

BAND TIPS: Music Business Plan by Peter Spellman



One thing I would never do is invite friends to Boston without first sending them a map. More than most cities, Boston (for the out-of-towner) is an urban tangle with few rivals. I remember my first visit to the city back in '77. It was a psychological and emotional roller coaster to say the least. And I had a map!

Maps - they lay out the land and point us in the right direction. A good music business plan is a lot like a map, though the "land" you'll be dealing with here - the music industry - is both more tangled than the city of Boston and can end up pointing you in any variety of "right" directions at the same time.

A good music business plan is the map to the fulfilment of your goals. Whether you're a band, soloist, production house or some other business, a plan can turn foggy notions into operational strategies, hunches into actions, dreams into reality.

Dreams. This is where it all begins isn't it? For this reason I like to think of one's business plan as a "vision/mission." It starts with vision. Before your first gig you envisioned yourself playing it. Remember? Vision precedes mission and fuels it with the necessary energy to go the distance. A mission implement vision and provides the vehicle that moves you towards your goal. Together they're unstoppable!

Why Write A Music Business Plan?

There are a number of specific benefits to writing a music business plan.

A well-thought out business plan will:

- *Clear the way for creative thinking*
- *Pinpoint strengths and weaknesses*
- *Identify obstacles and problems*
- *Expose hidden opportunities*
- *Set proper priorities*
- *Coordinate your marketing program*
- *Take the guesswork out of budgeting*
- *Allow for meaningful review and revision*

Your business plan should never be viewed as a one-time draft written in stone but instead as a provisional guideline to help you take strategic and effective steps toward the achievement of your goals. It is never really complete because it parallels and reflects the dynamics of your own growth and development.

Besides the benefit of self-revelation, there is another important reason to draw up a business plan:

To attract investors and secure loans. No one needs to tell you how much it costs to launch a successful music career. Between equipment, insurance, taxes, travel, recording, mixing, manufacturing, promotion, advertising and various fees and commissions, today's musicians and bands are left with little else to call their own. Enter investors.

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Investors are willing to put up a certain amount of dollars to launch your music project with the hope and expectation of a return on their investment. The most important thing they'll need in order to decide to invest in you or not is a well-thought out business plan. The same goes for seeking bank loans. A plan reflects professional responsibility to the lending institution and greatly increases your chances of securing a loan.

How to Structure A Music Business Plan

A music business plan will have six main components.

1. *A summary page*
2. *A description of your business*
3. *A marketing plan*
4. *An operations statement*
5. *A project time-line*
6. *Financial projections*

We will look at each in turn. You may want to make a rough outline for your own plan as you read this article. Don't be surprised, however, if your complete plan ends up being forty pages long! This should be expected.

Would you like some free help drafting your plan? Then contact your local SBDC (Small Business Development Center). This is a federal program that is part of the SBA (Small Business Administration) designed to provide small business owners with counsel and resources. Your tax dollars pay this so use it! The SBA has a Small Business Answering Desk (800-827-5722), which can answer many general business questions including the location of the SBDC office nearest you.

While you may not find them to be experts on the music industry, they are experts in creating and developing small businesses, and you are one. Let's first get an overall sense of where we're going by displaying a complete outline of a business plan:

I. Summary statement

II. Description of your business or project.

- A. History and background
- B. Management description
- C. Business structure

III. The market for your product or service

A. Market description

1. General market information
2. Specific market information
3. Competition profile

BAND TIPS: Music Business Plan by Peter Spellman



B. Marketing plan

1. Positioning
2. Marketing mix
3. Pricing philosophy
4. Method of sales/distribution
5. Customer service policy

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- A. Facilities and equipment
- B. Plans for growth and expansion
- C. Risks

V. Project time-line

VI. Financial information

- A. Financing required
- B. Current financial statements
- C. Financial projections

I. Summary Statement.

Here you want to answer the following questions as succinctly as possible: Who are you? What will you do? (goals). Why will the business be successful? How will it be financed? - and When do you think it will turn a profit? (Remember, a 'profit' is not how much money you make, but how much you keep). Be ruthlessly realistic!

It is also in the summary statement that you list the products or services being offered (e.g. CDs, tapes, performances, etc.) as well as the names and positions of all personnel involved. The summary should close with mention of anything that is unique about your project.

II. Description of your business or project

This section begins to flesh out the summarization above.

A. Begin first with the history and background of your project. This provides the overall context in which to view your current work. List all data that pertains to the various facets of your present business. Don't pad it with your whole life story, just the pertinent highlights that have brought you to the present moment.

B. A management description should follow next. How is your business project organized? What does the leadership look like? (it's style and command chain.) How are decisions made and facilitated? What kind of ongoing business meeting schedule will be followed to insure smooth operation?

C. Decide on the business structure you will use (i.e. sole proprietorship, partnership, corporation, etc.). This is one of the first questions the start-up business person should ask. The answer to this question has many legal and tax implications, varies greatly from state to state and from time to time. Again, seek the advice of your small business advisor at your local SBDC office.

III. The Market for your Product and/or Service

Now we are getting into the essence of what you're uniquely about. Marketing means selling and it is an absolute truth that unless a start-up business can sell its offering it will not survive. Getting orders - selling your recordings or performances to paying customers - is of crucial importance to a new business.

To compete successfully in the music business, then, you must follow the same strategy that every successful business person uses. You must:

- * Develop a product- in this case, your music.
- * Locate clients for your product - do market research.
- * Bring your product to the marketplace - use sales technique to convince potential clients to buy your music.

Does this mean you're "selling out"? NO! Or I should say, it all depends on your attitude. If you have a killer recording or a hot performance to sell and you market it accordingly, then you're not selling out. You're simply bringing a desirable product to a ready audience.

If, on the other hand, you would sacrifice your mother for a chance to claw your way to the top, then yes, you're probably selling out. Again, it's attitude. And you have to determine this for yourself. O.K., now that we've cleared that up let's look at some of the various facets of your marketing plan.

A. Description of the market for your product/service.

The first thing you need is information about your market in order to correctly position your product and find your own unique niche within it. This is called market research and, like all of your planning, should be viewed as an ongoing process. You will need both general and specific information about your market.

1. General Market Information. The general market for musicians is the music industry. Without a general understanding about this larger market context you will have a difficult time trying to find your way within it. It is crucial, therefore, for today's musician to have a grasp of such things as record company structures, music publishing, recording contracts, distribution and music media, and how all of these work together to bring music to people. You can learn about the industry by talking with industry people, taking courses and reading books and trade magazines (see free resource list offer at end of article).

2. Specific Market Information. Here you will want to ask: What part of this larger market do I fit into? In other words, who are my customers? What is their general age, their sex, professions, lifestyle and interests? This information will prove crucial to the development of your marketing strategy. In addition to your customers you'll also want to describe your competition. Be as specific as possible. Gather information on three or four successful competitors, assess the relative strengths and weaknesses of each, and compare your product or service with similar ones in terms of price, promotion, distribution and customer satisfaction.

B. Marketing Plan

Now that you've gathered information on both your general and specific market share, you're now ready to develop your marketing plan or strategy. This too can be broken down into several component parts.

BAND TIPS: Music Business Plan by Peter Spellman



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1. Positioning - This is related to finding your market "niche." No matter what products or services you provide, you can carve out a niche for them based on your experience, skills, and interests and then build up that niche as you work to serve it. Ask yourself questions like: What do I do best? Who needs that the most? Where can I provide that product or service that will give me a chance to expand what I do to utilize my other interests? What do I have to offer that is special or unique? The answers to these questions will help you "position" yourself to most effectively promote what you're selling.

2. Marketing Mix - The particular combination of marketing methods you choose for your marketing campaign is referred to as your "marketing mix." Methods can include news releases, sponsorships, networking, publicity flyers, contests and giveaways, classified ads, trade shows, radio spots, charitable donations and literally hundreds more.

When making your selection, keep in mind this fundamental rule of successful marketing: The measure of a successful marketing campaign is the extent to which it reaches at the lowest possible cost the greatest number of people who can and will buy your product or service. Generally speaking, the more of your time a marketing activity requires, the less money it costs you, and vice-versa. For example, networking costs almost nothing in money but plenty in time. On the other hand, advertising in a city newspaper costs a bundle while requiring little in time.

3. Pricing Philosophy - How much you charge for your product or service will depend on many variables. Here is where your research about your competitors comes in especially handy. Undercutting your competition is one common way to gain market share. But there is another approach. Research has shown that buyers, when making a purchase decision, select what they consider to be the best value - all things considered. And this suggests that value is equal to the benefits they perceive divided by the price. Price, therefore, is only one part of the purchase decision process. If you want to increase your customers' perceived value of your product, you can do so by either increasing the benefits or decreasing the price. It is almost always preferable to work on the benefits, both tangible and intangible, both rational and emotional, both large and small, that will make it possible to sell at a higher price.

4. Method of Sales/Distribution - This is related to your marketing mix and details the methods you will employ in implementing the various parts of your mix. For a musician, one method might be the use of a booking agent. Another might be a record distributor or, perhaps, mail order.

5. Customer Service Policy - When considering customer service it is always useful to ask yourself why you continue to frequent certain businesses. More than price more than product quality, you will often return again and again to these businesses because you feel taken care of. The people of those businesses go the all important extra mile to make you feel special. They anticipate your needs and provide for them in the various ways they deal with you.

See if you can translate elements of this customer service policy into your own. Write down your philosophy and then list all applications you can imagine related to your business. How can you go the extra mile with your clients? Find ways of distinguishing yourself from your competitors in this area and you will insure a faithful clientele for years to come.

IV. Operations -

This has to do with the overall physical and logistical manufacturing of your product or service. It typically has three parts to it:

BAND TIPS: Music Business Plan by Peter Spellman



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A. Facilities and Equipment will encompass such things as your rehearsal space, office space, studio, manufacturers you use, your instruments, sound and light equipment and vehicles you use to haul it all around. A brief note on equipment insurance should also be included here. Investors like to see the founders of a company have a cash investment in the business in addition to "sweat equity".

B. Plans for Growth or Expansion - Here is where you project your more general goals three to five years into the future, What will you need when you progress from local to regional success? Regional to national? National to international? Perhaps you'll want to develop sub companies within your primary company. Maybe a publishing wing, or a video branch, or perhaps a recording studio. Think it through as clearly and completely as possible.

C. Risks - This is another very important part of the plan. Not only does it show you're being open and honest with your financing source, but it forces you to consider and assess alternative strategies in the event your original assumptions do not materialize.

V. Project Time Line -

Here you want to articulate the schedule for your goal achievement, both short-range (e.g., obtaining radio airplay, booking high-profile gigs, procuring management, etc.) and long-range (e.g., signing a recording contract, having your song performed by a mega-star, etc.). Think through the essential steps needed for the attainment of each goal.

VI. Financial Information -

No matter how wonderful your plan is it isn't going anywhere without capital investment, whether it's yours or someone else's. This final section of your plan should be broken down into three sub-sections: The financing required, current financial statements, and a three-year financial forecast. Needless to say, this is the part of the plan potential investors and lenders will concentrate on the most. So the following is written primarily with seeking investors in mind.

A. Financing Required - While your first thought may be to ask for cash exclusively, there may be other resources that would help you even more. Perhaps what you really need is some people power assistance, or a touring van, or a new computer. These can sometimes be provided more easily than cash.

Whatever you decide you need, make sure it's based on a hardheaded and realistic assessment of the true costs of achieving your goals. A basic rule of thumb in estimating costs is to add 15% onto whatever figure you come up with. This covers all those additional "hidden" and unexpected expenses, which inevitably accrue.

B. Current Financial Projection: Financial projections are a key part of a business plan. They provide the reader with an idea of where you think the business is going. Perhaps more importantly, they tell a lot about your intrinsic good sense and understanding of the difficulties your company faces.

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Often, financial projections are optimistic to an outlandish extent. They are usually prefaced with words like, "Our conservative forecast is..." Do not use the word "conservative" when describing your forecast. Be careful also not to use the "hockey stick" approach to forecasting, that is, little growth in sales and earnings for the first couple of years followed by a sudden rapid upward surge in sales and totally unrealistic profit margins. Excessively optimistic projections ruin your credibility as a responsible business person.

Include monthly cash flow projections, and quarterly or annual order projections (e.g. for studio time, CO manufacturing, etc.) profit and loss projections, and capital expenditure projections (see your accountant for explanations of the above terms). In making financial projections it is usually a good idea to include "best guess," "high side," and "low side" numbers. Sensible investors want to know what returns they can expect and especially how they will achieve liquidity. Tell them. Again, include alternative strategies. Don't worry if you feel a bit overwhelmed by the avalanche of detail your business plan requires. Who wouldn't? Give yourself time. It's helpful to set yourself a goal for completing the first draft of your plan - say three months from now.

Begin with one section at a time and meet periodically with your small business advisor to review your plan's development. He or she will be able to discern blind spots as well as affirm the plan's overall direction. If you're thinking of foregoing the effort altogether and just "winging" it, just remember that no planning inevitably leads to wasted time, money and energy - all three in short supply.

Remember too that the musicians you currently respect rose to their success with strategic planning and a keen sense of what "doing business" really means. Furthermore, today we are seeing the smarter bands being brought home because they know the inner workings of the music business and how to best organize their limited resources in order to penetrate it. How about you? Are you planning for success?

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