

# NEWSLETTER

An Entertainment Industry Organization



## Manage for Success: Staying Alive

By Keith Holzman

### The President's Corner

*Ed Arrow*

We open our 2008 year with a very hot topic. What are the current and future roles of independent record labels?

Historically, independent labels have played a vital role in the discovery and promotion of new artists. As in other industries, smaller companies tend to be more innovative a faster moving than larger companies. In the record industry indie labels react more quickly to changing musical trends than major labels. Indie labels are more likely than major to sign cutting edge artists, and artists performing music from less popular genres. In this way indie labels have provided enormous benefit to consumers of music by increasing the variety of musical choices available. Major labels have also benefited from indie signings because indies take chances on artists the majors would otherwise ignore. When indies have been able to successfully break such artists, the majors often distribute such successful indie records, or buy the indie labels outright. In either case, an indie labels can act as virtual A&R departments for the major labels.

Today, in the physical product sector, indie labels face significant barriers to market entry. The demise of mom & pop record retailers along with the loss of deep catalog retailers, such as Tower, have led to a reduction in retail shelf space for physical product. Thus indies must compete with majors for limited shelf space. In addition, manufacturing, inventory, distribution, and promotion costs require significant capital investment.

In the digital sector, barriers to market entry are significantly reduced. Shelf space barriers are eliminated since the cost of digital storage is virtually nothing. Additionally, there are no manufacturing costs, no distribution costs, and no costs associated with excess inventory. Consequently, as digital sales continue to displace physical sales, we should expect an increase in the number of indie labels along with an increased market share. In fact, according to Soundscan, for 2007, indie labels accounted for 19.52% market share of CD's and a 28.35% market share digital sales.

Long live the independent labels!

Most indie labels these days are stuck between a rock and a hard place. Sales of CDs are falling well below the expectations of even a few years ago, and the increase of digital download sales are far from making up the difference.

So what does a label have to do to stay alive and be profitable, avoiding the pitfalls of declining income and higher expenses? Because even though you may be in the business because you love music and want to help develop new talent, at the end of the day you'll still need to pay your bills, your staff, your artists, and yourself.

A few of my clients have come up with various ways of trying to do just that.

For example, some labels are negotiating to be co-publishers with their artists. They request 50 percent of the publisher's share, thereby leaving the writing artist with the other 50 percent plus all of the writers' share. Thus the

label as co-publisher owns one quarter of a copyright and the writer retains the other three quarters. This is fair, provided the label actively handles all administrative matters while vigorously seeking all potential sources of publishing income.

As another example, a few labels have established their own management divisions, nurturing talent while taking a permissible share of fees. This was considered a conflict of interest some years ago, but it's frequently a necessity for evolving artists who come to a label without management. Of course any label considering doing this should have able people on staff with sufficient management experience to cultivate their artists' careers. The label should also seek competent legal advice to avoid any odor of conflict before taking on such a responsibility.

Other labels have created in-house booking staffs to actively get paid performing work for their talent, as detailed in an article by Ray Waddell titled "The Agency That Isn't" in the April 21 issue of *Billboard*. Quoting Tony Brummel of Victory Records, Waddell writes "It's about making sure our bands are out on the road and not waiting for someone to take interest. When somebody takes interest that makes sense and really believes in the band, then the band is free to go."

Labels may have another source of income by contractually taking a percentage of an artist's merchandising profit. I don't think this is unreasonable

if the label is actively working to develop an artist's career, a common matter some years ago, but long neglected by the large multinationals.

One way of saving money is to pool common resources among friendly labels. An example is provided in an article by Todd Martens, also in the April 21st *Billboard*, titled "Sharing the Wealth." It deals with a newly launched label called Dead Oceans started by former manager, Phil Waldorf, "which this summer will release the second album from New York-based buzz band Bishop Allen...in partnership with Secretly Canadian and Jagjaguwar, giving Waldorf access to a boutique distributor with its own manufacturing, sales and promotion staff."

As Martens writes "it's also a way for indie labels with minimal sales to stay afloat in a tough retail climate and spend less money"

My UCLA students and readers of my book, "The Complete Guide To Starting A Record Company" -- incidentally now in its second edition, know that I'm a great believer in running "mean and lean." By this I mean operating as efficient an operation as possible, but with a very small and dedicated staff. There are numerous costs in addition to salary attendant to each employee, for not only are there such items as FICA taxes, workers compensation, and health insurance when company-provided, but also the need

for a desk, a chair, a computer, and the space in which the employee works.

I believe in having only the most essential functions handled by staff employees, but hiring outside professionals as needed. For example when I ran my own ROM Records, and also for the first few years at Discovery, all CD cover and merchandising art was created by outside designers and art directors on an as-needed basis. The same approach can be used for publicity and promotion -- hire the most appropriate professionals as required by the nature of the talent and their recordings.

It's possible that routine functions such as bookkeeping can be done by a part-time professional. And other necessary and common responsibilities such as for administering royalties or publishing can be turned over to companies that specialize in those functions.

Of course all of this needs to be closely monitored by label heads, but keeping a watchful eye is less time-consuming and much cheaper than performing many functions in-house, and is a great way of staying alive.

Until next month,

Keith Holzman -- Solutions Unlimited  
Helping Record Labels Manage for Success.

Manage for Success: Staying Alive,  
Newsletter #72, originally published  
April 2007

"Manage for Success" is a free  
monthly newsletter for record label  
executives who want to operate their  
companies efficiently and success-  
fully. It's published by Keith Holzman  
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