

Title:

ABC's of the Music Industry

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Summary:

Music is an art, however, when it comes to the music industry Music is about money! If anyone or any company feels that your music will not make them money, there will be absolutely no interest in your music. That's it in the nut shell. Remember, to always remember this. The Music Industry is about Money!

Keywords:

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Article Body:

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If anyone or any company feels that your music will not make them money, there will be absolutely no interest in your music. That's it in the nut shell. Remember, to always remember this. The Music Industry is about Money!

There are a few sources of money to be made in the music industry. They include but are not limited to:

- Record sales
- Songs played on the radio
- In movies and television
- Concerts
- Song writing
- Producing
- Merchandising
- Advertising

- CD-ROMs/DVDs

If you are an artist and want to get into the music business, you need 3 very important very good people in your corner battling for you on a daily basis. They include:

- **Personal Manager** - The most of important of the three. They should have contacts in the music industry, keep on eye on all your affairs, advise you on things to do, help promote your music, producers to hire, who to sign with when to go on tour, etc. The personal manager will receive 15% and 20% of an artists gross earnings and have good contacts with record companies A&R, Marketing / Sales, and Promotion departments.

- **Music Attorney** - A good attorney specializing in the music will know how to properly negotiate and structure the deals an artist makes. They should have good contacts and be trust worthy. Expect to pay between 100 and 200 per hour for a good music attorney. If an attorney thinks you will get signed, they forego a set fee and charge a percentage of artist's earnings. In bigger cities, you'll pay more than in smaller cities.

- **Music Agent** - Book concerts and special appearances. A Personal Manager will help the artist with selecting a good agent.

If you blow up and start generating the big money, then a good Manager / Accountant will be needed to handle your tax situation, review royalty statements, financing tours, offer invest advice and how to manage your money.

Getting recognized by mailing your demo to record labels isn't impossible, however, 99.9% of the time your material will not get listened to. Even if you have the best song on the planet, it will not be listened to. Record labels want to limit their liability, so they do not listen to unsolicited music. Record labels don't want to listen to numerous songs and then be held liable if someone claims their material was copied.

If you do decide to mail your CD to record label, send the "solicited" material. First get a contact, preferably an individual in the Artists & Repertoire (A&R) department. Call and first speak to someone. After sending your CD follow up to determine if the targeted individual received your material and another follow up call to determine if it was listened to. Submit 3 to 6 songs and send a bio and picture of yourself. Again this isn't the preferred way to submit your material to major record labels.

Until you have music business advisors in your corner trying to promote you and

there is a "buzz" going around about you, your demo will not reach the decision makers at the record labels. Record companies on a daily basis receive thousands of unsolicited CDs. Most likely your CD will be tossed into a bin located in a remote room filled with overflowing bins of CDs.

Record labels like to deal with artists who have a history of record sales. These are artist that may have produced and sold their own CDs locally or regionally. Record labels like to deal with artists who have performed their material and there is this "buzz" going on about them. MC Hammer, before he became famous, performed his own materials and sold his own records until a major record label signed him. MC Hammer had a lot of leverage in negotiating a good contract because he already proved on a local basis he could sell records.

Record companies want to limit their liability. If you are signed, you are considered an investment that will require some money and they want to see a premium return on their money invested in you. The more you can prove that you can sell record, the better chance you can get signed.

If you get signed to a record company, you the artist will go into the studio and record songs for the record company. The record company makes copies of the master recording and ships it to a distributor. The distributor is a wholesaler who then sells the CDs to retail outlets like Best Buy, Sam Goody and Tower Records. The record company then pumps money into marketing by advertising and promoting your music with hopes of selling records, thus making you a superstar and becoming rich!

It is not as easy as it sounds. It takes a lot of hard work by a talented group of people. Everyone has to work together to make this happen. There are usually many people behind the scenes working to make an artist a superstar.

Record companies often categorized into 4 groups:

- Major label record companies - have the recording and operating resources to complete all function to sell records. Major label record companies are integrated in that they can handle the promotion, sales, marketing, and distribution to sell music. Major label record companies are Arista, Atlantic, Capital, and Sony.

- **Major label affiliate labels** - have special agreements with the major label record companies, where the major label may fund the smaller labels recording and operating expenses in exchange for a portion of the smaller label profits.

- **Independent labels** - distributes records through major labels. Independent labels have few employees. They tend to find talent, sign the

talent, sees to it the music is recorded and contracts with major record labels to perform the promotion, marketing, and other functions.

· **True independent labels** - Has no association with a major label and distribute their music through independent distributors.

The A&R (Artists & Repertoire) Department

The A&R department is the talent scout. They are in charge of finding new talents. They are the eyes and ears of the record company. However, not because you get signed to a record label because an A&R representative likes you it doesn't mean your CD will ever get produced and released. Executives higher in the company could cancel your deal if they feel your CD will not sell. A record company will have to invest several hundred thousands of dollars to release your CD, so they will be extremely cautious on whom they release.

The Marketing and Sales Department

This department is responsible for getting the public excited about your music and first selling to retail stores the idea of carrying your CD. They are responsible for promotional merchandise, advertising your CD, in store displays, publicity, your CD cover, etc.

The Promotions Department

This department is responsible for getting your music played on the radio. The individuals in this department will visit the various radio stations to convince them to play your material. If your material doesn't get played, no one will now how you are. People will look at your CD in the retail store and wonder who you are. There is also a direct correlation with CD sales vs. how many times a song for that CD gets played on the radio. More air time on the radio equals more CD sales for the record companies.

Remember music is art, but to the record companies, it's about money. Keep in mind that it's a business. Keep in mind everyone is out to make money. The minute people believe that you will not make money for them, you will be dropped and these same people will turn to seek other new artists that they believe will make them money. Unfortunately, the record business doesn't believe in grooming people. If your first CD isn't a success, you are out. There are rarely second chances. There are always other talented people behind you who what their shot at fame.

Distribution

Most major retailers such as Tower records will not carry a CD unless the record has a distributor. A strong distributor ensures that your CD will be available in enough places so your CD will sell to ultimately make money. Major labels use large distributors who are better able to get record stores stocked. After years of consolidation, there are only 5 major national wholesale distributors in the US who are owned by conglomerates who also own major record labels. They are:

- BMG (distributes Arista, BMG and RCA)
- EMI (distributes Capital and Virg.)
- Sony Music (distributes Columbia, Epic and Sony)
- Universal Music Group (distributes Interscope, Island/Def Jam, and MCA)
- WEA (distributes Atlantic, Elektra and Warner Bros.)

Distribution via the Internet Record labels and artists are increasingly using the web to distribute their music. Unknown artists can also use sites like this mZeus.com, <http://www.mZeus.com>, to generate buzz about their music. However, unknown artists will still have to work hard to get the buzz going about their music. Ultimately, signing a contract with a major record label is the way to go. The major record labels have the financial muscle and people to give you a good shot at becoming famous.

Let's face it. It's all about money! Yes, the entertainment industry seems fun and exciting, but people are in it to make money. As an artist the most important contract in the music industry is the record contract. The royalty is a portion of money from recordsales paid to the artist for his/her music. The record contract which is a negotiated legal agreement between the record label and artist will state how much royalty an artist is entitled to among other things.

An artist should have a good understanding of how royalties are calculated. A good music attorney will help with this process by making sure the artist is paid what he/she deserves. A 13% royalty for one artist may be a lot of money, however a 13% royalty for another maybe "chump change".

So this is how the numbers work. An artist successfully signs a record contract. The artist goes to the studio and work diligently to create a CD that the record company fully supports. The record company via its distributor sells the CD with a suggested retail list price (SRLP) of \$17.99 to a retailer for about \$10.99.

The distributor will take 10% - 14% of the \$10.99. Therefore the record company will get about ½ the SRLP of \$17.99. Independent record companies may receive less than ½ the SRLP. Major record companies will pay artist royalty as a percentage of SRLP.

Rates will vary of each artist depending on how successful their record sells. For a new artist who never had a record deal or has sold less than 100,000 albums will get a typical royalty rate of 12% to 14% of the SRLP. For an independent record label it maybe 10% to 14% of the SRLP. For established artists who have a track record of selling 200,000 to 500,000 albums the royalty rate maybe 14% to 16%. For artists who have sold over 750,000 albums the royalty rates maybe 16% to 18%. As you can see, the more successful the artist is, the higher the royalty. Additionally, royalty maybe based on how well the record sells. For instance, the record contract may state that an artist will get 12% for the first 100,000 units sold, 14% for 100,001 to 300,000 units sold, and 16% for over 300,000 units sold.

But hold your horses. If you sell 500,000 albums and have a royalty rate of 12% doesn't mean you will get 12% of 500,000 at a SRLP of \$17.98 which would equal \$1,078,800. This is because as specified in the record contract, there are deductions (expenses) that have to be deducted.

To start off the bat, the record company will deduct a "packaging charge" from the SRLP which is typically 20% for cassettes and 25% for CDs.

Second, more often the artist is responsible for paying the record producer a portion of his/her royalties. Typically a producer will receive 3% to 4% of the SRLP.

Third, in the record business, the contract may state that the artist's only generates royalties on 85% of the unit sales. For every 100 albums sold, 15 albums sold, the artist gets no royalty.

Forth, the record company will hold a portion of the royalty money because the distributor typically has an agreement with the retail outlets to take back and credit the retail stores money from unsold units. This is very important, because a good portion of your album could be returned to the record company if the album doesn't sell! The money that's held back is called a reserve. Reserves maybe held for 2 years before it's paid to the artist. Typically a major record label will hold a reserve of 25% to 40% of the royalties.

Fifth, advances paid from the record company to the artist are deducted from the artist's royalty. Advances include but are not limited to the:

- Recording studio expenses (new artists to an independent my get an advancement of \$0 to \$80,000, new artist to a major record label \$150,000 to \$400,000
- Hiring independent promoters to help sell the albums
- Cost of making a music video (promotions and an inexpensive music video can cost \$150,000 to \$200,000).

When money is made for the record sales, these costs are deducted from the artist's royalties. This is called re-coupment. Therefore, if the artist's record isn't successful, the artist may never see a dime. If the royalties are less than the deductions, they artists may well owe the record company money by being in the red! This negative cost maybe carried over to the next album release. A good record contract will not allow a negative cost from one album to be carried over to another album (cross collateralization). If there isn't another album the record company generally eats the loss.

There are many other costs that the record company will not charge the artists. This includes marketing and in-house promotions (free CD give away, etc.).

So how much does an artist make for a gold album (500,000 albums sold).

Check out the math:

CD (suggested retail list price SRLP) = \$ 17.99 Less CD Packaging of 20% = \$ -4.50 NET = \$ 13.49 Times: Net artist royalty rate (12% - 3% to producer) = X 9% Gross royalty per CD (9% of \$13.48) = \$ 1.21 Times 500,000 albums = \$ 500,000 SUB TOTAL = \$ 605,00 Times: Royalty bearing % (15% o = no royalty) = X 85% Gross Royalty = \$ 514,250 Less advances: Recording, promo, music video, tour = \$ -350,000 TOTAL ROYALTY TO ARTIST = \$ 164,250 - Reserves (35%) returned by retailer) = \$ -57,487.50 (1) ACTUAL ROYALTY PAID TO ARTIST = \$ 106,762.50

(1)Reserves will be paid to artist in 2 years if no CDs returned by retailer

Remember the artist still has to pay TAXES! Don't forget Uncle Sam has to get his cut! Also, don't forget the Personal Manger, the Attorney, the Accountant, the Agent and other numerous expenses.

However, there are many other royalties that an artist can acquire. They include, Record Clubs, Compilation CDs, Samplers (low-priced albums in which a few artists are featured), Premiums (albums sold with other products, such as cereal), Film Soundtrack Album, Music Video Sales, Greatest Hit's Album, Foreign

Royalties (song played in some foreign country radio stations pay royalties, unlike the US), Master Use License (music used in a movie, television, commercial, the Internet, CD-ROM and DVD), etc.

Of course because of the Internet, the rules royalties are changing. Many people now buy their music via the Internet. Just think, no packaging required and no distribution to traditional retail stores needed. Some websites allow customers to buy individual songs as oppose to an album. Changes are currently taking place on how royalties are calculated because of the Internet. Many attorneys are pushing to have royalties be based on each song sold as oppose to each album sold. So stay tuned!