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### Music Business 101

#### Lesson 1: An Overview of Record Labels

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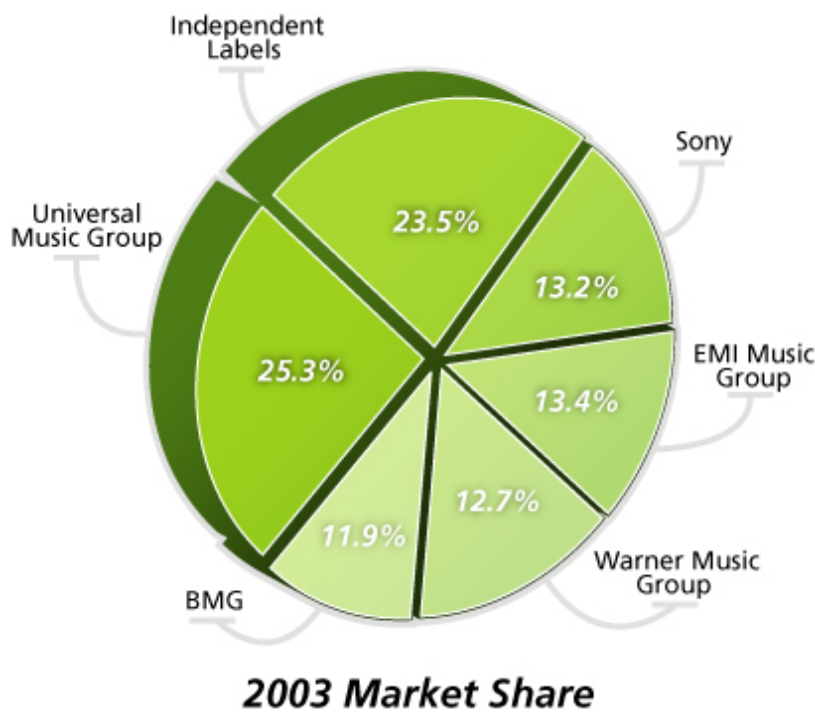
## What Is a Major Label?



What are the major labels and which companies do they distribute?

- [Sony/BMG](#)
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Major labels are publicly traded conglomerates that have, until recently, controlled 80% of the market. Last year showed a different story, with independent labels establishing a more solid presence in the global record market.



Labels and distributors have two distinct functions: the label signs the artists and markets the record; the distributor takes the finished record and ships it to the stores. Major labels, also known as "majors," have the advantage of having both label and distributor housed under one roof. Universal Music Group owns Universal Music Distribution, EMI Music Group owns EMI Music Distribution, Warner Music Group owns WEA, and Sony/BMG Music Entertainment owns Sony/BMG Distribution. One of the reasons majors have consistently dominated the market is that they can control every aspect of the process: from signing the artist to getting the record into stores.

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Making a successful record in today's market requires a big financial investment. Did you know that majors lose their investment on 90% of their roster? This means that majors recoup their investment on 1 out of every 10 artists that they sign, and lose their investment of the remainder of their artist roster.

Majors have been able to endure because they can afford taking this kind of financial risk while waiting for the big payoff on one or two of its artists. Signing to or working at a major has been desirable for artists because majors are in a position to pay their artists larger advances, hire the best producers, and spend more on getting the record made, marketed, and into stores. Major labels attract top executives to work for them because of their prestige and ability to pay top-dollar salaries, and offer great perks. Who would pass up backstage passes to concerts, seats at the Grammy™ awards, or riding in a limo with a big-name artist?

Majors are well staffed because they have the resources to hire many people to get the job done. Let's take a look at the different divisions within a major label and the contribution each makes to getting the record made and into the store:

Another reason that majors control the marketplace is that they can out-promote and out-market their competition. Success in promoting a record depends on a number of things:

1. Having a fully staffed promotion department to cultivate key relationships at radio stations. For many years, the station's Program Director determined what songs to add to a station's playlists. Now, these decisions are made on a corporate level.
2. Flying their artist across the country to do hundreds of radio interviews (which, by the way, don't pay), and in-store appearances. Promoting a record in today's market requires serious financial muscle—a minimum commitment of \$400,000-\$500,000,-- a risk that only majors can afford to take.

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## What Is a Subsidiary Label?



Every major label has subsidiary labels that it distributes: EMI Music Group has Capitol and Virgin, Warner Music Group has Atlantic, and Sony/BMG has RCA, J, and Jive Records. Each of these subsidiary labels (let's call it a "sub") operates as a self-contained company in the same way as a major, except that it does not have the ability to distribute its own records.

Sub deals benefit majors for many reasons:		
✓	<b>Provide an alternate A&amp;R source</b>	They are often used by majors as an alternate A&R source.
✓	<b>Develop a regional presence</b>	They enable the major to develop a regional presence and penetrate a part of the market or a musical trend where their presence had been previously weak.
✓	<b>Utilize a top producer's talents</b>	They enable the major to affiliate with a top producer that has a proven track record in producing top selling records.

What happens in a deal between a major and sub? In a sub deal, the major will provide the costs for recording, video production, marketing, and the means to manufacture and distribute the sub's records, and the sub gets its records distributed thanks to the major's "muscle" in the market. What does the major get in return? It gets 50 percent ownership—and thus a cut of the profit—of all master recordings made by the sub. In most cases, it also gets the option to buy out the sub's share (which the majority of majors eventually do).

Why would anyone start a subsidiary label knowing that they would have to sell their interest in the end? Prestige, recognition and, in most cases, a lot of money. What are some examples of subs that have recently been bought out by majors? Dreamworks was sold to Universal in June 2003, and Warner bought the remaining interest in Maverick in June 2004.

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## What Is an Independent Label?



What is an independent label? An independent label traditionally does not have any affiliation with a major label. Independent labels (let's call them Indies) have been responsible for introducing us to some of the most influential music in the last century: rock, blues, grunge, and hip-hop. Atlantic, Motown, Virgin, and Island Records all started out as independent labels.

Unlike majors that have traditionally focused on making "radio friendly" music with the greatest sales potential, independent labels have developed their own cachet by signing artists in non-commercial markets. Signing to an independent label can benefit an artist because it enables them to have creative control over their material, receive a better royalty rate, sell their records at live shows, and have the chance to participate in key business decisions that are made by the label in connection with their record, such as release date, format of release, retail promotion strategy, radio promotion strategy, marketing strategy, etc.

How are independent labels different from majors?		
✓	<b>Distribution</b>	Their records are distributed by independent, U.S.-based distributors. To get their records distributed internationally, independent labels have to secure a licensing deal with one or more labels outside of the United States to manufacture and sell their records for a period of time.
✓	<b>Smaller Staff</b>	Independent labels generally have smaller staffs that are responsible for many of the same tasks that would be assigned to a self-contained division in a major. In some cases, this can benefit the artist who can develop a close relationship with the label staff working on an artist's project. In other cases, labels are run as a "one man show"; this means if the president of the label is out of the office, nothing gets done.
✓	<b>Financial Resources</b>	Independent labels do not have the financial resources of a major to spend on marketing and promotion. In some cases, the label's survival can hang in the balance if one or two investors withdraw their financial backing. As a result, many independent labels have been forced to shut their doors, or sell to a major.

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The majors have traditionally controlled every aspect of how records are made, marketed, distributed and sold. However, the past few years have shown a dramatic rise in Indie sales due to:

✓	Lackluster record sales that have caused majors to let some of their most talented executives and artists go. Recording artists Joan Osborne and Aimee Mann had hit singles while they were signed to majors (Osborne was signed to Mercury/Universal, and Mann was signed to Geffen/Universal) and became disenchanted with the majors' corporate inefficiencies. They subsequently moved on to sign with, and have satisfying careers at, independent labels.
✓	Artists rejecting excessively long contracts where decisions are made by "men in suits" who are out of touch with consumer tastes.
✓	The Internet leveling the "playing field" allowing artists to distribute their records to consumers directly, effectively cutting record labels out the picture.

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