

Why set up your own record company?

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 as risk takers and are reluctant to advance large sums of money to bands or artist whose recordings may not recoup the initial investment. Now that the recording industry is gripped by a world-wide recession, 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.

The Product

The product (i.e. record) must be of significantly high quality. If the music itself is bad, no amount of plugging or advertising is going to entice people to buy it.

The Boss

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 in to 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.

The Market

You need to understand thoroughly your potential audience. It is not enough to rely on what you think you know (i.e. your "gut feeling"). It is essential to 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, DJs, press and shops.

At this stage, it's essential 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 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 the search engines.

Finance

In order to convince other parties (family, friends, business associates) 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 break even (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.

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You 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 this financial stuff can get a little complicated, but there are plenty of organisations which can offer advice and assistance. Not only banks and accountants, but Enterprise Centres, Chambers of Commerce, Trade Associations and LEDU, in Northern Ireland, can be invaluable . These organisations generally have local offices: (these would usually be listed in your phone book under Government Departments)

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 off the ground, there are a number of options. The most obvious way of raising working capital is to approach a bank .

When one considers 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 who 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.

Legal considerations

Legally, it's a lot simpler than you might think. There are three types of companies: (1) the sole trader; (2) the partnership; and (3) the limited company. If you plan to

operate as a sole trader (i.e. just you, working for your self), you only need to tell the Revenue Commissioners and the Department of Social Welfare (or Training and Employment Agency in Northern Ireland) that you're 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 in to 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 a lot of bad blood and legal wrangling in the long run. Option (3) is the limited company. In order to set up a limited company, you need to register with the companies registration office Dublin Castle for the South of Ireland. (£51). In addition to protecting your company name (nobody else can use it), you're protecting your liability if the company folds with huge debts. This means that you wont have to pay out money from your own pocket since the company is, legally, a separate entity. In the case of the sole trader or partnership you could loose your house if your business goes under. 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 your Companies Registration Office.

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If you think your annual turnover is going to exceed £20,000 (UK stg£40,000 (although it's worth noting that you can register voluntarily to charge V.A.T as this will also allow you claim all the VAT back on purchases such as equipment, services etc.)) you have to register for Value Added Tax (V.A.T), but consult a qualified accountant before you do this. Once the company has a name, you should open a business bank account in that name, start thinking about logos and the printing of stationary, and get a telephone connected if you don't already have one. Also the Internet, a fax and an answer phone can prove invaluable.

Official bodies

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're serious about your enterprise, they should be borne in mind. The main ones are The Mechanical Copyright Protection Society (M.C.P.S.) and IRMA and if you want access to current marketing information and, statistics, subsidised rates for trade shows like MIDEM, and blanket agreement negotiations facilities, you should join the International Federation of Phonographic Industries (I.F.P.I.). MCPS need to be notified of your releases and if you cover someone else's song the royalties will be paid to them through M.C.P.S.

It may also be worthwhile keeping in touch with umbrella groups such as the Northern Ireland Music Industry Commission, The Trade Board and The B.P.I as contacts are essential and seminars are often run by these groups.

Chart track compile the weekly Irish music chart and for a fee of £30 they'll put you 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 EAN (European Article Number). You pay them £ for a company which has just started trading, plus a one-off entry fee of £60 plus V.A.T. Barcodes comprise of 12 digits: EAN will give you the first seven , which form your exclusive company number, and you supply the final five. To ensure that Chart-

track is aware of your release, and its barcode number, just send them two copies of the record.

Taxation and Pay Related Social Insurance

The biggest potential headache at this stage is keeping regular accounts. You can employ an accountant to do this for you, which will obviously cost money, or you can keep the books yourself. Although it's tempting not to bother, especially if your business turnover isn't significant, consider the fact that company tax is assessed at the end of each tax year, and what you pay depends on how much profit you've made (i.e.the higher your profits are, the more tax you will have to pay). If you can't estimate your own tax liability the Revenue Commissioners will come up with their own figure.

The good part of this is that legitimate business expenses can be deducted from the final tax bill, and the downside is that if you can't prove how much profit your company has made, a figure will be assumed. Always keep sales receipts and expenses. Even if you don't enter them in a book, at least you'll have something to show the taxman when he comes looking for money. Also, Pay Related Social Insurance (P.R.S.I.) must be paid regularly. Most independent labels are initially 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 worthwhile checking with Fas and the T&EA as there may be grants or schemes to encourage job creation.

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Control

You're in complete control of your own destiny. There's nobody making you compromise your music in any way. Your career is in nobody's hands but your own. Remember you will also own the 'sound recording right' in the songs that you release, which means you profit from them further if you license tracks for compilations or for use on TV, in films and in adverts.

Success

This is possible, but can mean a very long slog in terms of time, effort and money. However, by running your own label you're effectively cutting out the middle man (the record company), so you stand to make a lot more money in the long term.

Money

There are higher profits to be made by cutting out the involvement of a record company. The overall sales value of the company increases with the quality and success of its portfolio of bands and artists. Chris Blackwell sold Island Records to PolyGram (Seagram) for Stg300 million and Richard Branson sold Virgin Music to EMI for Stg210 million.

Useful Contacts

Manufacturers:

MPO 01-8221363
Sonopress 01-8409000
Trend Studios 01-6160600
Zomax 01-4056200

Industry Bodies and Organisations:

First Music Contact 01 8782244
The Irish Trade Board 01 2695011
Companies Registration Office 01 8045201
IDB House NI 0801232234488
International Federation of Phonographic Industries 01 2693344
Irish Music Rights Organisation 01 6614844
PRS NI and Scotland 0044 131 2265320
Mechanical Copyright Protection Society 01 6766940
Phonographic Performance (Ireland) Ltd. 01 2882464

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