

# THE MUSIC BUSINESS SYSTEM

The music industry can be described as having two essential elements: the musician and the audience. Drawing them together is the business of music. Despite the distracting spotlight of changing technology, the music industry continues to operate much like other large, multifaceted commercial activities. A main difference between the music business and most other industries is, of course, its artistically driven product and the constant tug of hair-trigger cultural shifts. In examining the business aspects of music, it is the rapid change of product that makes this business almost unique.

## HELP WANTED!

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Over the years, transformational technology has reshaped the way people in the music business organize themselves to make a living. A century ago, a music publisher manufactured and shipped vast quantities of paper to retail stores throughout the land. Today, publishing might be the part-time vocation of a songwriter, whose assets reside entirely on a hard drive. A half-century ago, a record company exploited just about the only path to putting recorded music, for a fee, in the hands of consumers. Today, some idiosyncratic artists—either with no recording contract in the offing or disenchanted with their last contract—might record in a home studio and sell the resulting handiwork via download or license to a streaming service. A few decades ago, the nuanced performance of a large ensemble required having dozens of musicians on the payroll. Today, one or only a handful of musicians and **MIDI** controllers might provide a similar performance. The economists call this trend increased **productivity**. The old guard fears it, for jobs are jeopardized and investors in the legacy business models traumatized. But with change also comes opportunity.

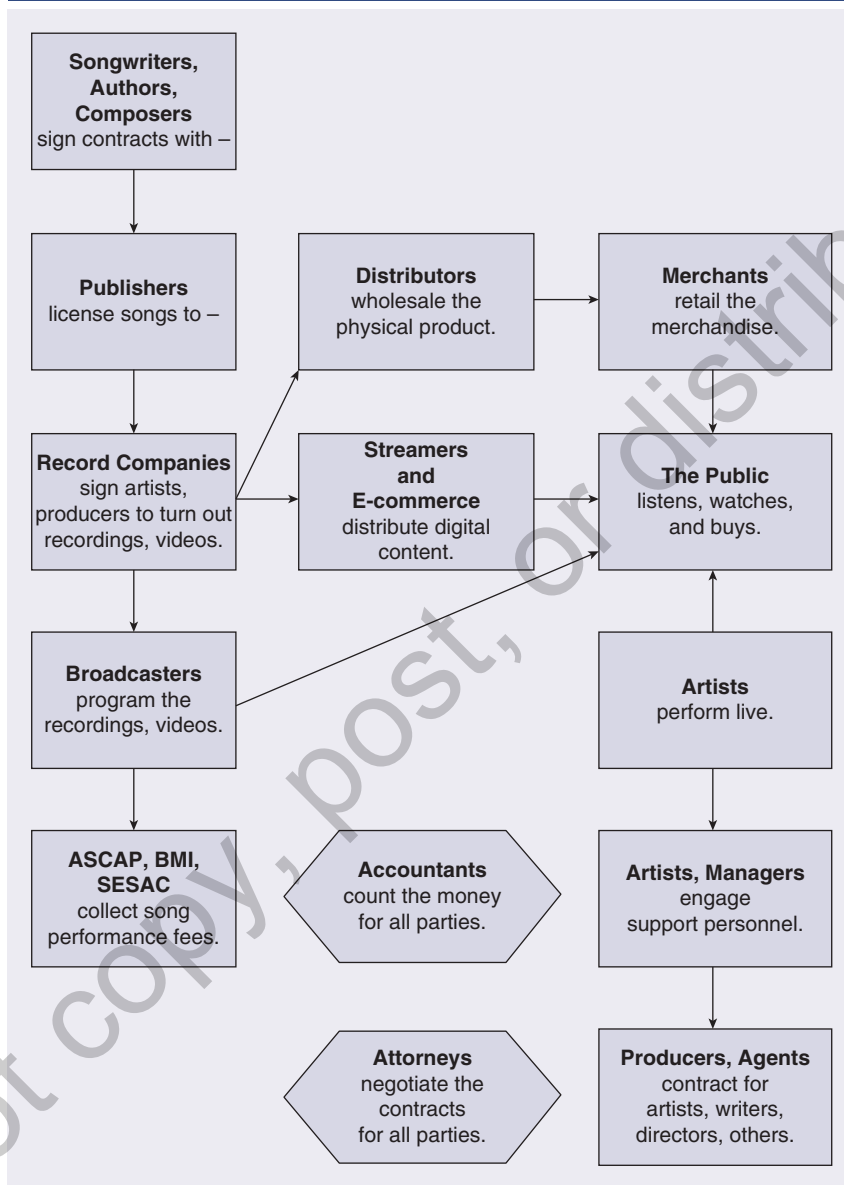
Even if aided by semiconductors and seamless digital communications, a human being must still make the music, a human being must market and promote it, and human talent is the key ingredient all along the **value chain** between the original creative idea and the ears and eyes of a fan.

## GETTING THROUGH THE MAZE

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To analyze that value chain in detail, let's consider two different ways of viewing the industry as a whole. First, study the flowchart shown in Figure 2.1. It graphically illustrates the music business system and its principal subsystems.

**Figure 2.1 The Music Business System and Selected Principal Subsystems**



A second way of grasping the big picture is to examine the sequence of events that often occurs as a new song finds its way to market. As you will observe, the following list sets forth much of the same information appearing on the flowchart in Figure 2.1.

1. The composer—who sometimes is also the performing artist—writes a song and signs with a publisher.
2. The publisher persuades an artist (or that artist’s producer) to record the song.

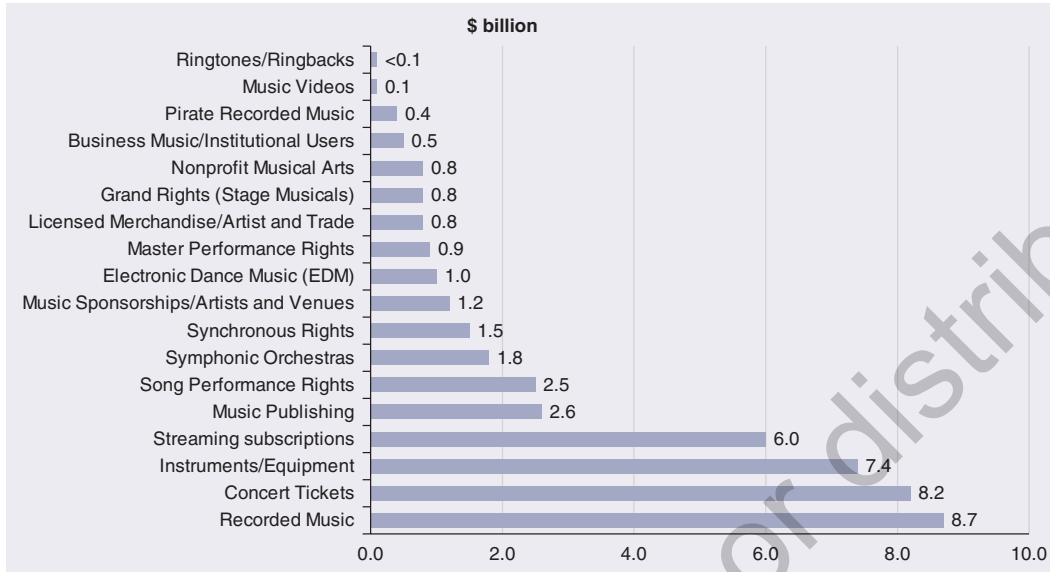
3. Lawyers (at several stages) negotiate contracts between parties and specify terms for varying forms of usage and exploitation, such as **mechanical rights** and **synchronization licenses**.
4. The record company produces a recording and, possibly, a video version of the song.
5. **Promoters** persuade programmers to broadcast the audio recording and the video.
6. The record company uploads the song for online sale or streaming and ships the merchandise to **distributors**, who sell it to retailers.
7. In cases where artists retain distribution rights, artists sell music from their websites and negotiate deals directly with download and/or streaming digital platforms.
8. If the song becomes popular, a second wave of **exploitation** can occur—**licensing** of ringtones and merchandise connected to the song and/or artist.
9. A talent agency contacts promoters and venues to book a concert tour.
10. Concert promoters enlist cosponsors and sell the tickets.
11. The **road manager** moves the people and the equipment.
12. The concert **production manager** dresses the stage, lights it, and reinforces the sound.
13. The artists perform.
14. The performing rights organizations collect performance royalties.
15. The accountants count the money; the participants pay their bills.
16. The government collects the taxes.

## SHOW ME THE MONEY

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Many people would say the making of music hasn't changed much in centuries—since it's still all about a catchy tune performed by talented artists. Placing aside the obvious changes wrought by technology, the big transformation has been in the scale of the business. The music industry has mushroomed into an interconnected series of segmented multi-billion-dollar businesses in the United States (not even counting the intertwining of an even bigger business abroad). These businesses range from traditional recorded music to live concerts to sale of musical instruments and equipment to cell phone **ringtones**. As we'll learn in the pages to come, success often springs from moving back and forth from one business silo to another. But in order to understand the industry, we'll want to examine, chapter by chapter, each silo for the role it plays and the unique career opportunities it presents. Figure 2.2 shows just a sampling of the scores of segmented businesses. Many billions of dollars flow from business to business, as one sector's revenue (such as a composer's **royalty** receipts) is another sector's expense (a publisher's royalty expense). Thus, the same music dollar may at one time or another end up in the pockets of multiple industry participants.

**Figure 2.2 U.S. Music Industry Revenue: Select Segments (estimate of billions of dollars annually)**



*Sources:* Author's estimate based in part from *Billboard*, Recording Industry Association of America, National Music Publishers Association, NAMM, and other industry sources.

*Notes:* Figures include double counting of some revenue in overlapping categories, rounded to nearest hundred million dollars. Receipts for U.S. consumption or exploitation only. Figures are at the consumer-spend level, except where such retail data are not available or not relevant. Concert revenue does not include all performances and all secondary sales. Pirated Music estimates money changing hands and does not impute value lost from pirate activity. Ringtones/Ringbacks include a variety of categories sometimes referred to as personalization services. Sponsorship revenue excludes noncash bartered and in-kind services.

## TOOLS OF THE TRADE: EVERYBODY'S GOTTA LEARN SOMETIME

Now that we see how big the industry is, and how diverse, how do we stay on top of it? Although being—and staying—informed has always been important in the music industry (or any industry, for that matter), in times of rapid change it is vital. A new trend, technology, or economic model that seemingly has little to do with a particular segment of the business may well suggest a new means of promotion, a potentially profitable new partnership, or an additional income stream to pursue. New types of licensing deals and previously unheard-of music distribution methods bring with them new twists and turns on **copyright** and **royalties** issues—issues that could mean money moving into (or out of) the pockets of numerous music business players. And, of course, job seekers looking for an “in” will need to know what new doors might be open to them and how best to educate and market themselves.

It is one of the great mysteries of the contemporary music scene, then, that many of those involved in it—composers, performers, businesspeople, educators—do not understand how it really works. Worse yet, much of what they believe they know is either out of date or incorrect. The result of this pervasive ignorance about

the business and the profession has been tragic. Top graduates of conservatories fail to get their careers even started. Aspiring business-side candidates lack the big-picture smarts and specialized savvy to succeed in a competitive digital age. Musicians navigating the **DIY** waters fall victim to sharks and their own lack of knowledge when relying solely on their own ingenuity.

So, what does the artist or the business executive do to get the information needed to function effectively in this field? Take

the time to regularly read about music business, professional, and creative developments that are readily available online. Bookmark the websites that consistently deliver relevant information. Another source is the various professional meetings: These national (and international) affairs are sponsored by industry associations, trade magazines, performance rights organizations, and sometimes by artists' unions. Most have websites (you'll find a listing of the major associations and their sites inside the back cover of this book), offering industry overviews, news, and information, along with current research and publications to download or request (some free of charge, others for a fee). Specialized information can also be found in books on subjects such as copyright and pop songwriting; many of the industry associations' sites offer sector-specific suggestions.

Though Web searches can offer a wealth of information, you'll need to wade through a lot of junk to find the truly helpful gems (something to which anyone who has gone trolling for music online can attest). The best bets are a handful of well-respected blogs, some of which focus on the creative and others on the business side of music. Because websites come and go, asking around for recommendations—from fellow musicians, instructors, industry-connected friends of friends—can point to the cream of the current crop.

The most reliable sources of information for the serious student can be found in a select group of colleges, universities, and specialized institutions.<sup>1</sup> Following the leadership of the University of Miami in the mid-1960s, increasing numbers of accredited institutions are offering courses and degrees in the music business field. Course offerings include studies in music, certainly, but also in areas as diverse as business administration, accounting, marketing, business law, copyright, arts administration, entrepreneurship, and recording technology. Graduates of these programs cannot know it all, of course. But they are far better prepared than others to meet the wide-ranging demands of today's music industry.

And then there is the option of going to the source. Qualified professionals in the business can be found throughout North America, although many are concentrated in one of the three major recording centers—New York, Nashville, or Los Angeles—where the big music companies have their U.S. headquarters. Most of the music business, even today, is based on the star system—specifically, the recording **star system**—and these cities remain the high-powered nexus.



▶ Students working in the University of the Incarnate Word recording studio.

Photo by Doug Ensley.

## THE MUSICIAN-ENTREPRENEUR

### Case Study: Prospering by Constantly Adapting



▶ Gene Perla

Photo by Richard Stopa.

While our analysis of the music business necessarily presents a close-up view of the many specializations—from songwriting, to producing concerts, to streaming—the untold story of the industry is that sustained career

success often is *not* due to mastery of one specialized garden of knowledge. Frequently, success over the years and decades comes from an adaptability to hop from specialty to specialty.

That’s the case for Gene Perla, who has made a living in the many nooks and crannies of the music industry available to a jazz bassist throughout his career—Broadway show sound designer, music publishing company founder, recording studio entrepreneur, songwriter, studio musician, and music teacher.

“Sure, I like to sit back and come up with the ‘grand concepts,’” he says of what drove him to work in so many music segments. “But I also like to deal with the nuts and bolts as well. I like to do the futzing and fudging about with things, so I really understand them.”

After several years of musical instrument higher education, Perla broke into the New York jazz scene as a bass player in the 1960s. Hoping to distribute the music of friends who could not get a record deal, he decided he needed to know how albums are made, so he enrolled in a technical school in Manhattan to study recording engineering. One night after class while relaxing in a night club where he sometimes performed, Perla was recognized by a stranger who offered him a job at Todd Rundgren’s famous Secret Sound Studios. It was at Secret Sound, and not in formal classes, that Perla really learned recording through a series of from-the-ground-up jobs.

Years later, another chance meeting with a stranger led to a teaching job at another New York multimedia school, where Perla took advantage of a faculty perk that allowed teachers to take other classes free of charge. He learned video production and computer graphics, among many skills.

Still a performing musician making contacts in gigs around town, Perla eventually played bass and had two of his songs recorded for the Blue Note jazz album, *Genesis*, by Elvin Jones (famous as the drummer in the band of the late John Coltrane). Perla had already registered those songs with the U.S. Copyright Office—which was and remains a simple process—but then went the extra step of creating his own publishing company to license the songs. Today, his Perla Music is a money-maker and has a catalog with 100 compositions; he sells sheet music for these at \$3 a PDF download from his website. ASCAP and AMRA administer other aspects of Perla Music.

Along the way, with skills learned in jobs, in schools, and from personal contacts as a working musician, Perla established the Red Gate recording facility just outside New York City. His partner in this venture was Jan Hammer, keyboardist for the Mahavishnu Orchestra and composer of the *Miami Vice* theme song. Perla also established a small music label, PM Records. After another chance meeting, he was called to make an emergency rescue of a Broadway production just hours before show time. His tech knowledge enabled him to untangle a Musical Instrument Digital Interface (MIDI) setup whose otherwise bright software engineer messed up with improper cabling.

With that experience, he and partner Bernard Fox started their own sound design business for other stage productions such as *Beauty and the Beast*, *The Lion King*, and *City of Angels*. Sound designers provide equipment, billing shows weekly for service. Some \$125,000 of microphones were purchased to service a show that promptly closed after just seven performances, but Perla wasn’t fazed.

“It worked out all right because we were doing other shows,” he says.

He left Broadway for a lucrative business rerecording dialog in a studio for prime-time network TV series, fixing street scenes with audio problems in what is known as automatic dialog replacement (ADR).

Today, Perla operates a computer services consultancy from his home in Easton, Pennsylvania, from where he commutes to teach and perform. He teaches music business, improvisational ensembles, and bass at the School of Jazz at the New School and Lehigh University. Perla also still plays gigs locally, regionally, and internationally with several of his own bands and with other artists.

Perla is nonchalant about his dizzyingly diverse career, saying only, “I am persistent,” while also crediting education and some chance meetings.

Comparing the music landscape today versus when he broke in, Perla says that universities are churning out so many skilled jazz bassists that the competition for live gigs—where he got his start and made a living—is intense and the pay is therefore miserable. His advice to freshly graduated jazz musicians is not to be afraid to take jobs on the technological edge of music—such as telecom and multimedia companies—which are the Wild West frontier for music today. The graduates “may not be performing, but they will still be connected to the music,” he says

Only a limited number of performers can attain star status, of course, so it is fortunate that the music business system offers many opportunities for individuals needed to help make the system function. No performer today can ascend to stardom or hang there in orbit without an array of qualified supporting satellites.

Whether as a star or as one of the myriad categories of supporting players, many (although not all) ambitious newcomers do make it. Why? Is it luck? Timing? Education? Networking skills? These factors have helped launch many successful careers in both the creative and business ends of the field. Four other factors contribute to the success of those who win in the music business:

1. They are strongly motivated; they really want to win.
2. They are talented, and they surround themselves with talented associates.
3. They persevere; they hang in there until they succeed.
4. They study the business for insights on the creative process, career trajectory, and industry economics.

The first three items depend totally on you. This book deals only with Item 4. The music business offers excellent career opportunities for the really talented individual, provided that individual gets the important information—and acts on it. The essential core of that information is offered here.

## NOTE

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1. A valuable source displaying educational institutions in the field is the listing of member schools on the website of the Music

and Entertainment Industry Educators Association: [www.meiea.org/member\\_schools](http://www.meiea.org/member_schools).

## CHAPTER TAKEAWAYS

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- The music industry can be viewed as a series of sectors and distinct types of businesses that feed off each other, such as record labels and live concerts.
- The same music dollar often passes from one industry participant to another.
- Over the course of a career, people in the business often move back and forth from one work category (e.g., composer) to another (e.g., publisher).
- Music business students should seek out a wide range of information, from different sources, to stay on top of a field that shifts rapidly.

## KEY TERMS

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copyright (p. 20)

exploitation (p. 19)

mechanical rights (p. 19)

productivity (p. 17)

royalties (p. 20)

star system (p. 21)

synchronization licenses (p. 19)

value chain (p. 17)

## DISCUSSION QUESTIONS

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1. Outline areas where music is a dollars-and-cents business and not an art.
2. Discuss technical areas where someone entering the music business can gain a foothold.
3. What are some ways in which different areas of the music business depend on each other?
4. What are some changes that are happening in the music business today? What changes might happen in 10 years?