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### The Future of Music and the Music Business

#### Lesson 1: What a Major Label Offers

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**What a Major Label Offers**



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## What a Major Label Offers



There is no such thing as a typical record label. They are all different. There is, of course, a spectrum. At one end is the major labels like Sony and Universal, and on the other end is the one-person, dorm-room operation, pressing up CDs for their friend's band. In between are the indies. The indies, short for "independent" labels, are labels that are not distributed by a major distribution company. There are thousands of indie labels.



As of this writing, there are five major labels:

- Universal
- EMI
- Sony
- Warner Music Group
- BMG



Sony Music



Underneath each of these parent companies are many labels that are distributed by the parent companies' proprietary distribution arms. For instance, Capitol Records is owned and distributed by EMI, a British company. RCA, home of Elvis Presley, is owned and distributed by BMG, which is a German company. Columbia, which released, among many others, records by Miles Davis and Bob Dylan, is owned and distributed by Japan-based Sony. Even Reprise, which was started by Frank Sinatra and releases records by artists such as Neil Young, Joni Mitchell, and Green Day, is owned by Warner Bros., which is now owned by AOL. The majors all compete for the greatest market share. They try to be the one that sells the most records, and they trade the title of "holder of greatest market share" back and forth every couple of years.

The majors are all multinational corporations. They all have their own distribution companies, they all have their own huge and highly profitable publishing companies, and they all have massive back catalogs of titles. These individual elements combined under one company's roof are very potent, and distinguish the label as a "major."

Not very long ago, there were more than five of these companies, but through consolidation, we have arrived where we are today. More than likely, there will be further consolidation. One of the majors will be bought by one of the others, and we will have four majors. Or perhaps some company outside the entertainment business, such as Microsoft, will buy one of the majors, thereby changing the landscape once again.

In large part, they (like all companies) are looking for ways in which they can operate most efficiently. They all have infrastructure in place that can sustain and support more records moving through that system. This is an important point, as it underscores what it is that all labels need, and why, ultimately, they acquire other labels: they need more and more product to generate profits.

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Major labels often get a bad rap when it comes to record deals, but they really do have a lot to offer to an artist. Getting a record deal with a major label can be a great thing for an artist. The major label offers the artist things that would not otherwise be available to them, including:

- advances (read: cash)
- help in production
- recording
- promotion
- distribution
- tour support

When artists sign a major label contract, they will almost always get an advance. This is money the record company pays the artist upfront for living and recording expenses. Record companies are like a bank, in that they pay money upfront, which they then recoup to pay themselves back, plus interest. Sure, the record companies take a lot of money from sales of records, but they put up the initial cost and risk of making the album. Major labels want every artist they sign to succeed (that's why they put up that cash) but the reality is that most artists do not make it. Nearly 95% never make any money for the record company, ever. In most circumstances, the labels are losing as well as the artists. The only source of revenue they have is by exploiting the artists who are lucky enough to snag some popularity. (This, I believe, is not the best way to run a record business in the future. More on this later.)

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## What a Major Label Offers



A major label is a huge asset to have behind you as an artist looking to become successful. They have connections that you could never dream of getting, right in the palm of their hand. They can hook you up with the top names in recording and production, people who otherwise wouldn't ever take your call. Also, the label has an entire division of overworked minions devoted to promotion. A small indie label may have a promo person or two, but major labels have many people, with countless connections and resources. They have the power to get an artist a display at a Virgin Megastore, while many indie labels can't even get their albums into those stores.

Major labels also can give artists tour support. Artist trying to make it on their own may get tours going in small clubs, if they make the right phone calls, but major labels have the power to put on huge, blockbuster tours. When was the last time you saw a not-well-known artist open for a huge act at your nearest stadium? The lucky artists who play and sell out these enormous venues get that chance from their major label backing. Major labels have the power to make a good artist into a superstar. They perform a lot of different functions to help artists create their records, bring them to market, and deal with many of the business aspects required for success.

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### RECORD COMPANY ORGANIZATION



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The details involved in signing with a major record label have been documented in many places, including Don Passman's great book, *Everything You Need to Know About the Music Business*. We are not going to get into the gory details in this course. Instead, we'll look at some of the side effects of signing with a major, just so we can see the reality of that arrangement.

Most artists starting out and signing with a major will get a modest royalty advance against a royalty rate of 12% of the retail price of the record, minus a lot of deductions. However, for nearly all artists, a recording contract is not what it appears to be on the surface, and will not generate any future revenue for the artist, period.

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Much of the record companies' expenses are recoupable, which means that the record company will use revenue from a record to pay itself back before the artist gets any royalties. To be fair, the record company puts up a great deal of money that is non-recoupable, and must eat the cost if the artist flops. The following is a list of possible expenses that the record company will pay, determine if they are "recoupable costs" or "non-recoupable costs," and drag them to where you think they belong.

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### Making Music Make Money: An Insider's Guide to Becoming Your Own Publisher

Eric Beall, Vice President, Creative at Sony/ATV Music, helps songwriters traverse the intricate maze, pitfalls, and obstacles surrounding music publishing.



### The Future of Music: Manifesto for a Digital Revolution

The record industry as we know it is dying. But the music industry is healthier and more vibrant than ever, with limitless possibilities for change and growth due to the Internet and the digitization of music. Discover how you can benefit from the explosion in digital music.



### Getting Signed! An Insider's Guide to the Record Industry

Former Rykodisc President George Howard will show you the importance of connecting. Connecting with the right songs, connecting with the industry, and connecting with the right label will all help you connect with your audience.

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