

Taking the Independent Route - Setting up an Independent Record Label

Recording and releasing music by a new and/or unknown artist is a very risky and costly venture. Most of the major record companies are not famous risk takers and are reluctant to advance large sums of money to bands or artists whose recordings may not recoup the initial investment. The major labels are becoming more careful than ever by concentrating their resources on successful existing artists and back catalogue sales. Many of their unprofitable portfolios of artists are dropped and potential new artists are lucky to have their demos listened to. Most independent record labels are usually set up in order to get the music of a band or artist to the ears of a wider audience, having tried to get a record deal through the usual channels. There are many advantages to owning your own label, but the most obvious initial benefit is the fact that you're in complete control of your own destiny.

Looking at what you have to offer, the product (i.e. record), must be of significantly high quality because if the music is bad no amount of plugging or advertising is going to entice people to buy it.

When considering becoming the owner of your own record label it's important to remember that any would-be independent record label boss must possess personality traits such as initiative, persistence, resilience, responsibility and imagination. If you don't possess all those qualities (if it's an effort for you even to get your band a gig), then don't even think about going into business. Running a label is a full time job (on top of the full-time job you may well have anyway). Most importantly, it requires tireless determination.

It is essential that you understand thoroughly your potential audience. It is not enough to rely on what you think you know, relying on your "gut feeling", but rather it's important that you actively research your target market. Augment your knowledge of the music genre you intend to target by reading as many specialist magazines as you can find. From this you can compile databases of specialist distributors, labels, publishers, DJ's, press and shops.

At this stage you will need to establish that there really is an audience and market for your type of music. Carry out some basic market research - find out what people really think about it (not just friends and relatives - go for a cross-section), and whether they would part with their money to listen to it, then apply your findings on a larger scale. Bands tend towards an overriding belief that their music is utterly fabulous, but are you prepared to put your money (and sometimes other peoples) where your mouth is? You have got to look at the record from a cold, clinical and objective business viewpoint.

A website can provide a good forum for judging reaction to your product, but people need to be able to find it. It is crucial to have links to other sites dealing with the same musical genre and to ensure your site is on all of the search engines.

In order to convince other parties to invest money in your label you have to convince them that you're capable of running it properly and successfully. A Business Plan includes proposed marketing and promotion of your product and also its costing. By working out how much money you need to earn in order to cover business and personal expenses, you can decide on a price for your record, and work out how many units you need to sell in order to breakeven (i.e. the point where sales income equals costs). Make sure that this price is similar to the market price of new records. If you find that your prices would be ridiculously high

and that your costs cannot be lowered any more, then it is time to consider cutting your losses and getting out of the venture.

You will also need to draw up a cash flow forecast which predicts income and expenditure for the next twelve months, and a longer term forecast covering the next three or four years. The income will be related to the amount of product sales. Make sure to include all the costs incurred such as recording, manufacturing, artwork, packaging, distribution, promotion etc.

Admittedly, all of this financial stuff can get a little complicated, but there are plenty of organisations that can offer advice and assistance. Not only banks and accountants, but Enterprise Centres and Chambers of Commerce can be invaluable. These organisations will generally have local offices which are usually listed in your phone book under government departments.

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150 others sell less than 1,000 units**

It may be possible to start up the label without any outside financial assistance by using savings, money borrowed from relatives, or day jobs in order to keep things ticking over. It doesn't take much initial capital investment to start a record label, but money will be needed for recording and pressing your first record (single, EP or album) and for its promotional costs. If you decide that you will need outside finance in order to get the venture of the ground, there are a number of options. The most obvious way of raising working capital is to approach a bank. When you consider that for every record which sells over 15,000 units in Ireland, 150 others sell less than 1,000 units, it is not surprising that banks are unlikely to advance funds without some form of security (i.e. property, stocks and shares or life policies with cash surrender value). It is worth considering an overdraft on your regular bank account if the amount to be borrowed isn't too great. If you can't raise finance from "normal" sources, there are a number of other bodies that might provide funding. You can find out who they are by contacting your local Enterprise Centre.

How much will you need to borrow? The cost of starting up a company starts at zero, but if you want to make a fair go of it, you'll need to join various industry organisations listed below which will cost about £150, and if you plan to employ a public relations (PR) company you should set aside at least £500 for that. When approaching funding bodies, bear in mind that business loans rarely cover stock (i.e. the cost of recording and pressing your records), but a personal loan probably will, as long as you're sure you can meet the repayments.

The legal considerations of setting yourself up your own company are simpler than you might think. There are three types of companies you might consider: 1. sole trader, 2. partnership and 3. limited company.

If you plan to operate as a sole trader (i.e. just you working for yourself), you will need to tell the Revenue Commissioners and the Department of Social Welfare that you are working for yourself. Similarly with a partnership, but, as the name implies, you'll be working with one or more partners. It is therefore wise to draw up a partnership agreement with the assistance of a solicitor. This outlines exactly who has put what into the partnership, how profits will be split, how the work is to be shared and what happens if the business is wound up. It could save you a lot of bad blood and legal wrangling in the long run. Option three is the limited company. In order to set up a limited company you need to register with the Companies

Registration Office in Dublin (for those operating in the Republic). In addition to protecting your company name, you are protecting your liability if the company folds with huge debts. There are other limited liability company criteria which need to be satisfied, not least the presentation of annual audited accounts which involves employing an accountant. For these and other criteria, again contact the Companies Registration Office.

If you think your annual turnover is going to exceed £20,000 you have to register for Value Added Tax (V.A.T.) but consult a qualified accountant before you do this. Most independent labels are run by band members, but if your plans include employing other people, there are legal obligations you need to know about. If you have any questions or doubts contact a solicitor. It is worth checking with FÁS as there may be grants or schemes to encourage job creation available to you.

There are a number of official organisations you should join. By law you are not required to be a member of any of them, but if you are serious about your enterprise, they should be borne in mind. The main ones are The Mechanical Copyright Protection Society (MCPS) and IRMA and if you want access to current marketing information, statistics, subsidised rates for trade shows like MIDEM you should join the International Federation of Phonographic Industries (IFPI). MCPS need to be notified of your releases and if you cover someone else's song the royalties will be paid to them through MCPS.

Chart Track compile the weekly Irish music chart and for a fee of £30 they'll put on their Record Labels Register - which ensures that nobody else (on the register) is using your label name or catalogue numbers.

Also consider getting a barcode for your release, since this is how 95% of record sales are now registered with Chart Track. Just think, if your single started selling in huge amounts, and you didn't have a barcode, you'd never make the national chart. Barcodes are administered by the European Article Number (EAN). Barcodes comprise 12 digits, EAN will give you the first 7, which form your exclusive company number and you supply the final 5. To ensure that Chart-track is aware of your release and its barcode number, just send them two copies of the record.

Remember taking the independent route is not an easy option and success can be difficult to achieve however you can achieve a greater control over your future direction within the music industry. And if you need any reminding of the success stories out there; Chris Blackwell sold Island Records to PolyGram (Seagram) for Stg£300 million and Richard Branson sold Virgin Music to EMI for Stg£210 million.

Angela Dorgan is CEO of First Music Contact (fmc) and this article is extracted from their "Starterpack" publication, which will be of interest to many of those starting out in their careers in the music industry.

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