



So you want to set up your own label - what do you need to do?

There are many different motivations to setting up a record label. But perhaps the best reason is simply that you think you can sell records that people want to buy.

It is often said that there are only three important parts of a successful record label - A&R, A&R and A&R. If you have access to some good tunes you are halfway to success - now all that stands between you and music mogul status is a little bit of business.

Creating some sort of Business Plan is the best way to start your label. As well as being a reference point for potential investors it will help to focus your mind on the issues you need to address. The plan should cover at least the first three years of trading and should include the nitty-gritty of business such as bank account, 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 preparing it. Get your accountant to guide you. If you don't have one, you should get one. Ask AIM for some recommendations.

Like any start-up business you will need some funding. Bank loans are worth a try but your bank manager is unlikely to share an enthusiasm for music or your faith in its potential. Fortunately there are some alternative sources of funding. A distributor who has enough belief in your product might advance you some royalties on future sales or a bigger label may even want a piece of your label. If your records have real commercial potential you will find investors within the industry. You may also be eligible for a grants or interest free loans. These can be available from charities such as Prince's Youth Business Trust or the London Grant Fund. The Department of Trade and Industry's Small Firms Scheme can also provide loans from £5,000 to £100,000. For more information see the **[So You Want To Raise Finance For Your Label](#)** checklist.

Obviously you will need a name for your label. First 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. Check the Music Week directory first and then with Companies House when you incorporate your company. Once you have your name and logo, protect it. For more information see the **[So You've Got a Great Name and Logo - How Can You Protect It?](#)** Checklist.

It is important to set up a limited company for your label. Your stock in trade is intellectual property and your assets will consist mainly of copyrights. If one of your artists slips an uncleared sample into a record, you as the label might find yourself being sued for large sums of money. If you are sued as a limited company your liability is limited to the assets of the company. However, if you are simply Joe Bloggs trading as XYZ Records there is no limit to your liability and you could lose everything. Companies can be bought 'off the shelf' for less than £200. Get your accountant to guide you.

If there are several owners of the label you might want to record your legal and financial relationship in a shareholders agreement. This document will set out who owns what shares and when they can sell them and for how much.

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Get yourself a lawyer who is a specialist in the music industry - ask AIM for some recommendations. Don't just settle for the first lawyer you meet - it is essential that you are comfortable with your professional advisors and feel that you can communicate with them so look around. Specialist music lawyers are certainly not cheap but many law firms will offer discounted fees or even some limited free advice to fledgling labels.

Register for VAT. If your turnover is in excess of £51,000 you are required by law to charge and pay VAT on certain goods and services. Customs and Excise have more power than the Inland Revenue and the police put together and they are not patient in collecting their dues. Unpaid VAT bills are probably the most common cause of bankruptcy in small labels.

Register with MCPS (Mechanical Copyright Protection Society). MCPS collect the royalties that must be paid to the writers whose songs you record and sell. These are called mechanical royalties or mechanicals. Currently 8.25% of the wholesale price of each record you sell must be paid to MCPS as a mechanical royalty. If, as is often the case, 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 probably the second most common cause of bankruptcy in small labels.

You will need to get your records pressed somewhere. There are a multitude 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. Manufacturing prices vary enormously so look around and get the longest credit terms possible.

To get your records in the shops you will need a distributor. These companies will take your records from factory to shop and charge you a percentage of the price (anywhere from 18% to 28%) for the service. Ask your lawyer to help negotiate your distribution agreement - 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 life blood. Before choosing a distributor get some recommendations and ask for references.

If the distributor has some faith in you and your product they may offer you a P&D (Pressing and Distribution) deal. For a small commission the distributor will arrange and pay for your manufacturing. These costs will be then deducted from the income generated by sales. These deals are a very useful extra line of credit in the early days.

The Internet is a bonanza for small record labels. As the technology for digital downloading becomes more accessible, and consumer patterns change, selling records over the Internet is now a real possibility. Your customers can simply log onto your web site and choose records to download or buy by mail order. The cost to you as a label will be a fraction of those incurred selling physical stock through shops. At the moment Internet sales account for less than 1% of record sales but like it or not the Internet is the future of selling records.

Register with PPL (Phonographic Performance Limited) and VPL (Video Performance Limited). These organisations collect money from broadcasters and depending on how often your

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records are played (or your videos shown) they will pay you royalties. If you have a radio hit or get your video on MTV these royalties can be substantial.

Good press and promotion can work miracles for your business. No-one is going to buy your records if they don't know about them so either organise some PR yourself or hire a music specialist to do the job for you. Mailing out records and press releases to DJs, radio stations and the press can be time consuming but outside help is not cheap.

Whether you are licensing one-off singles or working with artists on a long term basis, put it in writing. You must protect your copyright assets with artist contracts and licences. It may be boring and the artist may be your best friend but copyrights can last a lot longer than friendships. And, ironically nothing is more corrosive to friendships in the music industry than success. There is much truth in the old adage, 'where there's a hit there's a writ'. See So You Want to Sign an Artist ? for more details.

Finally, don't be afraid to ask for help. It's no use pretending you know all about the business when you first start. In the entertainment industry people will try to dazzle you with their knowledge and their conversations will be littered with jargon and knowing references. Don't be fooled - most people in the music industry know a lot less than they would like you to think!

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