

Think Like A Record Company

By, Diane Rappaport author of "How To Make And Sell Your Own Recording" and "The Musician's Business And Legal Guide." The books are published by Prentice Hall.

Instead of asking the question, "Are 3 points per album a fair royalty," approach a deal from the point of view of a record company. Put yourself in their shoes and try to think like them. It's a valuable way to evaluate whether you should release your music on your own artist-owned label, look for an indie or major record deal, or evaluate the fairness of a contract.

Start with these questions.

1. How many records will the artist sell in a year's time?

a. You can make some estimates about how many records you, the artist, can sell by totaling your best rough guesses of...

(1) sales to 10% of the total amount of people who will see you perform at gigs during a year;

(2) sales to 2% of the total number of people on your mailing list; and

(3) sales of 2-5 records a month per local record store. Most stores know (and will tell you) how many records a month are sold by like artists in your genre who regularly perform in your area. (For a recording that is \$15.98 list price, a store will buy them from the record company for something near \$7.50 each, depending on volume.)

b. Most indie labels count on artists to be among their best distributors, because they will sell recordings at gigs and mail order in the amounts estimated above, which is why it is valuable for you to make these estimates. Most indie labels, and some major labels, will sell artists CDs at a price close to what they sell them to distributors for-somewhere between \$8.87-10.40 depending on quantity for a \$15.98 recording. (My book provides ranges of costs for stores and distributors for vinyl, cassettes and CDs based on retail prices.)

Indie labels will ask you what you figure you can sell at gigs; and they will then add some guess on their part (based on the number of distributors they use, the stores they service, your draw and draw potential) about what they will sell to other distributors. They know that if you have consigned your records to some stores, that this will be valuable information to a distributor. Record companies who release more than 5 recordings a year know what the expected rates of sale are for a first time artist and will tell you what you can realistically expect.

c. Know up front that there are approximately 50 deals a year available from major labels for first-time artists. Perhaps 2 bands will recoup their costs, make a profit for themselves and their companies, and have a chance to make another record. The others will fail, go into debt with the record company, and become part of the notorious statistic that there is an 85-90% failure rate among first-time signed bands. That means a major label expects to lose money on a percentage of bands that they sign and only 'win' on a few.

They will choose to prioritize their 'bets,' and put their best efforts at sales and promotion for the lucky artists selected. And they will have a pretty good idea of how many records they will manufacture for that artist, what regions will be selected for primary exposure, and how many records are likely to be sold.

If you know this, then you (and your lawyer) will ask yourself and the major label who may be interested in you these questions:

(1) How many new bands (in my genre) did you sign within the last three years?

(2) How many of those new bands are making a profit for you? For themselves?

(3) What other bands will I be competing with on your label

(4) What can we do so that our band doesn't become part of the failure statistic.

(5) How many records can we realistically expect to sell if you get behind us the way you did (name of recent first-time artist that was a winner)?

2. Sales estimates help set the boundaries of a recording and promotional budget.

Every label does this, big or small. Here are some very rough figures to consider for CDs that are going to sell under 20,000 a year and are priced at \$15.98 each. (There are lots of variables, but this will give you a starting place for your thinking like a record company.) (In another column, we'll talk about major label recordings.)

Example A. You put out the record yourself and manufacture 2500 copies. You plan to give away 500 for promotion; sell 1500 at gigs and mail order for a special price of \$14.00 (\$21,000); and sell 500 to stores for \$7.50 (\$3750). That gives you a total budget of \$24,750 to work with. How are you (the record company) going to spend this money?

Here's one rough allocation:

Fixed costs: manufacturing and printing of CD and CD booklets/tray cards @ \$1.25 unit (\$3125). (Actual cost depends on volume and can vary widely, depending on manufacturer and services desired.)

Graphic design of CD cover and booklet; and graphic design and printing of all other promotional materials (logo, letterhead, press kit, photography, fliers): 15% of expected sales or \$3712.50

Recording: 25% of expected sales) or \$6187.50

Annual sales and on going promotional costs: (postage, phone calls, travel, office, photocopies, etc.): 15% of expected sales or \$3712.50 (around \$300 month).

Total Expense \$16,737.50

Expected profit: \$8012.50

In this budget, 2/3 of estimated income have been budgeted for expenses, leaving 1/3 for profits and hedge against unexpected expenses or emergencies). Good work, if you meet your expectations and stay within the budget. An investor would be happy to see the realism here, because it means that even if your projections are somewhat off, you probably will meet your expenses, and there is potential for profit.

Example B. Indie label figures it will sell 4500 copies to a distributor (one of which is you and your estimated sales of 1500 copies) at \$9.00 each (\$40,500) and use 500 for promotion. In this budget, however, the record company is going to reserve 1/3 of this amount (\$13,500) up front as a hedge against failure, leaving approximately \$27,000 to be realistically allocated between expenses and profit. How will \$27,000 be allocated? Every company figures it differently depending on how many records they put out a year; their cash flow; distributor relationships, risk, etc.

Here's one projection. The record company will allocate 50% of that \$27,000 for recording and manufacturing some of them recoupable from the artist.

Fixed manufacturing costs for 5000 CDs: \$1.25 each or \$6250. (The actual figure may be as little as \$.90 for an indie company pressing 50,000 recordings a year (10-15 artists.) Manufacturing costs are not recoupable from the artist.

Recording \$7250 (which will be charged to you as a loan and recouped from your royalties). Possible, depending on the type of music, readiness of band to be recorded, skill of the recording engineer and producer to stay within budget

Some percentage of budget remaining (with lots of variables in this arena) are reserved for sales and promotional costs, which are not recouped from an artist's royalties.