



**ASSOCIATION OF
INDEPENDENT MUSIC**

An AIM Guide to Starting an Independent Record Label

**What to expect when setting up your own record
label**

October 2014

Introduction

There are many reasons why people wish to set up their own record label: perhaps you have discovered the next big thing; maybe your friends have asked you to release their new EP; or perhaps you just want to put out your own material. Whatever the reason, the process of setting up a record label can be complex. Whilst it can take some time to ensure you have considered everything, there is no reason as to why it cannot be a fun, enjoyable, creative and hopefully profitable experience.

Here at AIM, we advise labels of all shapes and sizes on how to set up their businesses from scratch. Over the course of this guide, we will take you through the basic steps you will need to follow to start up your very own record label.

Business Plan

Creating a business plan is the best place to start before setting up your own label. As well as being a reference point for potential investors, it will help to focus your attention on the important issues you need to address. A business plan is a document that outlines what the main activities of the business will be, how the business will be run, and how you foresee the business generating turnover and profits. The plan should cover at least the first three years of trading and should include details on bank accounts, cash flow, office location, business insurance, employers liability insurance, rates, overheads, tax and national insurance. Since your business plan will be the blueprint for your business, it is worth spending some time and seeking advice when making it. Get an accountant to give you some guidance. If you do not have one, feel free to ask AIM for some recommendations.

The GOV.UK website, <https://www.gov.uk/write-business-plan> and the Business Support Helpline (Tel: 0300 456 3565) are good places to start when looking for support on getting your business plan together. You can also seek out advice from your local organisations, such as the British Chamber of Commerce, or if you have one, a Local Council Development Unit. If you are a Wales-based business, we recommend that you speak to the Welsh Music Foundation (<http://www.welshmusicfoundation.com>).

Once your plan is in place, you will need to make sure that the name of your label is unique. Check that the name you have chosen is not already being used by another label. There are literally thousands of independent record labels in the UK so there is a good chance that someone has got to your chosen name before you. A good place to start is the Music Week directory or Companies House. If you are a PPL member, then you can use their member portal myPPL to search for repertoire, including by artist name. This can also be a quick and easy way to check if your artist name is already in use by another PPL member.

Funding Your Label

Although the music industry is a creative business, it requires money to keep it moving. Before you do anything with your new label, have a think about how you are going to fund that first release. Firstly, what are your options?

AIM members were recently surveyed (September 2014) as to what their main sources of

investment were from their label (excluding income from music related sales/exploitation). The top 5 were:

1. Personal Investment of own savings (63%)
2. Cashflow – reinvestment of income (31%)
3. Overdraft (19%)
4. Loan from family member (17%)
5. Credit Card (11%)

As you will note, the majority of AIM members who have started their own label have funded it through personal means of investment. This goes to show how difficult it can be to secure private investment or a bank loan. Understanding the funding options that are available to you will enable you to give your label the best possible start.

Investment/Bank Loan

If you have developed a good business plan, and feel that your label will safely make a profit, then a bank loan is potential option. Be warned however, that it is now harder than ever for creative companies to secure loans from high street banks.

One way to get your label up and running is by bringing in partners to put in a small upfront sum to fund the first release, e.g. £250. You must make sure though that each release at least breaks even as you are accountable to any partner who funds your label.

If your records have real commercial potential then the possibility of finding investors within the industry will be higher. More information can be found here: <https://www.gov.uk/business-finance-explained/investment-finance>

Questions a bank or investor will ask are:

- What skills do the people that run the business possess, and do they have a track record in this industry?
- How much are the directors investing in the business, compared to the equity (investment) or debt (loans) they are seeking?
- What exactly is the product, and is the market (demand) for the product proven?
- What is original or innovative about this product?
- What are the costs of starting this business, how long will it take for the business to earn all these costs back, and will the business have enough cash to keep going until this point?

Having the right answers to all of these questions will increase your chances of securing a loan or investment.

Grants/Interest Free Loans

It is worth checking if you are eligible for grants or interest free loans. Government funding for small to medium business is available and more information on what funding options are available can be found here: <https://www.gov.uk/business-finance-support-finder>.

You may also want to consider some of the other arts organisations. The Arts Council launched a pilot loan scheme for creative companies in 2012 entitled 'Creative Industry Finance'. The scheme offers not only very favourable terms but also a dedicated business advisor and mentor. More information can be found here: <http://www.creativeindustryfinance.org.uk>. The Start Up Loans Company (SULC) is another funding option for small independent record labels. SULC is a government-funded scheme to provide advice, business loans and mentoring to startup businesses. AIM is an official Delivery Partner of SULC, delivering loans, training and mentoring to creative entrepreneurs. More information can be found here: <http://www.aimstartups.com>.

TIP: In the digital age, the cost of releasing artists' repertoire can be relatively low. With some great music, some well-researched marketing ideas, and a little digital savvy, there is very little stopping you from reaching your target audience without blowing the budget.

Income and Label Costs

A detailed budget and financial forecast is the key to any successful business. Although you will be focused on putting out great music, you will want to at least make your money back. Having a good grasp on what all of your expenses will be from the outset will enable you to correctly determine how much of your funds you need to put into each release.

Here is a list of some of the income and expense items you can expect to encounter when running your label. It is not an exhaustive list, so try to think about each part of your release schedule and envisage where you think those nasty (or nice!) surprises may come from.

Record Sales and Streaming: This is income made from either physical sales, downloads, or listening to a stream of your recordings.

Broadcast and Performance Rights Revenue: Performance rights based revenue is becoming more and more an integral part of a record label's income. If a track in which you own the sound recording rights gets broadcast on radio or television, or is played in public, you will be due a royalty. In the UK this is paid to you by PPL - more on them later.

Licensing: This is, for example, when you grant another label the rights to exploit your recordings in another territory, or on a compilation. You can agree with the licensee whether you will either be paid a royalty per record sold or a single license fee.

Synchronisation: This is when your label is paid a license fee for the usage of your music on a TV show, film, advert, video game or other 'audio visual work'. Please refer to the 'AIM Sync Guide' for more information.

'360 Degree Income': Some labels look to build what are called '360 degree' deals with their artists whereby they take a percentage of revenues from merchandise, touring, sponsorship etc.

Expenses:

- Overheads (rent, electricity, business rates, telephone, computers, insurance, office equipment and furnishings, stationery)
- Staff Costs (including accountancy and legal advice)

- Taxes such as VAT and National Insurance
- MCPS bills (publishing)
- Recording, mixing and mastering recordings
- Producers' Fees
- Artists' advances and expenses
- Travel expenses
- Manufacturing costs (or digitising costs for digital downloads)
- Artwork and Design (including pack design, photography, websites, logos, promotional materials)
- Videos
- Radio and TV promotion for records or videos (plugging)
- Press (PR)
- Advertising (above the line) and Direct Marketing (below the line) promotion of your product
- Distribution Fees and Sales Costs

Some of these expenses will be fixed costs, which remain the same regardless of how many records you sell. Others will depend on the number of records you sell (or ship). The general rule of thumb is that the more you spend on promotion and marketing, the more your sales should increase in direct proportion. Businesses of all sizes see good days and bad days. By keeping your fixed costs low, you should be able to weather the bad days much better.

Note that most expenses will be incurred before the income related to that cost comes back to the label. For example, manufacturing costs will be incurred before the record goes on sale, radio promotion costs will come before you see any performance rights revenue.

The key to managing this is by developing and adhering to your cash flow. Getting your budget and cash flow together is one of the first steps you will need to take before releasing your first record. Speak to the suppliers of the various services you need to use (manufacturers, digital aggregators, designers, press and PR agencies etc.) before you engage their services, to get an idea of all your upfront costs. Do not forget to shop around and look for the best deals.

Sign up with the relevant collecting societies

Collecting societies are not-for-profit organisations that represent rightsholders. They license music played in public or broadcast on the radio or TV and distribute the fees to their members. In the UK, there are three collection societies you will need to make yourself aware of, and two of these you will need to join as a label.

When registering with a collecting society, it is vital that you approach this with as much care and time as possible. Labels that fail to register with collecting societies correctly could either find themselves leaving money on the table for someone else to pick up, or worse, with a large unpaid bill.

PPL

PPL (Phonographic Performance Limited) is a UK-based music licensing company that collects and distributes performance rights revenue from recorded music played in public or broadcast on the

radio or TV. 50% of license income is paid to the owner of the copyrighted recording (usually the label) and 50% is paid to the performers on that recording. PPL also offers an international licensing service, where you can choose to have PPL manage these rights in other countries, by working with overseas collecting societies.

If their recordings have been used in broadcast or public performance by licensed entities, PPL pay rightsholders/labels on the basis of usage information provided by users, and information that labels have entered into the PPL repertoire database. It is highly recommended that you ensure that every recording in which you own performance rights is properly entered into the myPPL database.

Every label should join PPL as a sound recording rights holder. Every performer/musician should join PPL as a performer member.

MCPS

MCPS (Mechanical Copyright Collecting society) is the organisation through which PRS For Music collects payments due to composers and publishers for usage of their songs on recordings. The 'mechanical' part of the name comes from the fact that songs were mechanically pressed onto records. For each record you press as a label, a mechanical royalty payment is owed, and this is paid through to the songwriter or publisher through PRS For Music. Labels pay a mechanical royalty for each copy of the record shipped. There are several payment schemes available for independent labels to manage mechanical payments, which AIM can give you more information on.

- If you are both the sound recording right holder and the writer or publisher, you are entitled to an exclusion from MCPS fees. An exception license exists to work around this situation, and PRS For Music can give you more information on this.
- If the writer is also your artist you may be able to negotiate some reduction (or repayment) of the mechanical royalties payable. A break on mechanical royalties can cut your costs substantially.

Be careful: failure to pay MCPS is a common cause of bankruptcy in small labels. It is essential that you factor into your budget the cost of paying your MCPS licenses.

PRS For Music

PRS is not an association you will join as a label, but it is important to know their function in relation to MCPS. PRS For Music collects revenue from various sources for composers, songwriters and publishers. They collect income for usages of the compositions themselves, where as PPL collect for usages of the recordings. PRS For Music licenses the same public performance and broadcast usages as PPL, as well as additional usages including on demand digital services.

Trade Associations

You may want to think about joining a trade association that suits your business needs. Associations represent their members as a whole, working for change within the industry, and provide benefits and services for their members.

While there are trade bodies for all parts of the music industry (MU, MMF, MPA, MPG etc), there are two main bodies that you, as an independent record label, should consider joining. These are AIM (Association of Independent Music) and BPI (British Phonographic Industry). Both associations represent record labels, but BPI represents the three major record companies. Only AIM represents independent labels exclusively.

Both AIM and the BPI represent the collective voice of their members to the UK music industry, the Government, and the public. They also provide business support, legal guidance, resources, training, and host annual industry events. We strongly recommend all independent record labels to consider joining AIM in the UK.

Contracts with Artists

When you are just about ready to sign that next big thing, you will need to ensure that all contracts between your label and your artist(s) cover all terms agreed clearly (especially financial details), whilst also having adequate provision for the unexpected. The basis of the contract should be what the label will guarantee the artist, in return for their signature.

The recording agreement between your label and the artist will need to address the following:

- Royalties
- Recording budgets
- Promotion of repertoire
- Term (duration) of the contract
- Release commitment
- Territory

In return, you may want them to commit to:

- Record exclusively for your company for a certain period
- Produce an agreed amount of material
- Assign your label the rights to their recordings
- An agreed amount of promotional work.

The absolute basics of a simple agreement will set out how profits are going to be split between artist and record company (or equally between business partners or the members of a band). For example, you could agree to recoup the money spent on recording and split any profits after that equally. Coming to a simple arrangement like this and making a written record of it will serve as a basic contractual record, so that each party knows where they stand on the basic points.

More complex agreements will require further detail in the written agreement. In this case, we strongly recommend seeking legal guidance on drawing up a recording agreement. For further information on instructing a music lawyer, call the AIM office, which can point you in the right direction. You should also suggest that your artist(s) take their own legal advice, or recommend joining the Musician's Union, which offer members a free advisory service. Either way, it is important that your artist takes independent legal advice on any contract offered.

Getting your music out there (digital)

Once you have recorded your artist, you will need to think about getting your music out to the public.

It is now easier than ever for independent record labels to exploit their music online through the plethora of Digital Service Providers out there such as iTunes, Spotify, Amazon etc. To get your music online and available for download and streaming, you will need to go through a distributor, who will take your audio, artwork and data, and pass this all on to the various DSPs. Distributors take your music and make it available to buy or stream on DSP's and then take a cut (usually between 15% and 28%) of your digital revenue. We strongly recommend asking a lawyer to help negotiate your distribution agreement, as the deals are often riddled with hidden additional charges which can make the difference between profit and loss. The income from the distributor is your lifeblood, so ask for recommendations and check for references before you sign an agreement. Some distributors offer a range of other services (so-called 'label services'), against which a fee is applied by the distributor. See further on this below.

Getting your music out there (physical)

In addition to digital releases, many labels release physical product too. There are a number of small vinyl, cassette and CD manufacturers all over the country. Each will have a complex list of prices for different combinations of sleeves and labels, and price will vary according to the volume of units being pressed. Manufacturing prices vary enormously so look around and get the longest credit terms possible.

To get your records in shops and available online you will again need a distributor, who will charge you a percentage of the price for the service. Once again, we strongly recommend getting a lawyer to help you negotiate your distribution agreement.

Do not forget that you are required to pay mechanicals on physical product, and a range of different options exist for managing this through MCPS. Their website has a lot of information on this: <http://www.prsformusic.com/users/recordedmedia/cdsandvinyl/Pages/AP1AP2.aspx>. You should also check the AIM Survival Guide for more information on how this works.

Label Services

Recently, the music industry has seen growth in organisations offering to provide a range of services to labels and artists. These may include international distribution, marketing support, work to help place your label's recordings for sync usage or performance rights management. Be very clear in your agreement with the distributor as to how these additional services will work, what they will commit to deliver for you, and exactly what the cost structures will be. AIM has detailed advice on this, so feel free to get in touch with us on this.

There are many options for small independent labels wanting to release their music and get into the public eye. Prices for distributors and label services differ enormously so make sure you shop around to find the best deal for your label.

Timeline for release

It is important to consider a timeline for releasing your product. There are various factors that affect the timings of your releases and this will usually depend on label resources and the type of music you are releasing. The timing of the release is crucial to its success and understanding this timeline only comes with experience. If you lack experience in running a record label, then it might be worth getting some work experience, or taking advice from a label owner. AIM offers numerous industry-training events throughout the year, as well as online guides and resources. More information can be found on our website www.musicindie.com.

Press and PR

Once your record has been produced and manufactured and you have a confirmed release date, you will want to think about promoting your record. The 'lead time' is the amount of time you allow for press and promotion before you release your record. You will want to create as much of a buzz about the release in the press prior to the release of the record. If you have the financial capacity, you may want to consider using a third party PR firm to handle this. Good press and promotion can work miracles for your business and it is important to remember that your records will not sell if the public aren't in the know.

And Finally...

Don't be afraid to ask for help. AIM is always on hand to help out members on a day-to-day basis. Whatever the size or scale of the problem, never be afraid to call the AIM office and ask for assistance. AIM also host member inductions, industry events, training courses, and networking socials, which are a great way of building your contact base with experienced individuals in the music industry.

For more information on setting up an independent record label, here at the top 5 signposts:

1. **The AIM Guide to Survival and Success in the Music Business, and other AIM guides:** Available at www.musicindie.com, this comprehensive guide to running a record label will give you all you need to know about getting started. AIM also has dedicated mini-guides in checklist form on a range of other essential areas including performance rights/collecting societies, distribution, sync licensing and more.
2. **Contacts directories:** Music Week and The Unsigned Guide are just two examples of music business contacts directories you may want to invest in to build your network.
3. **Web research:** The Internet is filled with advice on running a label, much of it written by people that have 'been there and got the t-shirt'.
4. **Newsletters:** Industry newsletters like Record of the Day and Music Week will provide you with useful insights into the workings of the industry - make sure you subscribe, and keep up with business trends.
5. **Networking:** This is a people business, with a large focus on socialising. Whether it is at gigs, industry events, networking sessions, panels or trade fairs, it is important to get out there and meet your peers. Be nice to people and give them your time, and you will often be rewarded.

Good luck!

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