

THE ENTREPRENEUR'S GUIDE
TO DOING BUSINESS IN THE
MUSIC INDUSTRY

by
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Acknowledgements

To all of my clients and the artists I've represented over the past 10 years: Thanks for choosing me when you have so many choices. I never forget that your trust in me is more valuable than any service I could ever offer.

To my associates in Northern & Southern California: Thanks for the inspiration, encouragement, and support.

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The Purpose of This Guide



So you want to succeed in the music business? That's the assumption I'm going to make since you are reading this guide. I'm also going to assume that you are a music artist, record producer, label owner, personal manager, potential investor, aspiring entrepreneur, or someone who would just like to learn more about the business of the music industry and how it operates. If so, this guide was written for you!

“ The use of this guide will help you cut to the chase of getting paid without spending years paying your dues.” ”

The use of this guide will help you to “cut to the chase” of getting paid without spending years “paying your dues” like so many confused and misguided newcomers, who tend to get frustrated and stuck in the complex and mysterious maze of the music industry.

Once you have read this guide you will be able to identify and understand, at least on a fundamental level, the most critical business and financial aspects of the music industry. If making money in the music industry is NOT your objective, you may as well stop reading right now.

This guide will NOT provide you with all of the information that you will need to succeed in your endeavors; it is intended to be used as a map on your treasure hunt for riches in the music industry; it will make the process of finding them a whole lot easier.

There is a list of books located in the research resources section of this guide that are (in my opinion) the most comprehensive books on their subject. I encourage you to purchase some of them to do research on the music industry to get specific information about reaching your particular objectives. It is *imperative* that you do *thorough* research on the industry that you are attempting to succeed in *before* you invest time, energy, and money.

Once you have finished this guide the biggest pieces to the music industry puzzle will be in your possession...all you will have to do is put them into place.

Definition & Overview of the Music Industry



Before you attempt to take the music industry by storm, let's answer a basic question with a not so obvious answer: What *exactly* is the music industry? You often hear the term used interchangeably with the music business. The reality is that the *music industry* and the *music business* are two separate worlds that overlap. They are interdependent, but not co-dependent on each other.

The *music business* is the business of financially exploiting music (songs/recordings) and music artists. The *music industry* is the branch of the entertainment industry that creates financial gain from the music business and music business related activities, such as music publishing and the promotion and booking of talent to perform in various venues.

“ The music industry is the division of the entertainment industry that creates financial gain from the music business and music business related activities. ”

Confusing? To many newcomers it is. Just remember this: the term music industry is all encompassing and reflective of the various *business activities* that take place *within* the music industry.

The two terms also carry different connotations in different communities and circles.

The music industry, as a whole, is viewed as a creative business. ¹The music business, however, carries a negative stigma and a (well-deserved) reputation for deception, thievery, lack of professionalism, and criminal behavior.

Many administrative professionals, including entertainment attorneys and managers, tend to use the term, *music business* because they deal with the business affairs of people who work in the music industry.

Both terminologies will be used throughout this guide.

As in any business, the music industry has its own language that you must learn to speak in order to relate to those who may work for or with you. There is a glossary of commonly used terms at the very end of this guide that will help you decode this language. Now let's take a closer look at the industries that impact and overlap the operations of the music industry.

¹ Read Fredric Dannen's "*Hit Men*" if you want to know more.

There are basically four categories that all professionals who do business in the music industry fall into. These categories and occupations are as follows:

<p>CREATIVE</p> <ul style="list-style-type: none"> • Recording artists • Songwriters • Record producers • Production companies • Performing artists • Musicians (concert & session) • Background vocalists • Engineers 	<p>PERFORMANCE</p> <ul style="list-style-type: none"> • Radio • Film • Television • Cable • Concert Promotion/Promoters • Night Club Venues • Internet
<p>BUSINESS</p> <ul style="list-style-type: none"> • Major record companies • Subsidiaries (of major record companies) • Independent record labels • Publishing companies • Music libraries • Music licensing • Distributors • Retailers (record stores) • Marketing & Promotions 	<p>PROFESSIONAL SUPPORT</p> <ul style="list-style-type: none"> • Entertainment attorneys • Personal managers • Talent/Booking Agents • Business managers • Accountants • ASCAP/BMI/SESAC • Marketing/Promotions Advertising/Publicity Companies • Industry support organizations (*RIAA, NARAS, NMPA, etc.) <p><i>* Research on the Internet</i></p>

It's important to note that some entities, like production companies which are creative in nature, also serve a business function and may overlap into other categories. Typically what constitutes this overlap is when their *roles, expectations, and relationships* change with other professional entities.

The entities in the performance categories are in fact, separate and distinct industries whose business functions and activities not only overlap, but enable the music industry to prosper and music artists to maximize their income.

Presently, the use of the Internet beyond a marketing and promotional tool is still evolving. Many record labels and music artists are effectively using their websites to disseminate general and specific information such as performance dates, and opportunities for consumers to purchase their music and other products.

The process of viewing live performances in real-time via the World Wide Web (web-casting) is also becoming very popular. How lucrative it will be for those that produce it and those that provide content for it has yet to be determined.

The music business is a high-risk business. It is driven by profits that are often elusive to the very music artists who generate revenues for record companies and those who work in the various capacities and occupations that comprise and sustain the music industry. The music that we listen to as fans or music lovers is packaged, sold, processed and viewed as “product” by industry professionals.

These professionals, who all serve different functions, are directly or indirectly responsible for the sale of that product or the support of the artist whose talent it embodies. The successful marketing and promotion of music artists and their product enable record companies to supply more products and financially back more music artists.

“ The successful marketing and promotion of music artists and their product enable record companies to supply more products and financially back more music artists. ”

This is the most important function of a record company, and the greatest benefit of having a record deal to most music artists. Feeding the demand for a music artist, or a particular style of music, motivates record companies to supply more of that type of music, and those types of artists. (Ever wonder why there is so much rap music in the marketplace? Ever wonder why so many female singers look like models now?)

These sales are achieved through creative and consistent marketing efforts by professionals who are dedicated to achieving that end result. These results are greatly enhanced by the various strategic angles that are devised and implemented on all levels and facets of the entertainment industries which overlap with the music industry (Television commercials, guest appearances, live performances, soundtracks, etc.)

Research has concluded, and history will show, that when an entrepreneurial approach is taken by competent professionals who are trying to claim their share in this worldwide 47.6 billion dollar industry, the prospects of obtaining otherwise elusive profits are increased dramatically. When operating knowledge of the industry is met with ample financial backing, success is almost assured.

The music industry thrives on newness. New artists; new product; new labels, and new venues. They are all an inextricable part of the canvas that dreams and fantasies are painted on. Unfortunately, the magic potion that turns them

into reality is money. Most newcomers are high on ambition, and low on finances. Many cling to the mysterious notion that they just simply have to find an investor who they will make rich in exchange for their generosity – despite the incredibly high rate of financial failure, which is estimated that only 2 out of 10 CD's on the market will actually make a profit.

Record labels have long been considered the home of music artists. The relationship they once forged was similar to that of a parent and a child. Now that child has become a rebellious runaway. The abundance of independent labels and independent artists are tangible proof of this phenomenon and new business model.

Fundamentally, music artists are more educated on the music business, but the intricacies of “major label” success remain hidden in the inner sanctum of corporations who have finely tuned operating systems and an abyss of resources to maintain the status quo.

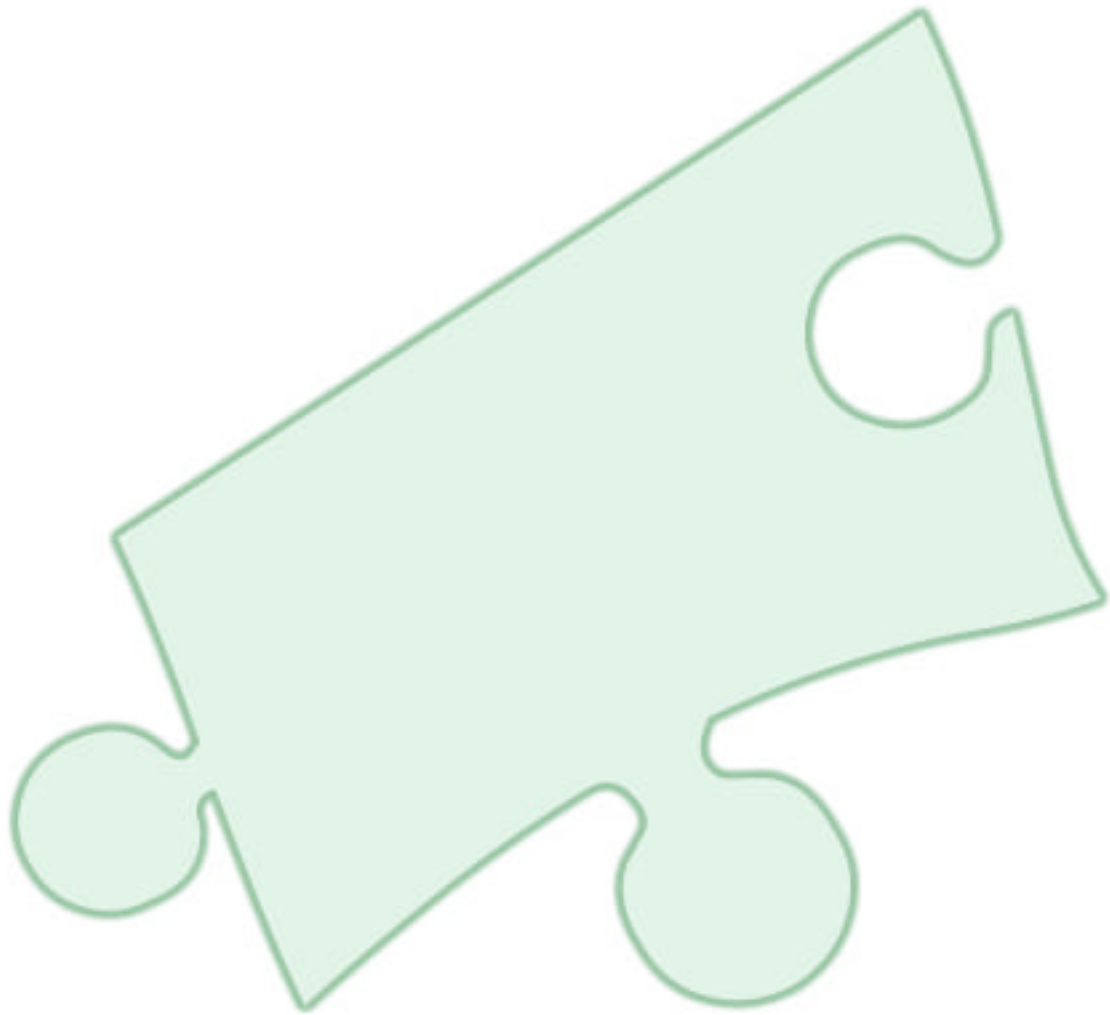
Financially, the music industry is tainted by perplexing, convoluted, and antiquated accounting practices. Royalty statements tend to be inaccurate and the proficiency in calculating them is often suspect. There are stark discrepancies in the amount of money generated, and the amount of money earned. This is partly due to a host of deductions that music artists are unaware of. Performing live (touring) has been, and still is, the most reliable method of generating income since the inception of the music industry.

For professionals, employment is often hard to come by. The entrepreneur has the upper-hand in terms of making money because they aggressively pursue and/or create income opportunities by providing useful, beneficial, or luxury services to others who will use them to establish, increase, maintain their success, or protect their business interests.

All professionals in the music industry are really in the service business, just as all music artists are really in the sales business.

In the music industry, opportunities that are replete with value – demonstrated and perceived, obvious and not so obvious, are the ones that are capitalized on by aggressive entrepreneurs, visionaries, middlemen, and newcomers alike. For most, achieving success in the music industry is really no different than achieving success in other industries: it is a result of supplying product for which there is a demand and/or creating a demand for a unique product or service that only you can supply.

The Real Cash Cows of the Music Industry



If you are a newcomer to the music industry, I will save you a great deal of time on your ²research by telling you, *exactly* where the *major* money is. The major money is in the ownership and exploitation of copyrights and sound recordings. These are the real cash cows of the music industry.

“ The major money is in the ownership and exploitation of copyrights and sound recordings. These are the real cash cows of the music industry. ”

Now that you know where the money is, your research and consultation with an industry professional will help you formulate a plan or a strategy as to *how* you will be able to get it. Many people start record labels as a means of raising their own cash cows. We'll focus more on record labels in a minute, but first a little more information about the sources of the major money.

Copyrights, (the rights to songs) **music publishing**, (the commercial exploitation of those songs) and **music licensing** (the permission granted to someone else to use sound recordings for a fee) are a billion dollar business.

These are the three most complex areas of the music industry. (That's why the term "intellectual property" was created to describe them.) The money generated from these three sources is called *residual income*, meaning that if you wheel and deal properly in these areas, you, your kids, and your kid's kids will be seeing a lot of royalty (income) checks.

This is where most of the thievery and unscrupulous activity takes place in the music industry. *Most of this thievery can be prevented if you properly register your copyright and sound recordings with the Library of Congress Copyright Office.* Remember, the music business is about the (financial) exploitation of recordings and music artists. Some people don't like the term "exploitation," but that's precisely what happens in every instance when a song or an artist reaches popularity and financial success.

The term "exploitation" only becomes negative when people or their property gets exploited without their knowledge or consent; thus depriving them of financial compensation that is rightfully theirs.

Can you see the link between ignorance and exploitation?

² Please see the list at the end of this guide for the titles of the books you can purchase to learn about copyrights, music publishing, and music licensing.

Advice for the Potential Record Label Owner



After consulting with countless “up-start” independent record labels, my observation is that if the people who start record labels realize that they are in fact starting a business, they would take them more seriously and have greater success.

“ If people who started record labels realized that they were in fact starting a business, they would take them more seriously. ”

Below I have pin-pointed the most common problems that lead to the premature demise and consequent failure of most independent labels.

1. **Not understanding how the music industry operates**
2. **Lack of a business plan**
3. **Incompetent business partners**
4. **Inability to cultivate multiple streams of income**
5. **Lack of adequate financing to do business properly (i.e. marketing and promoting their artists/product)**

With regard to item number 1: If you are not going to take the time to get at least a general overview of how the industry operates, don't even bother. That bears repeating so I will say it again. *If you are not going to take the time to get at least a general overview of how the industry operates, don't even bother!*

It doesn't matter who you are or what your business objectives may be. Every person on every level that I know of who is making money in the music industry is generally educated about it. Most have a particular area that they are well-versed and experienced in. Do some self-assessment and research, and *then* set out to take the music industry by storm.

With regard to item number 2: There's a saying in business that goes: “Those who fail to plan, plan to fail.” This is true in every industry. The music industry is no different. Invest in a well-written business plan and it will help you instigate and chart your progress, in addition to achieving your short and long term goals.

With regard to item number 3: If you try to run your label all by yourself, you will have no one to share jokes with while you work. This is good because if that's the situation you find yourself in, you're already joking yourself. You won't be laughing once the *real* work begins.

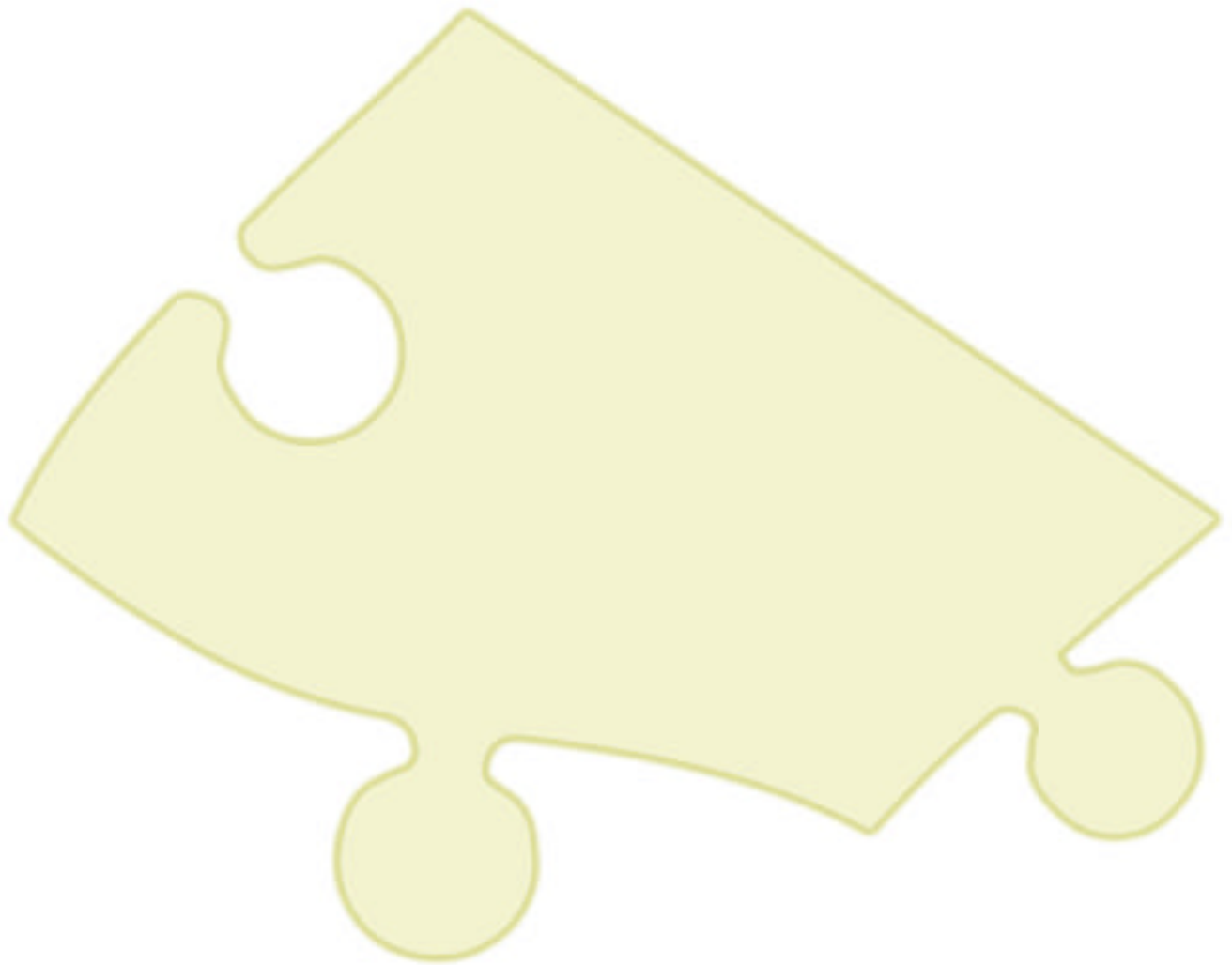
Of course you can kick-start your company alone, but I have not seen one

situation where someone has done it *totally* alone. Find yourself a competent business partner who you can trust, and tackle your operations with tenacious commitment. If you insist that you can not find such a person, enlist the services of qualified professionals who can help you execute your plans.

With regard to item number 4: If you want to start a record label and you think that the only way for you to achieve financial success is through the sale of a lot of records, you are only partially correct. The term “record company” got replaced by the vogue term “record label” with the emergence and popularity of independent record labels. Companies (all successful ones) have what I call “multiple streams of income,” or income from different sources, related or unrelated. Selling records is only one of them.

With regard to item number 5: Let me state this simply. Money is to a record label, as gas is to a car: It makes it go. If you are starting (or have started) a record label with no operating capital, expect your car to stay parked in the garage until you get some.

Advice for Music Producers



I believe that music & record producers are a special group of people. They consist of one-part artist, one-part musician, one-part entrepreneur, and one-part therapist. They are the ones that take the crazy ideas of the music artists and transform them into audible works of art that can be sold for profit.

In the pop, r&b, hip-hop, and rap genres, they are the hit-makers and the star-makers. They are also the ones getting paid the most money.

“ You must find a music artist or project that will enable your work to compete with the hit songs and top artists of today. ”

This section speaks primarily to the next generation of music producers who want to emulate the achievements of Quincy Jones, Babyface, Rodney Jerkins, and Dr. Dre.

It also speaks to the entrepreneurial producer who wants to go beyond creating recordings in exchange for a couple of hundred dollars that will only be heard by the relatives and friends of some music artist who is more concerned with pretending to be the next big star, than they are with working to become one.

Hear this loud and clear:

You must find a music artist or a project that will enable your work to compete with the hit songs and top artists of today.

Once you've done that you will be prepared to embark upon a joint venture of some kind with either a company to whom you can provide the recording services of your artist, via a production deal, or one that will provide you with financial support in exchange for your ongoing production expertise that will be used for *their* artists.

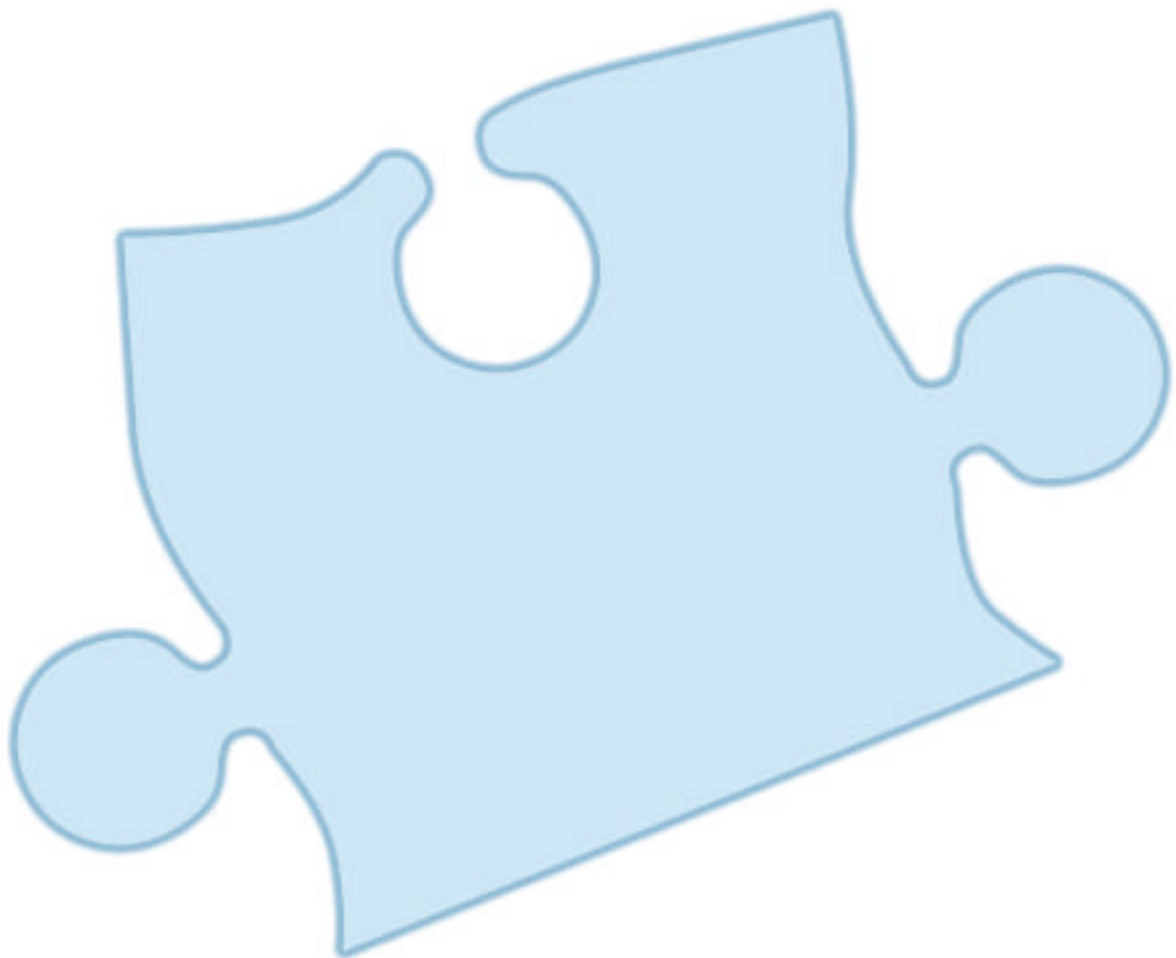
Everything that you produce should be used as a resume to get more work.

Don't complicate or confuse this scenario with producing songs for your friends or relatives who pose as music artists. The kind of music artists that you *need* to be producing music for (as an entrepreneur) are the ones who are being marketed and promoted by a record company.

Yes, it is difficult (but not impossible) to get your work heard by them. Yes, there are people with whom they have existing relationships that will be granted easier and faster access. That does not mean that you shouldn't *try*. Some unknown producer always gets a song placed on an album by a "signed" artist. Why shouldn't it be you? If you lack the confidence or strategies (angles) for getting your productions to these artists, then at the very least, produce songs for artists that market and promote *themselves* to the public.

The value of your music producing skills will not increase if they are only exposed to a limited few. Reach for the masses through the music artists that you produce. In some instances, the price of exposure and attention is well worth the rendering of a free song.

Playing a Different Tune as a Music Artist



Let me start by saying this: There are far too many music artists who view having a recording contract as a means of validating their talent. There will *always* be more talented music artists than there are recording contracts available to them.

There are also too many music artists who think that getting a recording contract is the equivalent of striking it rich. If you happen to be *the* one out of the estimated 1 of 1,500 music artists who actually gets a recording contract, it simply means that your long-shot chances of getting rich in the music industry have *slightly* increased.

“ If you do get a recording contract, use it to put you in a position to do music for a living. ”

It is true that a recording contract can offer you the opportunities for fame and fortune that you otherwise may not have, but these opportunities come with a very steep price tag. What will the cost of that success be? Here's a hint: It has something to do with the cows that we spoke of on page 17.

Let's make the distinction very early on between *songs*, which are created (written) by artists, songwriters, and producers, and *recordings*, which are usually created by the record company. They are two separate and distinct items which carry individual value.

Any record company that “signs” you will do so because of one of the following reasons: (1) They believe that you will be a good, or possibly great salesman for “product” that they will pay to have you record, or (2) They believe that you have created good or possibly great songs/product (pre-recorded CDs) that they would like to invest in with the prospect of a huge financial return somewhere down the road.

In both scenarios they will have financial interests in the songs (publishing) and ownership of the master recordings (masters) from which the product will be made because that's what their *real* investment is in. Do you see how *they* think like entrepreneurs?

As a recording artist you will be used as a vehicle to transport the product that you record to consumers (fans), who through clever marketing and promotions by your record company, will get to know and like you and possibly by your product.

Many record companies are forging alliances with television shows such as *American Idol*, *Making of the Band*, and *Pop Stars* to utilize television's power to establish and connect with an audience by finding and introducing music artists *before* they release a record. These shows offer a lot, and promise very little. At best, they give the artists that are "discovered" on them a tremendous launch. Unfortunately, many fall back to earth with the same velocity with which they were launched due to lack of consistent marketing by the record companies that sign them.

This closely resembles the current industry trend (which is actually an old industry trend) for record companies to increase the audiences of its recording artists by having them get into acting. Stars such as Prince, Madonna, David Bowie, Mick Jagger, Jon Bon Jovi, Harry Connick Jr., Reba McEntyre, Billy Ray Cyrus, Randy Travis, Britney Spears, Joey Fattone (of N'Sync), L.L. Cool J, Queen Latifah, Ice Cube, Ja Rule, Deborah Cox, Beyonce Knowles, and Janet Jackson, (just to name a few) have all had guest or feature film/television roles that not only introduced them to new audiences as actors, but helped to market and promote themselves and product for their respective record companies.

So if you're an aspiring recording artist who has never considered acting, you might want to reconsider it for the aforementioned reasons. Also, many of the music artists who get into acting find that the process of getting roles (and getting paid) in the film industry is much easier for them because of their ties to the music industry.

Once again, the music *business* is the business of financially exploiting music (songs/recordings) and music artists. As an artist with a recording contract, you in essence become a salesman for the product that the record companies pay to have recorded. In exchange, you will be paid a (small) percentage of the profits. This is also the reason why as a lead vocalist and/or front man, you will be expected *and* obligated to do a solo album.

After your career as a recording artist is through and you find yourself performing in Reno and Las Vegas, those songs and/or recordings will still be generating income. Your songs coupled with the songs of other artists signed to that label, are one of the biggest nipples on the cash cow of the record company that you will be signed to. A huge portion of their financial strength lies within their cherished catalogue.

If you get a recording contract, use it to put you in a position to do music for a living. Your attorney and/or manager will help you to achieve this in your negotiations. It's very realistic and it should be your secondary goal, if your

primary goal of becoming bigger than Michael Jackson, Madonna, U2, or Britney Spears does not pan-out.

For those of you who wish to become independent music artists, the road to success in that area starts with self-assessment. You must be *very* committed, disciplined, and business-minded. Having an entrepreneurial manager and a support team will also be of great use and benefit.

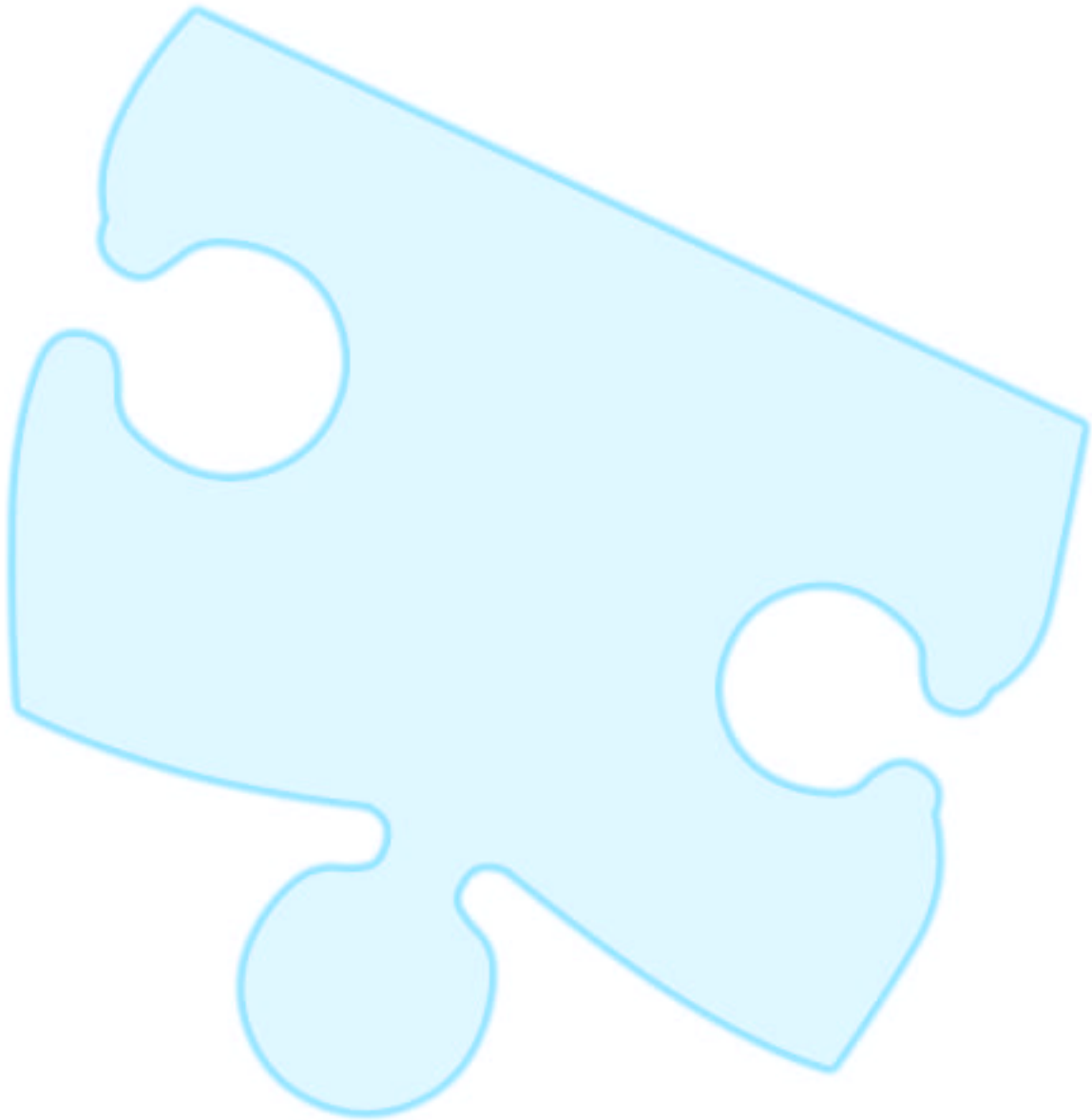
Many of the same rules and principles of succeeding as a record label apply to the independent artist. The major difference is that *you* are the label *and* the artist. It is not easy to manage and conduct the business affairs of both; thus the need for an entrepreneurial manager and support team.

The entrepreneurial minded music artist must become very adept at marketing; which will be critical to their success. You must not only think of ways to sell your product (CD's, T-Shirts, Videos, etc.) you must think of ways to endear people to you in an effort to create a tight-knit community for your fans. You must give them a reason to *care* about what you are doing. Your efforts and actions must be perceived as attempts to satisfy them.

There are several successful independent music artists whose stories contain valuable lessons that you can use to achieve similar success. Oakland's Ledisi, Ani Di Franco, and Prince (formerly known as the Artist), all have a devoted audience and they are all exceptional performers who do so *regularly*.

Research them on the web and read everything you can about their stories of independence. They have proven that the independent road to success in the music industry is possible.

Taking the Right Angle to Get a Deal



The nature and complexity of the many types of deals that are obtained in the music industry are far beyond the scope of this guide. There are even deals to determine if you get a deal!

You will discover what some of the more commonly obtained deals are upon completion of the research that I keep encouraging you to do. Don't limit yourself to obtaining *only* the kinds of deals that you hear and read about.

“ Any type of deal that may result in income being generated is a deal worth considering. ”

Any type of deal that may result in income being generated is a deal worth considering.

Just make sure that you are comfortable with the concessions that will be made, and the efforts that will justify the results. Be knowledgeable. Be realistic. Think of a different angle to take.

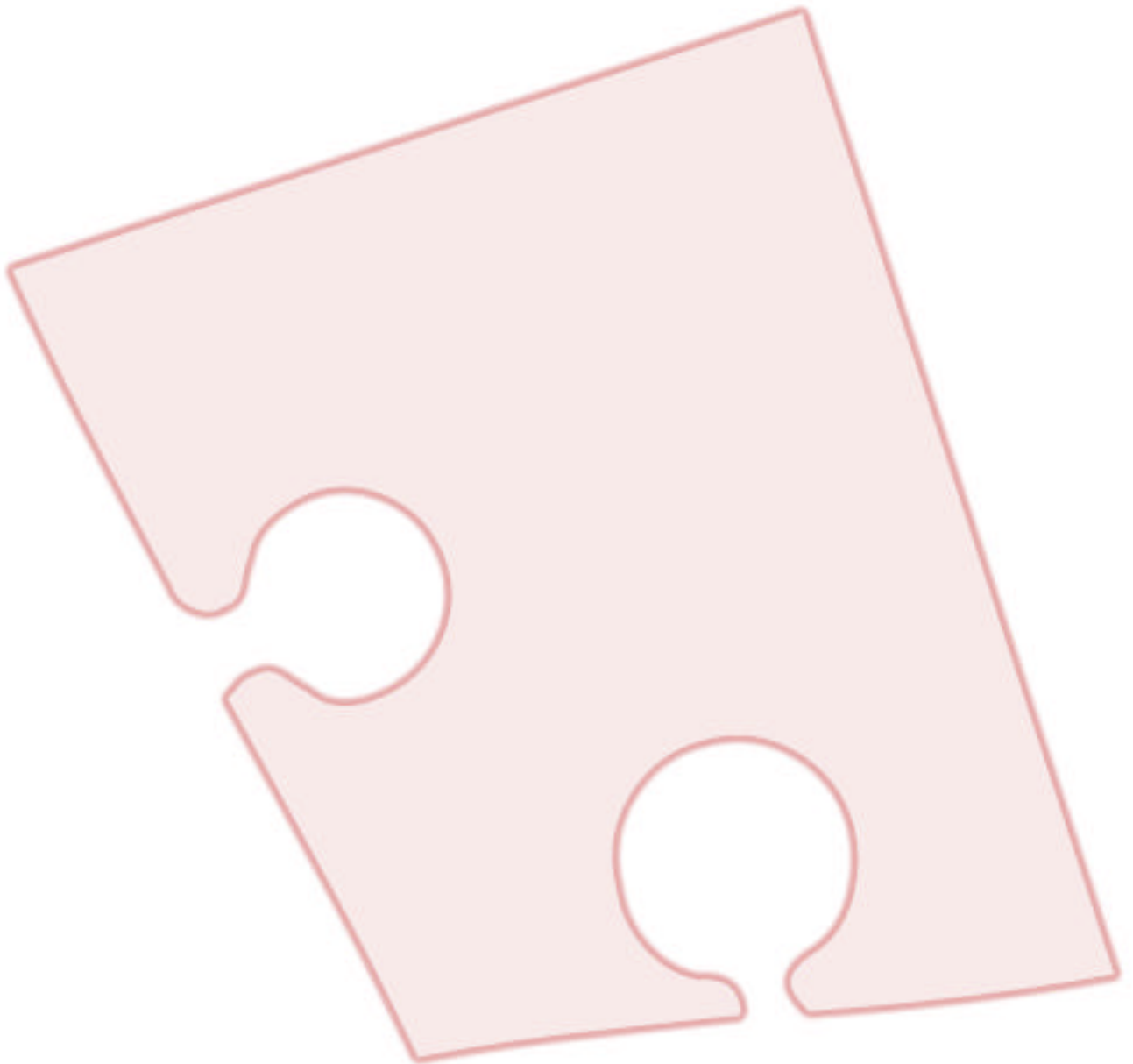
That's what DJ and ambient music artist Moby did after seeking a recording contract with major and independent labels that passed on his music.

He licensed and popularized the individual songs on his album through various television commercials and then went back to the same record labels that rejected him, and struck a lucrative deal with one of them to release and market the very product that they had previously rejected.

Did he get pissed and say, “Screw you all! I don't need you anyway!” No. Like the successful entrepreneur that he is, he drew upon his understanding of the game, and merely found an angle that led to him getting the deal that he wanted. I've said this in every seminar that I have conducted: The music industry is a game of angles and deals.

The music business “game” is won by taking the right angles, at the right time. Your angle, in essence, is your approach to achieving the success that you want. Be prepared to do business at a high level, but be courageous enough to take the road less traveled.

Approaching Investors



Once upon a time, up-start record labels could get investors to finance their companies based upon the talent they had signed, or the commercial merit of the product they recorded. Those days are gone. Now you must have a “track record” that shows that you are, well...on the right track, and have the ability to at least reimburse their initial investment.

How will they know this? Because through your track record you will have demonstrated to them that you know what you are doing – despite the fact that you have very little money with which to do it.

That’s a point I can’t emphasize enough. Finances better be the only resource you are lacking when you approach an investor.

“ Finances better be the **ONLY** resource that you are lacking when you approach an investor. ”

In the meantime, use *your* own money, to make *your* operation go, and you will dramatically increase the odds of someone else lending you *their* money (which is rarely returned).

Now that we are discussing money, I must let you in on a little secret about the finances of what we call “major” labels (who as of this writing are: Sony, EMI, BMG, Warner Bros, and Universal Records).

These labels derive income from other investments and business activities – often times in other industries – that have nothing to do with the music business. They have a plethora of multiple streams of income from other sources. (Remember that the next time you think about leaving your job to “pursue music full-time.”)

It’s the influx of capital from such sideline activities and investments such as: consumer electronics, appliances, information technology, books, magazines, film, television, radio networks, liquor, theme parks (Universal studios), defense weapons, data systems, lighting fixtures, light bulbs, and...toothbrushes that enable these labels to become, and remain “major.”

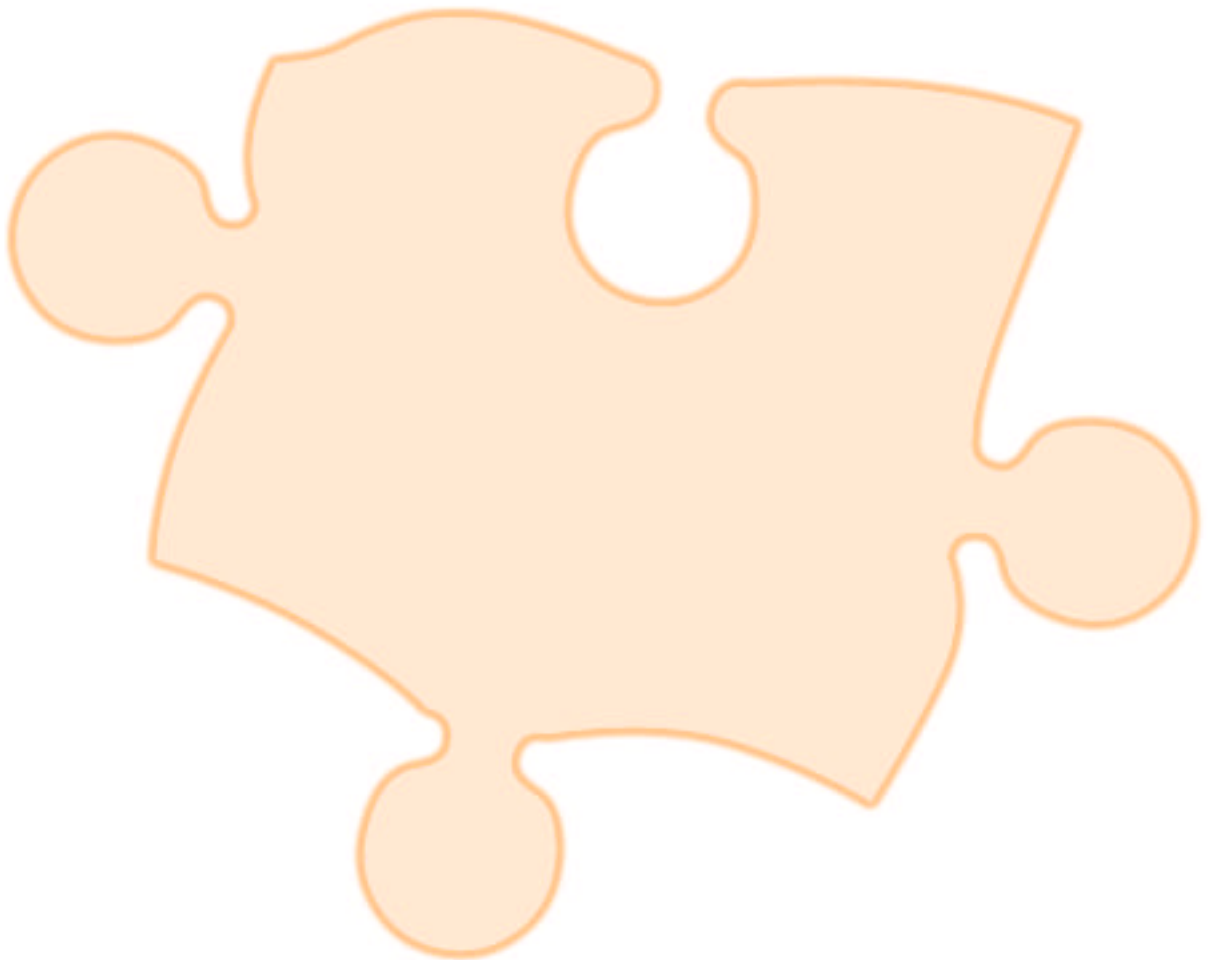
So you see, if Sony does not sell product by another artist, they can survive by selling you the CD player that you will use to listen to product created by an artist who is signed to another label.

The bread and butter operation of Warner Bros records is their film and television holdings. (I don't know what's up on the financial dividends from holdings in companies that manufacture toothbrushes (EMI), but even I get surprised sometimes.)

Can you now begin to see why it is so difficult to compete against a major? Can you see why major labels are very slow to sign new artists? Can you see why major labels buy out independents? It's simple: Because they can.

Don't despair. You're an entrepreneur; we turn adversity into opportunity. That's what many artists like Luther Vandross, Anita Baker, Easy E, MC Hammer, and Master P did. They embarked upon joint ventures with major labels *after* proving that such deals would be (financially) beneficial to both parties.

Message to Potential Investors



If someone has approached you about “investing” in their record label, entertainment company, or recording project, and they work alone with no support system, assistants, or consultants, do not even consider giving them your money. If they seem confident and comfortable being a one-man/one-woman operation, don’t even consider giving them your money.

“ Stay clear of individuals who wear too many hats. They lack focus and will only frustrate themselves and waste your money in the process. ”

Generally speaking, stay clear of individuals who wear too many hats. They lack focus and will only frustrate themselves and waste your money in the process. Also, if they don’t approach you with a written proposal, don’t consider doing it. Why? Because the relationship that you may have with them will be heavily based on their ability and willingness to document things in writing that you will need for business and legal reasons (even if it’s a relative).

Proposals were the launching pad for many of the dotcom companies that collapsed. Though many were born out of greed and get-rich schemes, I have to commend many former (and some now retired) CEOs on one thing: Great proposals that made some rich and optimistic investors part with very large sums of money.

These proposals were some of the best that I have ever seen. They were informative, entertaining, and innovative. They were delivered with a style, confidence, and conviction which helped to foster an environment of fear (that’s right, fear) among investors that they would potentially be *losing* money by not investing millions in someone’s bright business idea – which would allegedly work somehow *just* because it was on the Internet.

The true entrepreneurs of the dotcom era (who are still in business today) recognized the difference between a business idea, and a business opportunity. They did extensive research to gain as much knowledge as they possibly could on the markets they were entering, and slowly grew their companies with the intention of doing business online, as opposed to merely having an online business.

The formula for success in the music business is generally the same. The parallels rival the rise and fall of dotcom companies because there are many obvious and valid lessons that a potential investor and a music business company can learn (such as the importance of a business plan).

As I said, the proposals for many dotcom companies were scintillating, but the business plans were fictitious, right down to their projections. We can cut them some slack in terms of their operations because many of the dotcom companies did not have a blueprint from which to work. At the time there were not many other companies whose operating systems and formulas for success could be copied.

This is *not* the case in the music business. If someone wants to start an independent record label, or pursue a career as an independent artist, there are tons of successful blueprints to follow; all of which can be found during the research that I have stressed.

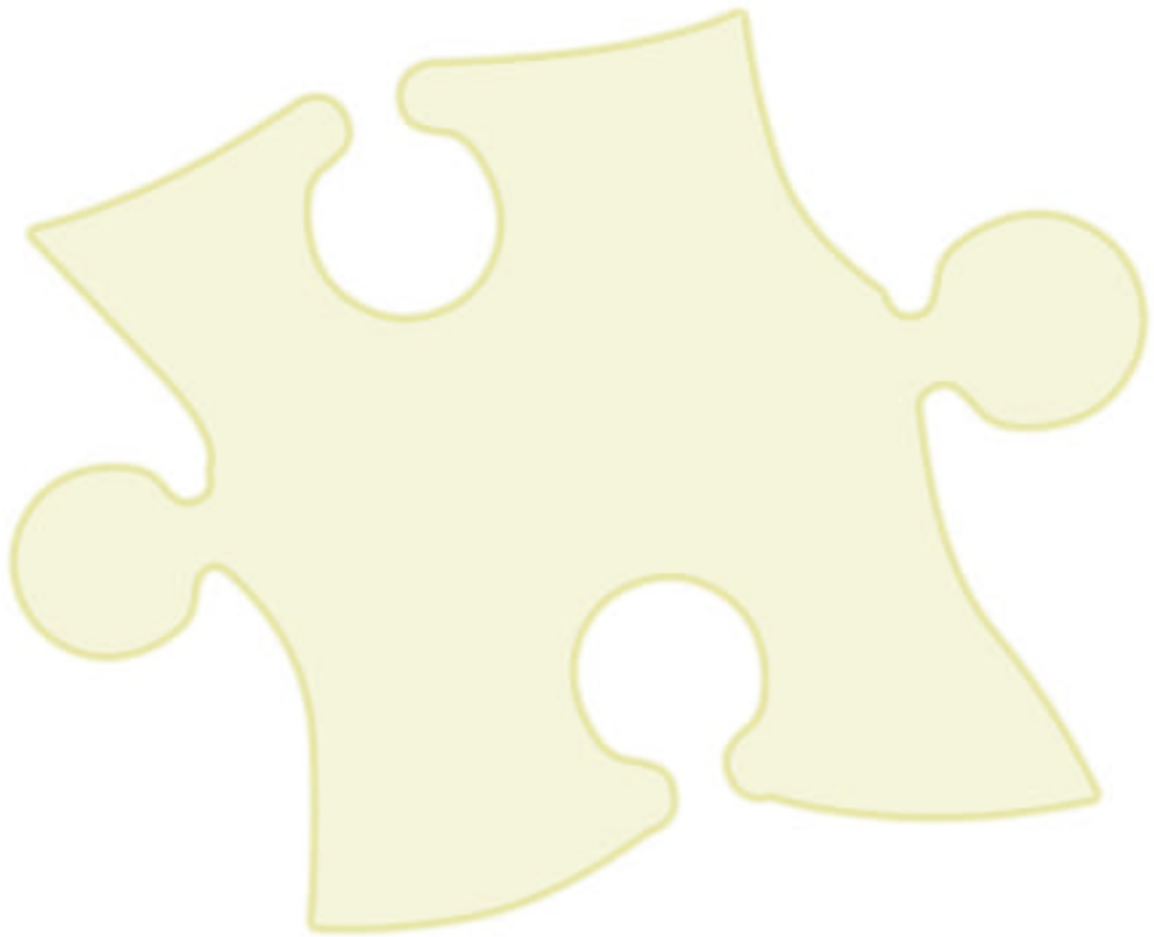
Just like the dotcom companies, the two most important resources for any music business company are knowledge and money.

If you are considering investing money in a music industry venture, the determining factors (aside from what your gut tells you) should be the amount of general business knowledge possessed by the individual(s) that will utilize the funds, and their knowledge about the music business in particular. They should speak the language of the music business *fluently* in addition to having a solid business plan which sets forth in detail how they will use *your* financial resources.

It would also behoove you to disburse your loan in installments. Each installment should be granted in conjunction with the execution of specific tasks that are outlined, phase-by-phase, in the business and marketing plan which should be implemented at the same time. This enables you to monitor progress and expenditures, while keeping a tight grip on the financial reigns.

For those of you who may invest large sums of money, contact an entertainment attorney and inquire about the best form of partnership or company to set-up that will offer the greatest measure of protection and tax benefits for your investment.

The Personal Manager as an Entrepreneur



The first bit of advice that I should give to any aspiring personal manager, is to mentally remove the word “personal” from your title. After all, you should not take it “personally” if you are taken for granted or undervalued. These are both common occurrences that stem from the ignorance that most artists have about the profession of personal management. The second bit of advice is to *only* manage music artists that are generating income and have business affairs that require your expertise.

“ Only manage music artists that are generating income and have business affairs that require your expertise. ”

My observation of the personal managers who have had the type of success that you are seeking, has been that they are better at being “managers” of details, situations, and business than they are at being “personal.” This is not to say that they are incapable or unwilling to be personable or intimate when necessary. It means that they prioritize business; the business of their artists.

The idea of personal management from the standpoint of the artist has a built in component for failure. That component is unrealistic expectations.

Personal managers *must* slow down their courtship of music artists (no matter how advantageous or attractive the prospect may seem) to define their role, explain their duties, and discuss the expectations of *both* parties. By doing this you can earn trust and respect while avoiding the mistaken identity of a booking agent or someone who merely “shops deals.” Assuming that you understand what a manager does, this should be the criteria you use to determine whether or not to manage an artist.

As an entrepreneurial minded personal manager, your focus should be on guiding your artist through the jungle of the music business while in route to as many paydays as possible; especially since your compensation will come from a percentage of their earnings.

In order to do this you will need to thoroughly understand not only how the music industry operates, but also how television and film opportunities can be obtained to maximize exposure to new audiences. The stature of your artist will be in direct proportion to the size of their audience. Television and film have always been integral parts of the star-making machinery.

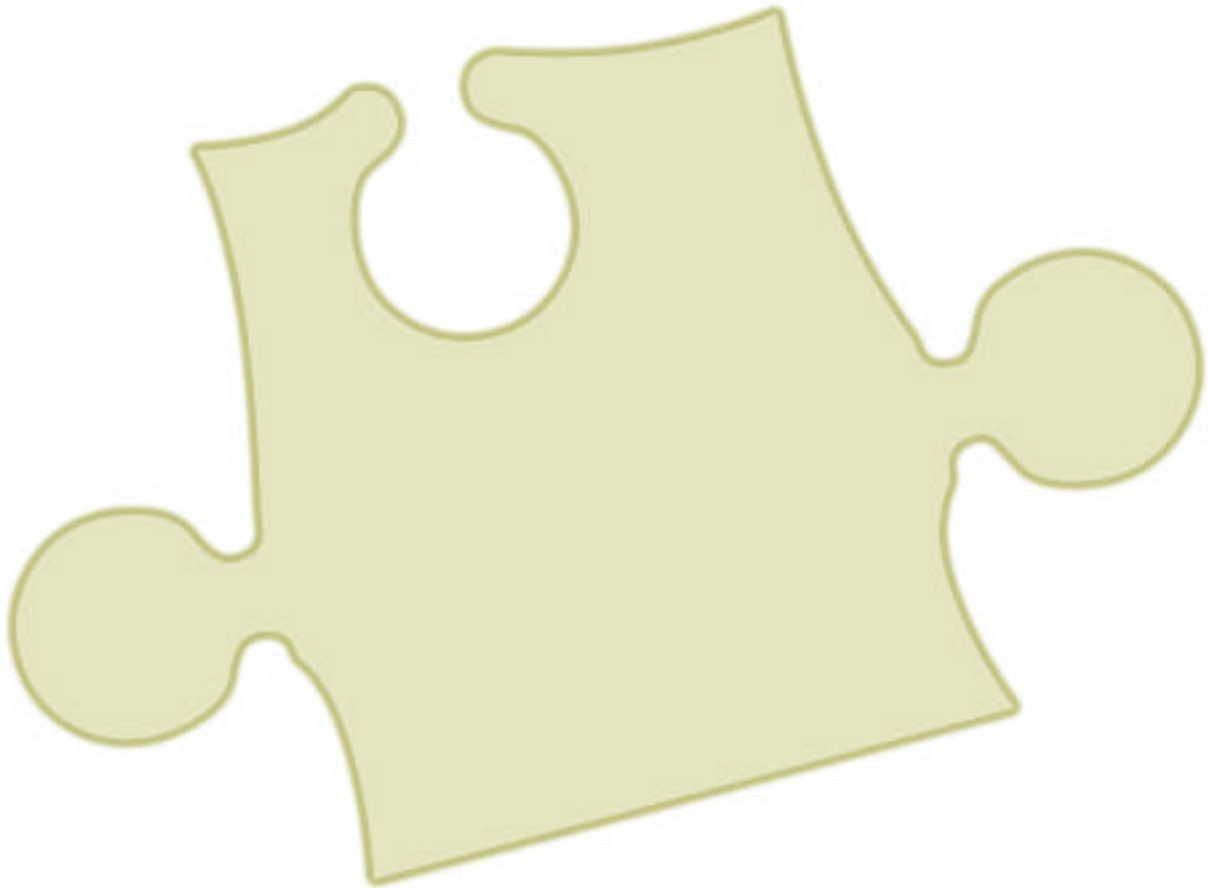
Do NOT invest your own money into the career of a music artist as a personal manager unless you absolutely, positively, beyond a shadow of a doubt, believe that they are going to succeed - AND they understand and value what you

bring to the table. Even then it is best to have the artist match whatever funds you contribute to maintain a sense of partnership (as opposed to sponsorship). By doing so, the artist will recognize that you share an equal commitment.

Make sure that you have a *written* agreement with your artist (regardless of how much you mutually admire and respect each other *now*) which not only stipulates that you will receive any money that is due to you as a result of your efforts for a certain period of time after the relationship ends (sunset clause), but that you will be reimbursed any out-of-pocket expenditures before the artist is entitled to receive any earnings that might be due to them.

Once you begin to approach personal management from the perspective of an entrepreneur, you will sharpen your focus and get better results for your artist and yourself.

The Power of Attorneys



If you are new to the music industry, you should know that entertainment attorneys are the gatekeepers of all business transactions that take place within it. Simply put: Entertainment attorneys run the music business.

“ Entertainment attorneys run the music business. ”

The deeper you immerse yourself into your research, the more you will discover that the laws, the deals, the structure, and the business practices of the music industry are all defined and conducted by attorneys. The majority of which are entertainment attorneys who specialize in the music industry, but many come from a business or corporate law background.

Who are the professionals that are best suited to help you with the myriad of business transactions that you will have to conduct in your pursuit of financial success? If you said entertainment attorneys, you get 10 points. You can deduct 10 points if you said your cousin who is an attorney in another discipline of law such as; criminal, civil, real estate, etc. Only 7% of practicing attorneys are entertainment attorneys. It's a very specialized and competitive field.

Allocating a role (and finances) for an entertainment attorney in your business plan can be very advantageous to you as an entrepreneur. From setting up companies that are conducive to your short-term and long-term business interests, to providing you with consultation and critical advice on legal issues, entertainment attorneys can help you see in the dark and overcome hurdles that people tend to stumble over.

Since many of my closest associates and friends are entertainment attorneys, I would like to convey to you (on their behalf) that they have NOT spent years of their lives and lots of their money going to law school to “shop demo tapes,” which only accounts for less than 3% of the work that they (as a profession) actually do. It is true that *some* entertainment attorneys shop deals, but the ones that have a successful track record doing so, don't make it public knowledge.

Most of those transactions exist between financially strong companies (or financially backed artists) who have an existing relationship with someone who knows and respects the special circumstances that usually surround the “shopping of a deal.”

If you want to “pick the brain” of an entertainment attorney, or audition one to be on your team, invite one out to have lunch (that you pay for) and prepare a

list of questions to ask them about their experience, background, and interests. When it's your turn to talk about yourself, PLEASE keep it business related and centered around the reasons why you feel that you will need his/her services.

If there is a genuine need (on your part), and a willingness (on their part) to get involved, you will have invested time, money, and good-will into a relationship that is going to yield significant dividends in the future. You will also be positioned as a client who respects his/her services and profession.

Again, I must stress the importance of you taking the time to honestly evaluate your business needs before approaching an entertainment attorney or any professional in this industry for that matter (This is where MBIS comes in).

Industry professionals are always looking for the *business reasons* to get involved. You should make it easy for us to do that by being proactive and providing these business reasons *during* your initial contact with us.

The more in touch you are with the areas you need assistance in, the easier and more effectively you can be helped.

Your Step-By-Step Checklist

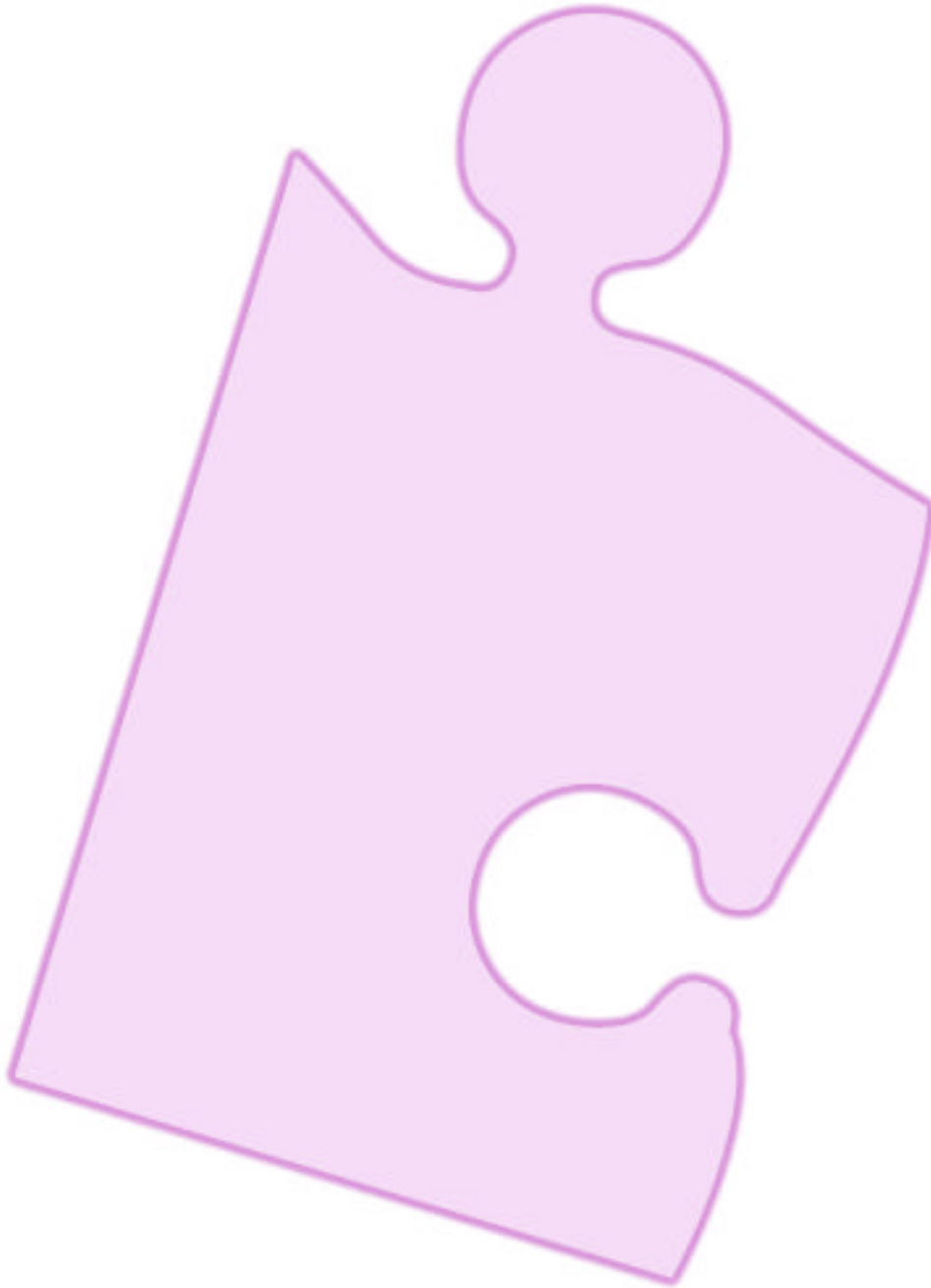


The step-by-step checklist provided below can be used to plot and navigate your way to the fulfillment of your financial and career objectives.

- 1.) **Research the music industry** by selecting books from the research resources of this guide.
- 2.) **Select a field or an area of interest and focus on it.** Read the materials that I have recommended and other books as well. Do NOT try to be a jack of all trades.
- 3.) **Do something nice for someone** in the field or occupation that you would like to get into. Read one of their books and/or write them a letter with your positive feedback, or invite them out to lunch (at your expense) to pick their brain. Offer your (free) help for a day just to see what they do, and how they do it. Be innovative. Be bold. Be daring. The rewards of such actions will astound you.
- 4.) **Analyze the businesses** or the professionals who currently offer goods and services similar to yours. Find out how long they've been in business, what their challenges are, and the volume of their demand.
- 5.) **Create a business plan, or have one created for you.** Don't try to cut corners either. A well-written business plan conveys a lot more about your company than financial information. It should easily and clearly express the reason(s) why your company exists, and how it will succeed. Also remember that 98% of investors will insist that you have one before they even think about lending you money.
- 6.) **Create a marketing plan, or have one created for you.** Your business plan should touch upon the generalities of your marketing plan, but your marketing plan should spell out every minute detail. Many entrepreneurs and companies make the mistake of not having detailed plans for selling their goods and services. After all, once they are created and conceived, you need to find a way to bring them to the attention of the people who want or need them.

- 7.) ***Put together a committed and dedicated team*** or find qualified professionals to help you execute your plans. I can't emphasize the importance of surrounding yourself with qualified people. Every successful business person has an ally that they can trust.
- 8.) ***Put your money where your mouth is.*** It is common for those trying to do business in the music industry to create companies and not have money for start-up and operational costs. Know how much these costs will be *before* you approach anyone about funding, but do not have a mouth that's bigger than your budget. Show a willingness to invest your own money, and investors will see how much you truly believe in *your* business, and yourself.
- 9.) ***Work your plan,*** and make changes where and when necessary. Fluctuations in business climate sometimes dictate the need for a different approach. Entrepreneurs need to be in tune with these changes.
- 10.) ***Persevere and be patient.*** Success is a byproduct of consistent diligence and determination.

Research Resources



Below you will find a list of ³books that can be used to help conduct the research that I have encouraged you to do throughout this guide. These books will also help to expand your knowledge base on all critical business issues relative to the music industry.

All You Need To Know About the Music Business – Donald Passman, Esq.

For years this book has been heralded as the most comprehensive and simplistic resource for understanding music business operations. It is a quick read that often takes a humorous approach to simplifying many of the most complex issues of the industry. It is a must have reference book.

Legal Aspects of the Music Industry – Richard Schulenberg, Esq.

If you are an aspiring industry professional, you will inevitably come into contractual situations that require the employment of an entertainment attorney. This book will help you to understand some of the basic clauses that are found in most of the common industry contracts.

Life & Def: The Russell Simmons Story – Russell Simmons & Nelson George

How did an autobiography make this list? Simple: because it does the best job of illustrating (with real life examples) how to survive and thrive in the music industry for entrepreneurs. This is the second most important book on this list for urban entrepreneurs.

Music Genres and Corporate Cultures – Keith Negus

This book will introduce you to the political side of the music industry while exposing you to the formulas for success that many major record labels use. It is NOT an easy read. The author's writing style is very clinical and at times, not very reader friendly. But if you are starting a label that you want to compete with the most successful ones, this book will provide you with some eye opening information about the processes used.

Music Licensing – Bob Kohn, Esq.

Simply put: This is the bible of music licensing. It's not as cheap as the bible and you don't have a prayer of finding it much cheaper. If you buy it brand new it will cost around \$150.00. It's worth every penny. If you have any intention of staking monetary claim in the lucrative field of music licensing, this book will tell you all of the logistics and legalities of it. It's a must have.

Music, Money, & Success – Jeffrey & Todd Brabeck

This dense paperback was written by two brothers who happen to be authorities and specialists in the areas of music licensing. (They also happen to be two of the coolest entertainment attorneys I have met.) Their book gives you a realistic sense of just how much money can be made through licensing, as well as educating you on the many different variables that affect amount payment you will receive. This is a must have book for anyone who would like to get their material licensed.

Music Publishing – Randy Poe

If I had to recommend just one book on music publishing, this would be it. The author elaborates on the origin and history of the music publishing business, and most importantly, thoroughly explains to you in detail what music publishing is, in addition to providing you with real life examples of how it works. You will have a much greater understanding and

³ Make sure you purchase the latest editions.

deeper appreciation of this complex, and lucrative facet of the industry once you've read this short, useful, well-written book.

Succeeding in the Music Industry – Lee Wilson, Esq.

What I liked most about this book, and what you will find most useful, are the hypothetical situations that you are presented with after each topic of discussion that are designed to test your comprehension. You are forced to draw conclusions based upon information that is covered early on in each chapter. It's a quick read, but it's not as thorough as Donald Passman's book.

The Music Business Handbook – David Baskerville, Esq.

This book is used primarily in college universities that offer degrees in the music business. (Bet you didn't know that such degrees existed.) It's very dense and it is not a quick read, but it is very comprehensive. The author makes a concerted effort to not only explain the subject matter, but to put subjects in their proper context by illustrating how situations are impacted by surrounding issues.

The Musician's Business & Legal Guide – Mark Holloran, Esq.

This book provides you with a good general overview of the music industry with a legal emphasis. I especially recommend this book for anyone who may find themselves in a situation where legal expertise may be required.

The Recording Industry – Geoffrey P. Hull

This is the best book that I have ever read on the operations of the music industry. At times it is very clinical, but it is always informative and factual. It meticulously dissects each facet of the music industry and the roles of the professionals who work in it. This is also one of the few books that I have read that deals with real numbers and statistical data. It took the author years to conduct the intensive research that appears in these pages. It will take you only a couple of days to read and benefit from it. This is the most important book on this list.

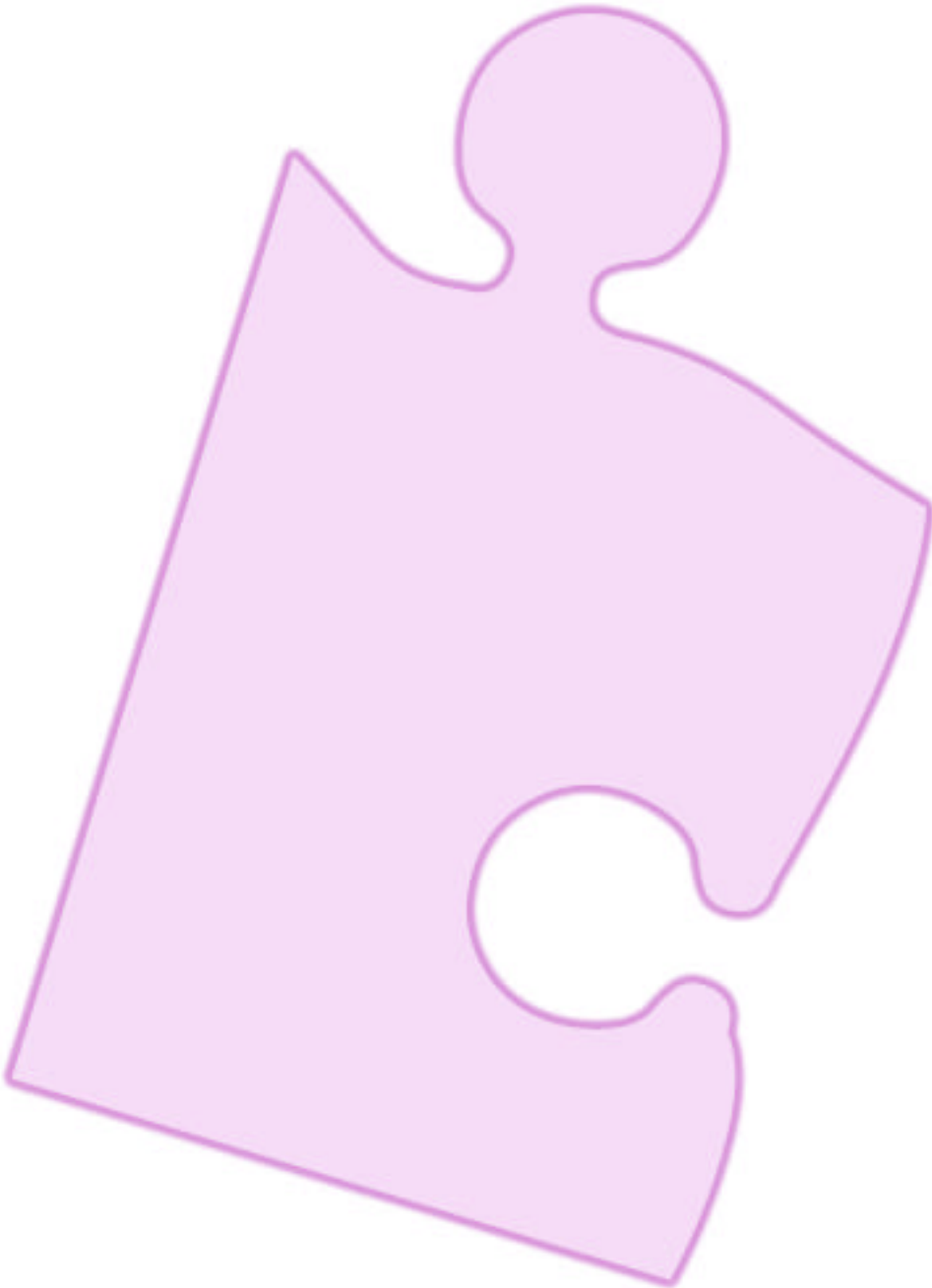
They Fought the Law – Stan Soocher, Esq.

Despite the entertainment value of this book, which sometimes reads like a novel, it's very educational. The author introduces a variety of subject matter that features stories on court cases by icons like the Beatles, George Michael, Elvis Presley, and Michael Jackson. It's a great reference tool for those who want to learn from the mistakes and misfortunes of others.

The New Positioning – Jack Trout

This is not a music industry book, but I highly recommended it to those who are trying to start a label. It is a simple paperback that gives wonderful insight, advice, and tips on how to rise above your competitors, and "position" your company or yourself in a crowded and competitive marketplace. This is good food for the brain and attitude of an entrepreneur.

Glossary of Terms



-A-

A & R: Artist & Repertoire. The "talent scouts" of the record company who find and sign music artists for the labels that they work with. They also perform managerial tasks for the artists (if they don't have one) or work in conjunction with the managers on behalf of the artist.

Administrator: Music publishing company which handles a variety of administrative functions (paperwork) and makes all licensing deals and collects and distributes monies on behalf of another publisher in exchange for a fee.

Advance: Up-front payment that counts against monies that may be payable at some time in the future. Non-recoupable advances are payments that are not refundable even if future monies are never due.

Album: A compilation of several master recordings sold as a single unit. Also called a Record or a Phonorecord or an LP (i.e., "long-play"). Compare Single; EP.

ASCAP: American Society of Composers, Authors and Publishers. Performing rights society; administers affiliated publishers' and songwriters' performance right in their songs, and collects fees payable to those publishers and songwriters.

Assign: Transfer rights to another person or party.

Assignee: Person receiving rights by assignment.

Assignor: Person giving or transferring rights to another.

Assigns: Those to whom rights may be assigned.

Attorney-in-Fact: Person authorized to act for another.

Author: Creator, originator. Under U.S. copyright law, the author may be the employer of the person who actually creates the work. See "work for hire."

-B-

Back-end: Industry terminology for receiving compensation at a future date when a project, or product becomes profitable. Usually entails no "up-front" money to you.

BMI: Broadcast Music, Inc. Performing rights society; administers affiliated publishers' and songwriters' performance right in their songs, and collects fees payable to those publishers and songwriters.

Booking Agent: A person who acts on behalf of an Artist to secure gigs performing music. In California, agents must be licensed and are limited to charging 10% of the fee the Artist receives for the gig.

Business Manager: Person or entity charged who manages your finances and taxes, usually a C.P.A.

-C-

Cause Of Action: The facts which entitle a person having a right to judicial relief against another.

Composition: Words and music or just music by itself.

Consideration: Compensation, usually money, but can be anything of value. The reason or inducement for a party to contract with another. The right, interest or benefit to one party, or the loss or forbearance of another. A necessary element for a contract to be binding.

Corporation: A for profit company that enables your organization to function as a separate business entity with many tax benefits. Many business owners are attracted to the benefits of the "S" Corporation. Consult a C.P.A. for an information session or do research on the web.

Cross Collateralization: A method by which royalties from one album are recouped against advances of another.

-D-

Deal: An arrangement, or agreement that stipulates the details of any work, partnership, contractual obligation, or expectation for which you are compensated.

Deal Memo: A letter which outlines the major points or aspects of a proposed contract.

Delivery Commitment: (1) The number of masters required to be delivered under a recording contract at a given point in time. (2) All items required to be delivered under an agreement.

Demo Deal: An arrangement whereby one party pays for the creation of certain masters of another in exchange for some speculative future interest.

Distribution Right: A right under copyright law, the right to distribute copies of a Work.

Distributor: A company that manufactures, warehouses and distributes records to retailers.

Domestic Rights: Usually defined as rights within U.S., or the U.S. and Canada.

-E-

EP: "Extended Play." A CD containing more material than a Single, but less than an Album's-worth. Typically contains 4-8 songs.

Exclusive: Unable to provide services or rights to anyone other than the person or party with whom you have contracted.

Execute: To complete; to sign; to perform.

-G-

General Partnership: A form of business entity in which 2 or more co-owners engage in business for profit. For the most part, the partners own the business assets together and are personally liable for business debts.

Gig: A concert or other personal appearance.

Grant: To give or permit.

Grantor: The person who makes a grant. The transferor of property

-H-

Harry Fox Agency: Company which issues and administers mechanical licenses on behalf of its member publishing companies. <http://www.nmpa.org>.

-IJ-

In Perpetuity: Forever.

Indemnify: Reimburse. To restore someone's loss by payment, repair or replacement.

Irrevocable: That which cannot be revoked or recalled.

Joint Venture: A Joint Venture is a General Partnership typically formed to undertake a particular business transaction or project rather than one intended to continue indefinitely.

-L-

License: The granting of particular rights in a song, a recorded performance or a personal attribute.

Licensee: Person who is given a license or permission to do something.

Licensor: The person who gives or grants a license. Also known as "content provider".

Litigation: A lawsuit. Proceedings in a court of law.

LLC: A combination of a partnership and a corporation that usually requires two members, but some states allow individuals to create and LLC, which are subject to different tax consequences. This is a very popular business formation in the entertainment industry.

LLP: A limited liability partnership, mainly used and created for attorneys and accountants.

LP: "Long-play." Term referring to an albums-length of material released in vinyl configuration.

-MN-

Manager: See "Personal Manager"; "Business Manager", and "Road Manager".

Marketing: The process of placing or "positioning" a product in a positive and favorable light that intrigues and attracts consumers to purchase it.

Master Use: Generally refers to a license to use a master; often will refer to the specific synchronization use of a master within an audio/visual production.

Mechanical License: The grant of the right to embody a song into a record.

Merchandising Rights: Right to license, manufacture and distribute merchandise based on the Artist's name, likeness and logo.

Mechanical Royalties: Monies paid to the songwriters and the songwriter's publisher for the use of a song in a recording.

Music Publishing: See "Publishing".

-O-

Obligation: A duty imposed by law, courtesy or contract.

Officer: Person holding office of trust or authority in a corporation or institution.

-P-

Performance Income: Monies payable to publishers and songwriters for the public performances of their songs. Primarily collected and distributed in the U.S. by ASCAP, BMI and SESAC.

Performance Right: A right under copyright law, the right to perform a work. In the music industry, it primarily refers to performing songs via television, radio and Internet broadcasts, and within clubs via live bands and jukeboxes.

Personal Manager: An Artist's most trusted advisor, charged with guiding the Artist's overall career, and with overseeing his/her day-to-day activities as well.

Points: Percentage of SRLP payable as a record royalty to an artist or producer.

Power Of Attorney: Power granted to another individual to act and sign legal documents on your behalf.

Pro Rata: Reduced proportionately. For example, if Artist's royalty is 15%, and two of Artist's masters are included on an album containing eight other masters besides Artist's, then Artist's net royalty would be 3% (i.e., 15% x 2/10).

Publisher: Business entity which promotes the commercial use of songs by its writers. The share of proceeds payable to the publishers for their publishing rights in songs controlled by them, representing 50% of the total proceeds.

-R-

Record Company: An entity engaged in commercially exploiting recording artists, and their songs through the marketing of master recordings and their performances.

Record Deal: Generally refers to obtaining an exclusive artist recording agreement.

Recoupable: Costs and advances which are "paid back" to the record company out of the recording artist's royalties.

Reserve: To withhold payment of royalties otherwise due in anticipation of returns.

Residuals: Income that is made through the repeat or subsequent performance of songs or recordings.

Return: Records are 100% "returnable;" i.e., they can be sent back from the record stores to the distributors. The distributor deducts a sale from the record company's account, and the record company deducts a royalty payment from its artist's account.

Right of Publicity: The right to control the commercial value and use of one's name, likeness and image.

Road Manager: Person charged with the day-to-day supervision of a concert tour. Also called "Tour Manager".

Rollover: A lump sum amount paid upon reaching each of certain sales plateaus.

-S-

SESAC: Performing rights society; administers affiliated publishers' and songwriters' performance right in their songs. <http://www.sesac.com>.

Shop: To look for a record deal.

Single: A record primarily promoting one master; may contain up to four separate masters, although some may be remixes and alternate versions of the primary single.

Sole Proprietor: This is the simplest form of business structure. A sole proprietorship is usually an individual and their company is not a separate entity itself. A sole proprietor directly owns the business and is directly responsible for its debts. Many consultants operate under this status.

Song: See "Composition".

Songwriter's Share: The share of proceeds payable to the songwriters for their publishing rights representing 50% of the total proceeds.

Soundscan: Company which produces electronic barcode devices which monitor record sales.

Source: A term used to describe the use of a song or master within an audio-visual presentation, indicating that the source of the music is visually depicted (e.g., actor is singing; car radio is seen). Compare "Background".

Spec: Working for nothing on the hope and speculation that something will come of it.

SRLP: Suggested Retail List Price. The price of a record charged to consumers by record stores and other retail outlets. Compare "Wholesale Price".

Synchronization: The positioning of a composition and/or master so that it is in harmony with, and timed to, the image portion of a film, television program or other audio/visual production.

-TU-

Talent Agent: Person or company engaged in the business of exploiting talent through various mediums including, but not limited to, film, television, theater, etc. such as the William Morris Agency and ICM (International Creative Management).

Term: The length of a contract.

Territory: The nations or regions under contract.

Up-front: Industry terminology for receiving compensate at the beginning, or before commencement of a project. *Also can be an advance, but typically outright compensation that you get in addition to any negotiated residual income.

-WXYZ-

Warranty: A promise. An assurance by one party as to the existence of a fact upon which the other party may rely.

Wholesale Price: The price of a record charged to record stores by distributors. Compare "SRLP".

Work-for-Hire (or Work-made-for-hire): Under the Copyright Act this is either (1) a work prepared by an employee within the scope of employment; or (2) a specially ordered or commissioned work of a certain type (e.g. a contribution to a collective work), which the parties expressly agree to in a writing signed by both.