a dozen titles per year.

Some labels that were started by musicians for the purpose of forwarding their own careers have thrived and now offer music by other artists as well. Such a label is Alison Brown and Garry West's Compass Records, a successful and thriving purveyor of Bluegrass, Americana, and Celtic music. Another is Ani DiFranco's Righteous Babe label, which DiFranco started because she didn't want to sign with a major and wanted control over her recordings and their marketing. It's been extraordinarily successful.

By the way, when referring to "records," I mean all forms of recorded music — be it compact discs, cassettes, LPs, DVDs, or downloads.

## Who Should Read This Book

This book is primarily geared to the solo entrepreneur or to someone who, with a few associates, plans to build a small to moderate-sized independent label. However, there's a lot of information included for those who have more ambitious plans or who just want to know how larger labels deal with certain functions.

Note that although this book is written in a linear fashion, many of the activities discussed will vary a great deal in their timing and many events and actions will undoubtedly overlap or may occur in a different sequence.

As you begin the process, it's vital that you bear in mind a number of things. First, educate yourself to the fullest. I will recommend many books and other resources that will be important, if not essential, in order for you to become fully knowledgeable. This is all a part of what I call "doing your homework," for without it, you're likely to stumble over unnecessary obstacles and waste time and

money. Second, stay on track to your goal and don't allow yourself to be easily steered off course. Third, carefully detailed planning will be essential if you're to succeed. It's another part of doing the homework. Fourth, keep things simple. You're embarking on a major venture, so when in doubt, "less is more." Fifth, watch your cash flow and spend as little money as you can, particularly at the outset. Finally, and above all, think positive. Remember, this is an experience you'll never forget. It's changed my life for the better, and hopefully will do the same for you.

## A Little History

The last few years have seen an incredible resurgence of small independent labels that were started by music lovers or musicians. This is partially due to the availability of comparatively inexpensive recording equipment and the use of desktop computers as digital workstations for post-production, editing, and CD burning. It's also due to the Internet as a means of making the public aware of new releases from indie labels, as well as a way of selling from label-owned websites, online retail sites such as Amazon.com and CD Baby, and other locations where downloadable music can be legally purchased — Apple's iTunes Music Store, for example.

Some interesting facts — according to Billboard and Nielsen SoundScan, there were about 75,000 new "albums" released in the U.S. during 2010, compared to about 105,000 new releases during the peak year of 2008. Of the 75,000 titles in 2010, the bulk — 60,000 — disappointingly sold between 1 and 100 units, an average of only 13.3 units per title. At the other end of the scale, new titles that sold 500,000 or more had almost 18% of those sales as digital, the balance of course being CDs. The more popular a title, the higher the ratio of CD to download sales.

Of the 105,000 titles sold in 2008, about half were digital-only releases. However, these 50,000 titles were responsible for only about 1.8% of sales of all new release albums sold in 2008. The number of actual "physical" titles was up about 3% from the previous year. Album sale of new titles equaled 149 million units in 2008, down 17% from 2007. This was about 150 million fewer (basically half!) the sales of new releases in 2001, just seven years earlier.

In 2008 only about 950 titles sold 25,000 or more units, and these 950 titles accounted for 153 million sales, or about 82% of all new release titles. Also during 2008, only 1515 titles sold more than 10,000 units. In 2009 only 1319 sold more than 10,000, and in 2010 only 1215 sold more than 10,000.

Up until 2008, the sales from new releases distributed by Indies had been consistent (about 37 million) even though the number of titles increased drastically. In 2008, Indie new release sales dropped 27% to 27 million units.

The primary reason is the consolidation of much of the music industry into a handful of huge, multi-national conglomerates that control the bulk of the business. These companies are Universal Music Group, Sony Music, Warner Music Group, and EMI of Britain (in the process of being sold, as of late

2011.) Music from these corporations is distributed all over the world, from Alaska to Zanzibar, and because they spend billions to advertise, market, and sell their music, they get the primary attention from the media. And the conglomerates not only distribute the music of their own wholly owned labels, they also handle printing, manufacturing, and distribution (so-called “P&D deals”) for some of the larger independents — those they’ve not already swallowed up by acquisition.

Parenthetically, a P&D deal is one in which a major label handles all aspects of manufacturing and distribution for an independent label, but the label is responsible for all the other aspects of its operation. There’s more information on this subject in the chapter on distribution.

As a result of this consolidation, musicians who have been dropped by the majors, who had contracts that were not renewed, or who decided they were fed up, have frequently taken control of their destinies by starting their own labels. Dolly Parton is one example, with her Dolly Records.

A decision you’ll have to make fairly early on is whether or not you intend to align yourself with a major — either by making a P&D deal, or just having them handle your distribution. Many entrepreneurs with a more modest approach may prefer a “do it yourself” method, and that’s my recommendation in most circumstances.

Whichever way you decide to proceed, you should be aware that you’re about to begin one of the greatest, but probably one of the most rewarding, challenges of your life.

This is not the first time the industry has looked somewhat muddled and offered both challenges and opportunities for entrepreneurship. In the early fifties, there were just a few large domestic record labels in the United States — Columbia, RCA Victor, and Decca principal among them. The “Lp”™ had just been invented and the majors had excess pressing capacity, making it possible for fledgling upstarts to enter the business. Thus Elektra, Vanguard, Folkways, and Atlantic, etc., began what became a long and eventful life for some of these labels.

It was a lot easier then because getting started required relatively little capital. In fact, Elektra was started by two people, and with just \$600! At that time, there were many independent distributors dotted all over the country that sold records only in their own regions. If one distributor didn’t sell what you thought they should, it was relatively easy to replace them with another. And the distributors had their own local promotion and publicity staffs to supplement the label’s efforts. Their salespeople intimately knew all of the retailer’s buyers, and they usually paid within thirty days! It was not unusual for a label to have twenty to thirty distributors, just for the U.S. As a result, all of its eggs were not kept in a single basket.

## Initial Decisions

Before you get started doing such things as hiring an attorney and accountant or building an infrastructure, there are a number of questions you need to answer for yourself. These include:

- What kind of music do you plan to offer?
- Is there a sufficiently large public for your music to make it economically feasible?
- What size company do you want it to be?
- How will you finance the company?
- Will you be doing this alone, or with one or two partners?
- What will be the legal structure of the company (corporation, partnership, etc.)?
- Will you be working out of a home office, or renting space?
- If renting, how much space are you likely to need initially, and then for the first few years?
- How big a staff will you need — one or two assistants, or a staff of a dozen or more?
- How will you distribute your music? Will you be linked to a major, or work with an independent distributor, or will you “go it alone”?

Part of making the size determination is to do a thorough analysis of the kind of music you’re going to release and what it will take to promote and market it. For example, country, rock, and alternative music require considerable financial resources since radio promotion, a key factor in marketing these genres, is extremely cutthroat, and money talks. Those with the deepest pockets talk the loudest!

This is also true for marketing, because listening posts and display space in the few record retail locations that still exist have become almost prohibitively expensive — don’t expect to get them for free! And don’t forget the resources it takes to provide tour support to keep your artists working in venues where they can be seen and can start establishing their audience awareness and following.

To achieve a substantial marketing presence, you’ll need a fair number of experienced employees, and this in turn will determine how much and the kind of space you’ll need to house them. Frankly, I don’t suggest you even consider building this big a company unless you’ve had a considerable amount of both music industry and general business experience. On the other hand, if your interests are in folk, jazz, or classical music, for example, your marketing can be more modest, the staff quite small, and your requirement for funds appreciably less.

You also have to consider the size of the company that seems ideal for your purposes. For example, do you want it to be a small, vest-pocket label with just one or two employees and whose essential purpose is to promote your own music with an occasional CD release? Or is this intended to be a venture with wide potential appeal that will require a staff of three to ten (or more) people and appropriate office space to support five to twenty releases over the first couple of years?

A larger company will necessitate a substantial infrastructure. Office space requirements will have to be calculated based on the number of departments and the people you’ll need to staff them.

You'll have to have enough desks, phones, computers, printers, faxes, office copiers, etc., to handle the load.

## “Virtual” Staff

For many years, I've been a firm believer in what I refer to as a “virtual” staff. What this means is that you don't have to hire a lot of full-time employees — especially not during the early days — but can make use of the talents of as many experienced freelance contractors as you may need and can afford. For example, do you really need an art department when you're starting up? Instead, why not make use of the services of a skilled independent art director or a small team of graphic designers to come up with the “look” for your packaging and marketing print materials. The same can work for publicity and promotion. Use your network to find qualified people.

The advantage is that you'll have the skills of clever people at your disposal on a “pay as you go” basis. An additional plus is that you don't have the overhead and payroll of a large staff, meaning you also don't have to pay social security or health benefits. In fact, you might think about hiring one or two high school or college students as part-time interns. They'll get to learn about the music business and you'll get inexpensive, or possibly free, labor.

## A Few More Thoughts

Should you decide to begin with a small label, you might be able to finance it with your own money or with additional help from family and friends. This will be discussed in more detail in Chapter 3 — Raising Start-up Money.

For a larger company, you'll need to work up a comprehensive business plan (a wise idea for a venture of **any** size, and I urge you to do one even for a small label). The intention is that you'll be looking outside your immediate circle of relatives, friends, and associates not only for necessary funding, but also to businesspeople and venture capitalists who might be willing to invest in order to support the label for a period of at least three years. Your carefully thought out and budgeted business plan will give you a good idea of how much money you'll need to provide a solid foundation for the early years. See Chapter 2 — The Business Plan.

As I stated earlier, I'm a great believer in planning ahead, and the business plan is but one of the many plans you'll need to deliberate on while starting and building a label. In fact, careful planning is essential at almost each phase of what you'll be doing.

Once you've pondered all the questions and issues previously cited — many of which we'll cover in detail further on — you'll want to get started! The following pages deal with what needs to be done.