
Creative Cake

ENTERTAINMENT

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Business Plan
Marcus Martinez

Creative Cake

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II. Mission Statement

Creative Cake is an innovative independent record label that provides support to its talented roster and close associates. We believe that the whole is greater than the sum of its parts, thus, we place a major importance on the value of teamwork over individual efforts. All artists are backed by a kin-like team of loyal and proactive individuals who share the same vision and goal, which is to work together to harvest the fruits of its labor. Because of our focus on unified effort, all creatives within the business can have their cake and eat it too.



II. Executive Summary

"In a world of many, most gravitate to the few." – Bob Lefsetz

Jimmy was born in 1997. Jimmy doesn't have a favorite band; Jimmy has a favorite song. Its 8:30 AM and as Jimmy gets ready to take the bus to school, he whips out his iOS device and checks his social newsfeed to find out what everyone at school is listening to. He almost exclusively discovers all new music using social media. Jimmy doesn't pay for his music; he pays for his mobile service. In fact, Jimmy has never paid for any of his music, let alone a CD and he perhaps is unfamiliar with how to use one. Jimmy doesn't listen to the radio, he hardly watches TV, and he never picks up the newspaper or any magazine. Jimmy is pretty impatient, and he normally gets frustrated with the limitations of his subscription services and is always seeking to invest in something better to avoid these annoyances. This is Jimmy, the music industry's modern consumer.

Charles likes making EDM music, but so does his friend, and his friend's friend, and there are probably kids younger than him that create it as well. Charles has a dream of earning his living off making music. Charles has put out his music before and all in all he's earned less than \$80.00 over the course of eight years. Charles' music isn't bad taste, but he just can't figure out a way to get people to listen to him. Charles hasn't the slightest clue about the business or the sensibilities of his audience. Meet Charles, the modern content creator.

There are millions of people in the United States like Jimmy and Charles, but somehow the music industry is still suffering from a diminishing revenue stream. Music executives throughout are scratching their heads and trying to figure out why nobody will buy their label's CDs anymore. Without much consideration, they conclude that there's just no money in music anymore and that the industry is doomed to collapse. They, the veterans of yesteryear, are blinded by their days of exorbitant gain, the golden days where a few albums a year could land them anywhere in the millions of dollars. They are stubborn and not keen on adjusting themselves to the way of the future. The #1 issue within the music industry is not that music's value is diminishing; it's the people who run the business.

Creative Cake is the future. At Creative Cake, we have devised our business strategy to fit with the current trends within the music industry in order to excel and prosper. As a fully digital, all in one record label, Creative Cake aims to help creators cut through the noise by creating compelling marketing strategies designed to appeal to their target market and to offer them support with our excellent artist development and management teams. We provide these artist services to create excellent music for their audience.

As a result, we are able to deliver excellent music to their fans through their most preferred methods of consumption, through their most preferred forms of communication. Our #1 competitive advantage against majors in the industry today is

our realization of a new era of music creation and consumption and the ability to be swift in our action. Today is the best time to be alive if you are a creative individual. Here at Creative Cake, we consider ourselves to be Creative Entrepreneurs and through innovation we are sure to meet success within our industry.

In order for us to commence building our vision, we are asking of a mere \$80,000 loan from an accredited lender. We plan to pay this loan in full at the end of six years with a 5.5% interest rate. We are confident in our ability to repay this loan. Our first year's net profit is expected to be close to \$38,000 USD. A further financial analysis has demonstrated that we will be able to break even within the first year. Lastly, our yearly operating costs are set at nearly \$60,000 USD per year with an expected decrease over time as we become more and more competent at our abilities to do more with less.

III. General Company Description

Creative Cake is an independent digital entertainment label that focuses its efforts on content creation and distribution, artist management and development, and marketing. We cater to independent artists of who place a high value on engagement, authenticity, creativity, and fearlessness. One of the most important aspects of our business is our focus on increasing artist-fan engagement as well as a personalization of the music experience. Thus, we work very closely with our artists to support them and help develop their creative endeavors.

One of our differentiating factors is our focus on digital distribution as compared to more traditional models of distribution. More than 50% of content created will be sold and distributed via digital channels exclusively. There are exceptions of course; when the demand for a physical product such as a vinyl is high we will of course oblige.

An additional facet of our company that differentiates us from our competition is our willingness to cooperate and serve artists who are not signed to our label. We would like to establish Creative Cake as one of the prominent independent labels at the forefront of the digital revolution of the entertainment industry. We recognize that labels today are usually over-staffed, impersonal, uncaring and unconnected to the artist's vision and their fans' demands. As such, we hope that by creating a lean, digital entertainment label that is readymade for the 21st century, we will be able to help resolve the antiquities and vestigial functioning found in a majority of labels today.

We hold the belief that the value of music itself has not decreased. Although consumers are paying less and less each year for content, accessibility to this content has become ubiquitous and as a result the demand for content has increased. Hence, monetization has become an issue of accessibility. Now, as we continue onto the second decade of the 21st century, the music industry is at its nadir. The implication of which is that new models will supplant the dominant industry models as witnessed with advent and increasing prevalence of streaming. Creative Cake plans on basing its core value

propositions and activities on future industry trends in order to generate a substantial revenue stream(s).

Our target market is described as young, show going, and tech savvy creatives. Additionally, we want to ensure that our target market lives through their music as we plan on developing content that is complimentary to emerging lifestyles in urban and suburban areas. We plan to tap into this market by communicating with them through the platforms they use the most, in the language and context that is native to our target market. We believe that because we are keen to adjust ourselves to the current digital context and salient emerging trends within the industry, we will demonstrate great competitive advantages over archaically ran labels.

We plan to incorporate the business as a Limited Liability Corporation because we will be offered protection by the corporate veil and have the advantage of pass through taxation. Choosing the LLC formation makes the most sense because it will allow the business to be run with much more flexibility, which will grant us the privilege of having high business culture and more familial interactions with co-workers and clients.

Company Goals & Objectives

Creative Cake's number one goal is to become one of the most prominent entertainment labels representing the very best talents from the City of New York. We are focusing on selecting; breeding and cultivating our talent while representing them in the very best means in order to optimize their chances of a mainstream break through. We would like to attain our goals while maintaining a familial environment that is encouraging small and close-knit groups. Our goal is also to take on the role of brand builder for many small and big businesses across the United States and to become their "go-to" for brand equity development.

IV. Industry Analysis

Industry Life Cycle

If it has not been made clear from the reported condition of the music industry in 2012, 2013 marks the year that all entities within the industry have begun to adapt their business strategies from the effect of the onset of the digital revolution. Streaming services have begun to gain enormous momentum, with Spotify now having over 10 million paid subscribers, although they are still searching for sustainability within a polarized industry.¹ Conversely, US sales of recorded music, both physical and digital, still continue to decline. 2013 marks the first time that digital sales have decreased in its

¹ Candice Katz, "10 Million Subscribers!," *Spotify*, May 21, 2014, accessed June 24, 2014, <http://news.spotify.com/us/2014/05/21/10-million-subscribers>.

entire history with a 5.7% decrease from the previous year.² These increasing challenges are forcing artists and labels alike to find new ways to engage with their audience and create innovative revenue streams.

The primary issue is not a lack of demand for music; as is evinced with the total online fans culminating to an impressive 6 billion. Rather, the industry's main concern is the issue of monetization and how to best capture value from this vast market size. Currently, all signals point to streaming as being the future of the music industry as demonstrated by a 137.92% increase in streaming from 2012-2013.³ It is clear that streaming is becoming (if not has become) the most popular method of music and video consumption.

Additionally, many popular streaming services are bundled with social media API that allows users to follow, interact and learn more from the artists they love. It is obvious that social media is now one of the most crucial marketing forces of the modern music industry. Thus, it is appropriate to conclude that the modern music industry is in a nascent, recuperative stage where focused strategies to develop streaming services will prove to be key in establishing sustainability.

² Ed Christman, "Digital Music Sales Decrease For First Time in 2013," January 3 2014, accessed June 24, 2014, <http://www.billboard.com/biz/articles/news/digital-and-mobile/5855162/digital-music-sales-decrease-for-first-time-in-2013>.

³ "2013: The Year in Rewind," *Next Big Sound*, accessed June 24, 2014, <https://www.nextbigsound.com/industryreport/2013>.

Industry Trends

- The industry's digital revenues grew by 4.3% in 2013 to US \$5.9 billion.⁴ There was steep growth in both revenues and user numbers for subscription services, continued revenue growth from ad-supported services and stable income from download sales in most markets.
- Globally, digital now accounts for 39% of total industry global revenues.
- Digital channels account for the majority of revenues in four of the top ten music markets across the world.⁵
- Revenues from music subscription services grew by 51.3% in 2013, exceeding US \$1 billion.⁶
- Streaming and subscription models are helping increase digital music's reach. According to the IFPI, 60% of users aged 16-64 with Internet access have used a digital music service.⁷
- The top three music streaming services as measured by number of active users are: Pandora, iHeart Radio, and Spotify in that order.
- However, with one billion users, YouTube remains the industry champion in streaming.⁸
- Music digital services are continually looking to personalize and improve the music consumption experience.

⁴ IFPI, *The Recorded Music Market in 2013* (London, UK: IFPI, 2014), 7.

⁵ *Ibid.*, 9.

⁶ *Ibid.*, 18.

⁷ *Ibid.*, 24.

⁸ *Ibid.*, 25.

- Users are now consuming a large percentage of their entertainment through mobile services. According to IFPI industry report, 61% of the market uses their personal computers to consume music while 40% use smartphones.⁹
- Consumer spending on mobile apps increased by 77% with music subscription apps accounting for four of the top 10 gross music apps.¹⁰
- Mobile operators are partnering with music subscription services to create high profile marketing campaigns to acquire new customers.
- Increase in accessibility to music via streaming is demonstrating an expansion of music consumption into home and car services.
- Digital piracy remains to be a challenge in a recovering industry. IFPI estimates that 26% of Internet users regularly access illegal services such as The Pirate Bay.

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Industry Outlook

As online music subscription services and streaming continues to demonstrate an upward trend, new markets and revenue models continue to emerge throughout most of the civilized world. One of the most prevalent transformations occurring today is the mobilization of entertainment. According to the Portio Mobile Factbook, 36.2% of the world's population will be owners of smartphones by 2016 , which translates to a total market size of over 2 billion for mobile music streaming services.¹² Record labels

⁹ Ibid., 28.

¹⁰ Ibid., 28.

¹¹ Ibid., 43.

¹² "Portio Research Mobile Factbook 2013," *Portio Research*, accessed June 24, 2014,

are now taking advantage of this market reach made possible by mobile devices by partnering and or creating apps used to deliver exclusive albums releases through the apps. Moreover, with the advent of 4G and LTE technologies, digital music continues a shift from an ownership to an access based model.

As an effect, record labels continue to be able to diversify their revenue streams more and more as income from streaming and subscription stabilizes the industry. Additionally, music services are focusing on increasing satisfaction from the music experience by providing services that mitigate the discovery process and help users choose from an abundance of choice. Hence, music services like Spotify are partnering with record labels to create “Discover” features that offer recommendations and playlists as a way of discovering new music.

Streaming, subscription and access-based models are proving to be the way of the future for an industry in convalescence. Firstly, streaming is granting earnings from compositional rights a much longer life than ever before. Thus, if a record label owned the publishing and master’s right to a very successful song the likes of “Blurred Lines”, it is very probable that the SRCO’s will see passive income for a long time to come; this makes the streaming revenue model perhaps one of the most sustainable forms of income since the industry’s inception. Secondly, streaming also gives artists a financial

incentive to be creative. Gone are the days where consumers are forced to purchase bundles of songs. Today, consumers have the power to curate their own playlists.

Thus, artists who use their creative resources to make a very solid album will see more income from their creation. The key is to make songs that have a high replayability quotient. Additionally, revenues from YouTube monetization and ContentID are an alternative revenue stream built around the streaming model. Record labels are beginning to increase their income by creating compelling and replayable video content and distributing it via YouTube. The globalization of music communities has also made apparent enormous opportunities for record labels to capitalize in emerging markets.

V. Products and Services

Music Production

Creative Cake will include an in-house production, mixing and engineering team that is designed to create professional quality recordings. Our staff will be experienced users with digital recording software such as Logic Pro, Pro Tools & Ableton and will be able to use a variety of studio hardware to create professional sounding records of the highest degree. We are looking to cut down our staff to the bare essentials so we will only seek to hire two music producers who are versed in mixing and engineering as well. These producers will create music that is custom designed to suit the tastes of our signed artists. They will also play a very integral part in the recording and mixing

process of our artist's music productions. We believe that the recording process should be an intimate and sacred one, thus we will focus on selecting staff that are extremely amicable, open-minded individuals who are willing to emotionally invest themselves into each project.

Artist Management & Development

Creative Cake will also provide management and development services to each artist signed to the label. These managers can come from an internal hiring process or externally as well. Each manager is expected to be highly dedicated to continuing and developing the artist's vision. We are searching to work with managers who not only believe in the music but believe in the individual as well and are willing to work with the artist on a personal level to help them keep a good head on their shoulders as they progress throughout their career. These managers will not only have extensive networks and salesmanship but they will also be leaders in their own right who have developed a skill for inspiring and motivating individuals they work with. Overall, these individuals will bring an increasingly positive affect to our business and will be able to work independently and cooperatively.

Social Media Marketing and Brand Development

We will also include social media marketers who are up to speed on today's most effective trends in social media marketing. These individuals will have a very large online presence of their own, be tech savvy (knowledge in coding), and also have a

unique skill set with graphics design software such as Adobe Illustrator. These individuals will work side by side with our signed artists and will help build a unique and distinguished brand for them. Artists will maintain total control over their social media platforms. Our social media marketing team's primary function then will be to develop brilliant and compelling content marketing strategies for our artists without creating any contradictory messages. The ideal social media marketer understands content is King, but that context is God, and will be able to deliver great story telling that is native to each social media platform.

Financial Services

Creative Cake will work side by side with their artists to ensure that any project they take on is within their means. Creative Cake will help plan a budget for recording, touring, marketing campaigns and the like. Hence, Creative Cake will ensure that the artist's earnings are re-invested into his/her working capital and that their earnings are distributed correctly and accounted for. As the artist begins to grow his career and popularity, Creative Cake will make readjustments to their budget in order to allow for more expansive and bold projects.

Publishing & Administration

Creative Cake will administer artist's creative content and register each release under the U.S. Copyright Office. We will also ensure that our artists are represented by ASCAP (our PRO of choice) and Soundexchange as well. Creative Cake will take care of

remunerating artists for any royalties that they have made off their copyrighted content.

We will also administer licenses to bidding parties and negotiate a fair deal on the artist's behalf.

Creative Consultation

Creative Cake will not only cater to artists signed under our roster, we will also be open to consult other brands and or companies who wish to have their brand image revamped. We will use our social media marketing and graphics design department to head any consultation projects and we will work with our clients in order to build a reputable brand and upgrade their online presence. Our efforts will focus on building innovative and compelling content based marketing campaigns to increase consumer-client engagement.

Competitive Advantage

As one could infer, we offer a wider variety of services that are available to artists under our roster as well as creative consultation services for brands that wish to revamp their brand equity. We believe that by providing the very best services and support to our roster that they in turn will be able to provide the very best music to their audience. We believe that helping the artist extend their audience reach through creating compelling marketing campaigns will pay off very handsomely in the long run. It is our commitment, penchant for community, and understanding between the label and its artists that will allow us to become a very successful label. Here at Creative

Cake, we believe that we are family and family of course always comes first. Thus, we provide very dedicated personal assistance and services to our artists and we take very special care of creating the right image for them. We also take very special care as to help the artist build their fan base by increasing artist-fan engagement.

Lastly, we take pride in being home to some of the most talented, creative and forward thinking individuals within this industry. Rest assured that the output from any project would be of only excellent quality. We would like to think of Creative Cake as less a business and more a community where all individuals within our value chain can feel apart of something greater than they. We will walk with our artist every step of the way and never leave them for abandon. From the bottom to the top, we will stick with our artists until they become successful in their own rite. These intangible attributes, coupled along with our technical prowess, high interpersonal skills and networking abilities will differentiate us from the competition and give us a great competitive advantage.

VI. Market Analysis

Summary

Creative cake aims to deliver its services and products to two market segments (content creators and content consumers) within two territories: The United States and The United Kingdom. We are choosing these individuals as our target market because our products and services cater specifically to this market. These services will be offered

on a contractual basis and we will earn revenue based on time spent on each project. On the other hand, we will also be signing content creators and offering them all the abovementioned services as well as publishing and administration as a courtesy of being signed to Creative Cake. In turn, we will earn revenue based on a percentage of all income earned from our artists' sale of music, royalties, merchandise, touring, and any other income derived through a utility of our services. Logically, the amount of earnings within this segment is largely dependent upon our artists' success. Hence, Creative Cake is focused on helping the artist build their fan base as well as deliver quality music.

Primary Research Survey

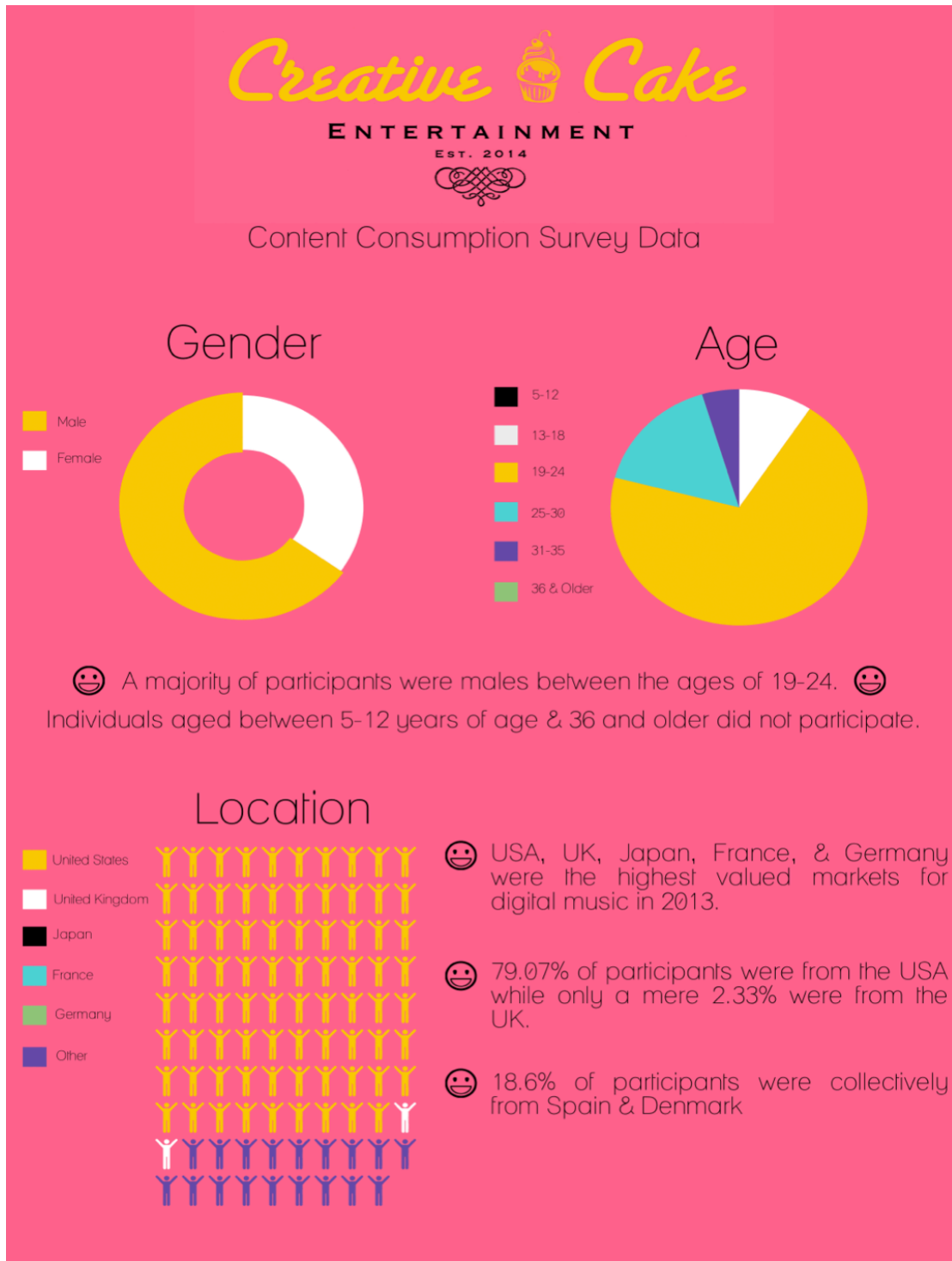
Objectives

- Gather insight on current market behaviors including methods of consumption, discovery and time spent consuming music
 - Gather insight on behavior of content creators including needs and willingness to pay for artist services
 - Further delineate demographics of content creators and content consumers
 - Establish a reliable price position for artist services
 - Determine most prevalent methods of consuming music
-

Content Consumption Survey

This survey has been designed to identify how different age cohorts spend their free time listening to music. Moreover, this survey helps determine the most prevalent manner in which the market discovers and listens to music. This survey has also been designed to examine the general population's reaction to the rise of social media to see how it has affected their consumption of content. We collected and analyzed our survey data and have demonstrated key findings below:





Education

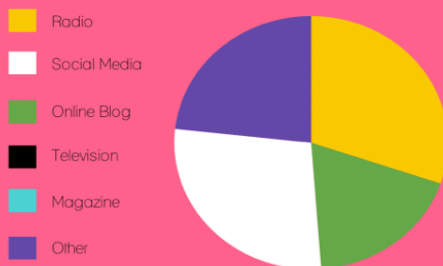


Employment



😊 A majority of participants (51.16%) have earned their bachelors degree. 😊
A slight majority were employed (51%).

Discovery



Hours Spent



😊 Radio is still the most dominant medium used to discover new music (30.23%) with social media coming in at a close second (27.91%).
😊 A majority of participants (41.86%) consume music +8 hours per week.



Vinyl Revival!

Did you know that since 2006 there has been a resurgence in vinyl sales? In 2013 alone, vinyl sales shot up by 32% from the previous year.

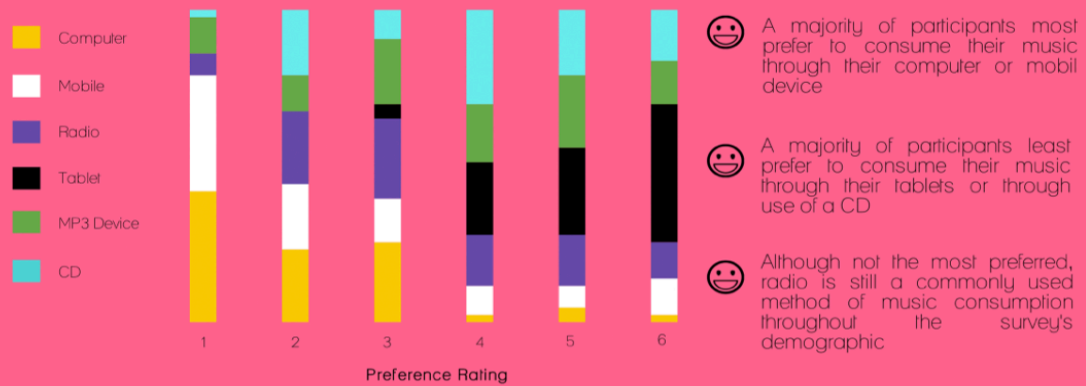
Source: <http://mashable.com/2014/01/07/vinyl-comeback/>

Methods of Music Acquisition



😊 Streaming has become the most preferred manner of acquiring music (39.53%), however, pirating is still an issue as it stands as the second most preferred manner of acquiring new music.

Preferred Methods of Music Consumption

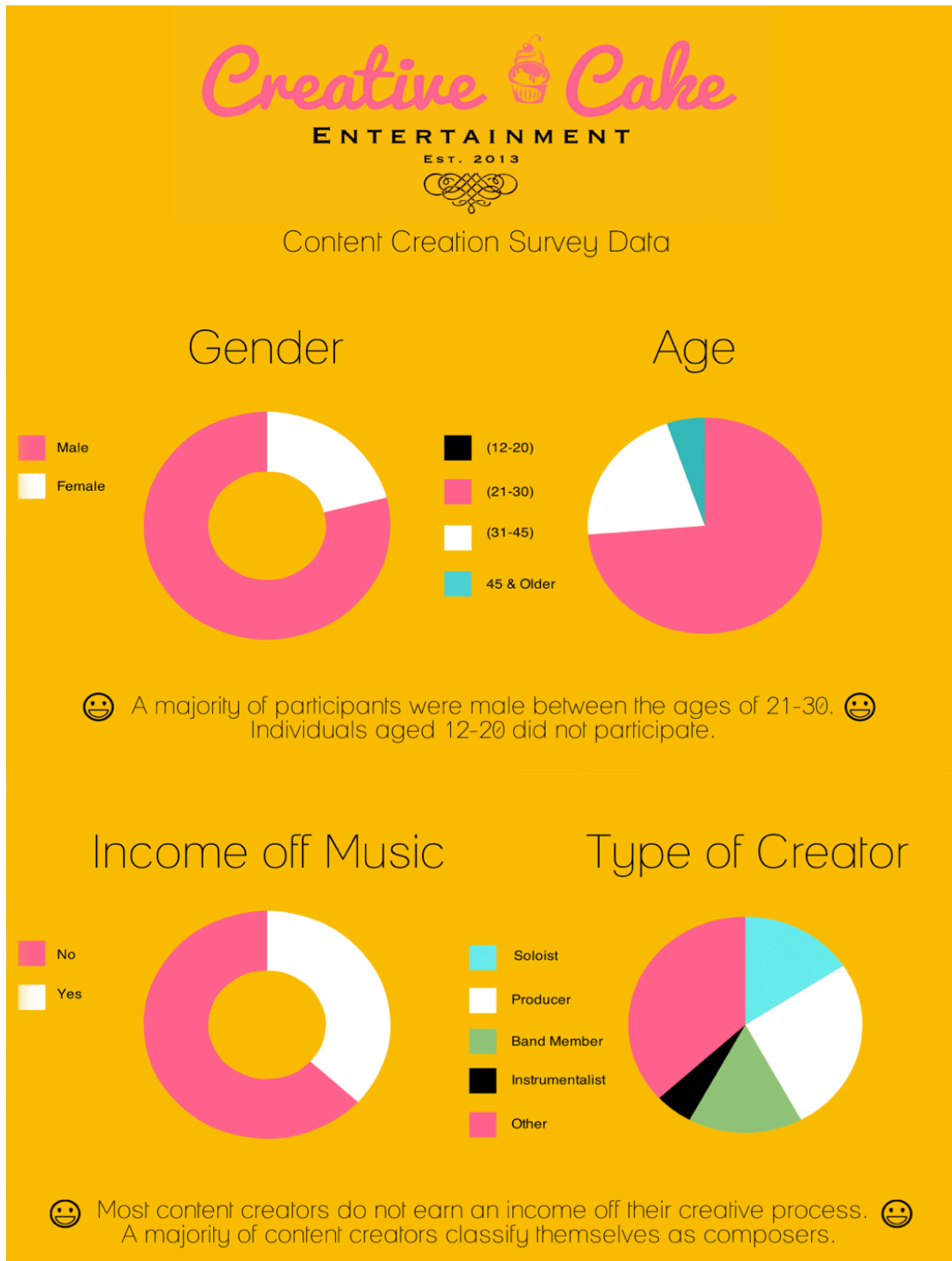


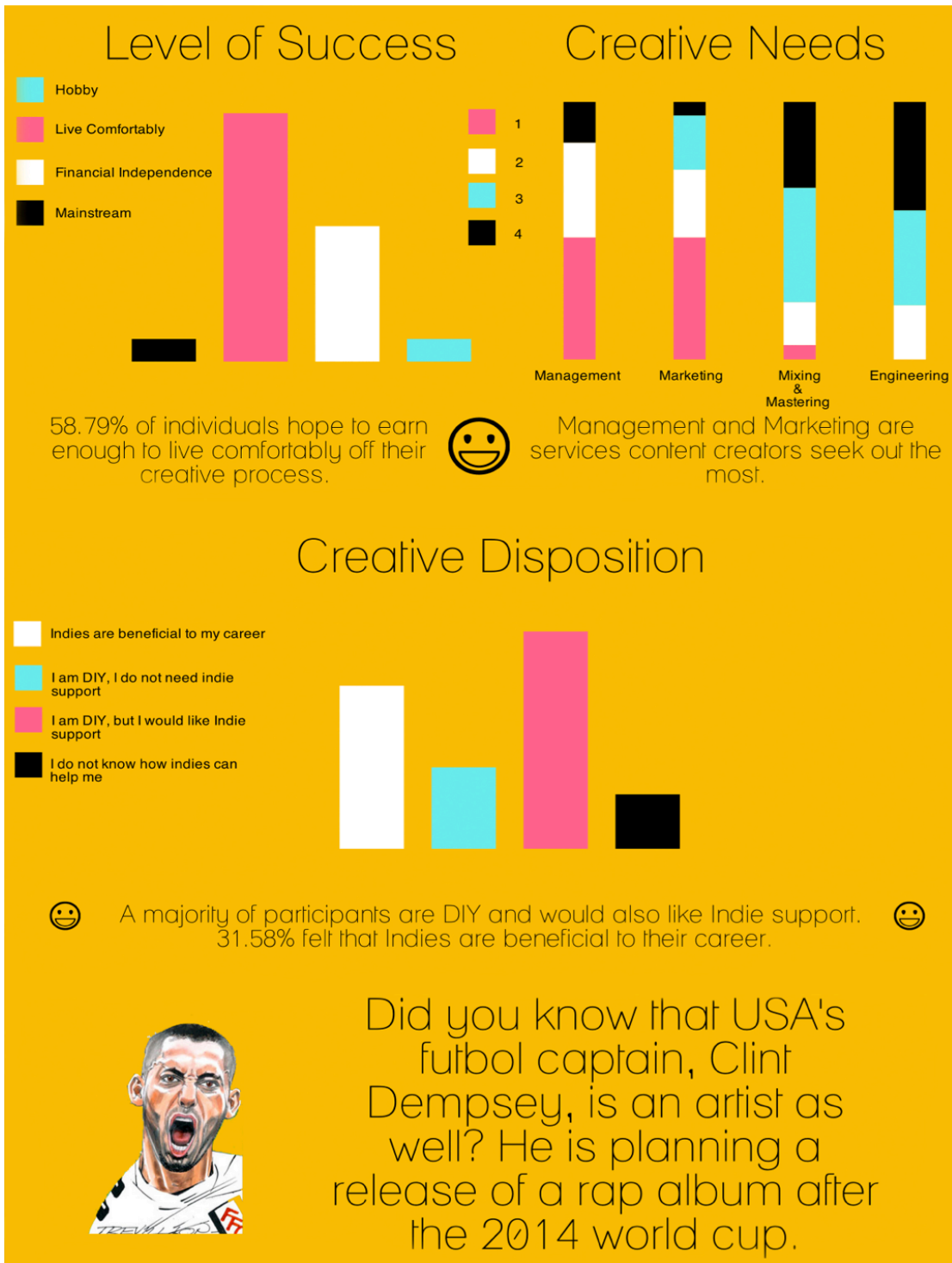
Social Media Music Sharing

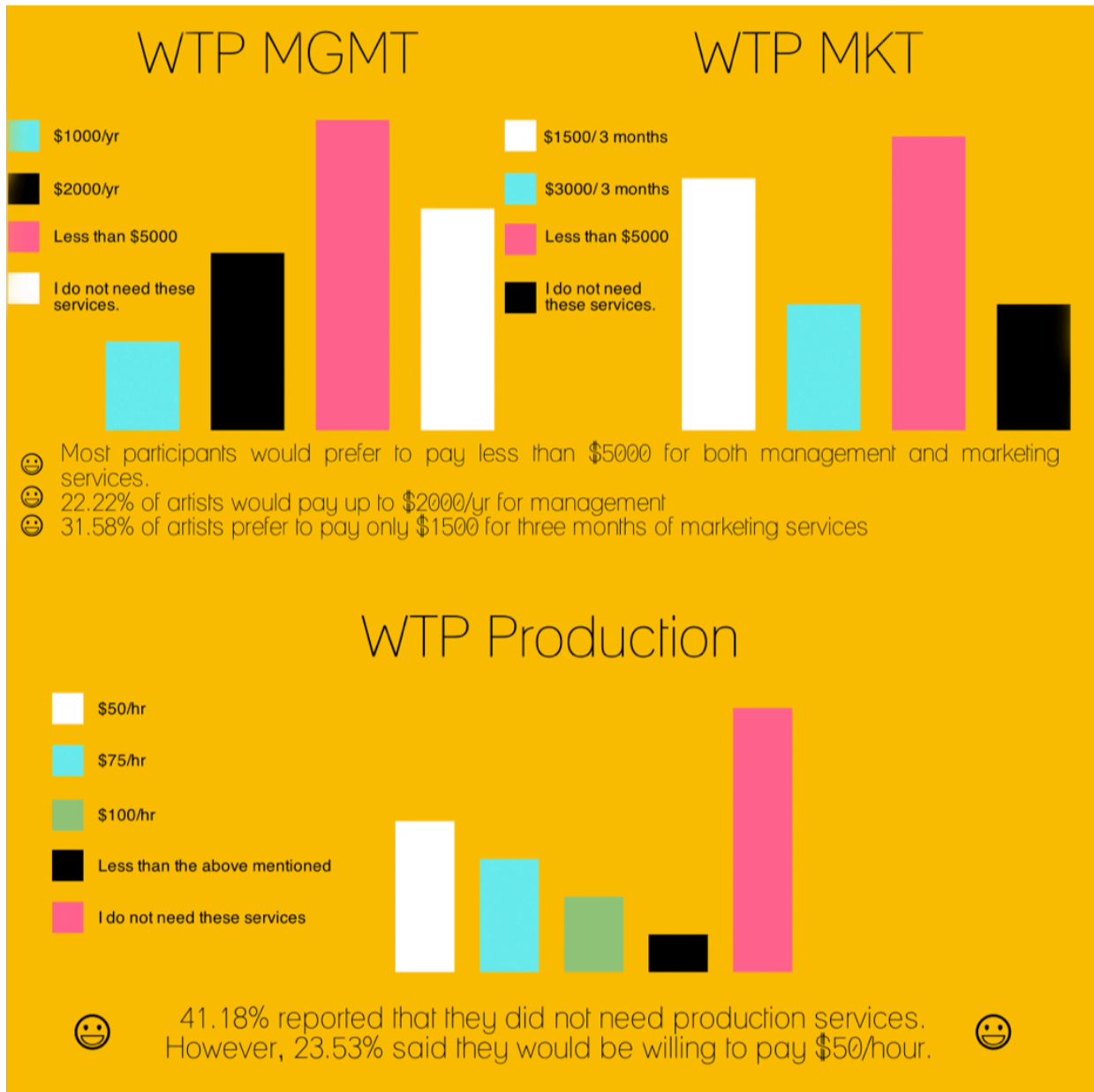
😊 A majority of participants liked to share music on Social Media sites.

Yes
No









Key Figures (Secondary Research)

As a result of digital revolution, the global music industry is slowly contracting. At the end of 2012, the total market is measured at \$28.7 billion, which is a 6.2% decrease from the year before.¹³ However, music streaming revenue increased by 40% in 2012 compared to a mere 8.5% for digital music downloads.¹⁴

Moreover, digital music consumption is expected to continue growing, given an estimated \$11.6 billion USD evaluated market size by 2016, which has largely been the result of the penetration of mobile devices in emerging markets.¹⁵ By 2015, 80% of music revenue is expected to come from digital services.¹⁶ As a result of the democratization that has been an effect of the digital revolution, independent labels now hold over 34% of the total market share.¹⁷ Additionally, record labels spend an estimated 26% of revenue on A&R and marketing.¹⁸

¹³ “Digital Music Industry Report,” *Siemer & Associates*, (Santa Monica, CA) accessed June 24, 2014, http://www.siemer.com/wp-content/uploads/Siemer-Associates-Digital-Music-Report_June-2013.pdf

¹⁴ *Ibid.*, 18.

¹⁵ *Ibid(a)*.

¹⁶ *Ibid(a)*.

¹⁷ “Indies still #1: Billboard Indie Label Market Share increases 2.0 Percent to 34.6 Percent in 2013!,” *American Association of Independent Music*, accessed June 24, 2014, <http://a2im.org/2014/01/15/indies-still-1-billboard-indie-label-market-share-increases-2-0-percent-to-34-6-percent-in-2013/>

¹⁸ “How Record Labels Invest,” *IFPI*, accessed June 24, 2014, <http://www.ifpi.org/how-record-labels-invest.php>

As a result of these statistics, Creative Cake aims to target music consumers through digital channels exclusively. We aim to capture value in the US and UK markets exclusively as well because the genre of music we are producing and representing is mostly relevant in these markets. US digital revenue accounts for 60% of total music revenue while UK digital revenue accounts for 44% of total music revenue.¹⁹ US and UK digital revenue are also ranked #1 and #2, respectively worldwide which makes these markets very attractive for entry. Vinyl sales are also resurging worldwide. The vinyl market was worth an estimated \$218 million by the end of 2013.²⁰

Market Size – Content Consumers

Content consumers are defined as individuals who invest their time and money on entertainment, media and popular culture. These are individuals who do not require any of our B2B services and are mostly focusing on consumption rather than creation. The total population for the US by the end of 2013 was estimated to be close to 316.4 million.²¹ 216 million individuals are Internet users within the United States and therefore have access to music download and music subscription services.²² Thus, the total market size for the US market is estimated at around 216 million.

¹⁹ IFPI, *The Recorded Music Market in 2013*, (London, UK UK: IFPI, 2014), 9.

²⁰ *Ibid.*, 22.

²¹ “United States Demographics Profile 2013,” *Index Mundi*, accessed June 24, 2014, http://www.indexmundi.com/united_states/demographics_profile.html.

²² *Ibid.*, 55.

However, since we plan to market to a primarily young target between the ages of 15-24 (13.7% of population are between these ages) we need to down scale these 216 million to around 29 million. We presume that 29 million individuals, both male and female within the ages of 15-24 inside the United States have access to the Internet. Hence, our total accessible market in the US is 29 million.

The UK total population was estimated to be close to 63.4 million.²³ There is an estimated 55.9 million individuals who have access to the Internet.²⁴ Of these 55.9 million, only 7.2 million individuals, both male and female, who are between the ages of 15-24 (12.8% of total population), have access to the Internet. Thus, the total accessible market for the UK is estimated to be around 7.2 million. Therefore, our total accessible market for both the US and UK is then estimated around **36.2 million**.

Market Size- Content Creators

Content creators are defined as individuals who invest a majority of their time and money on creating any form of content. For the purpose of this analysis, we will primarily focus on musicians as we plan to expand our business to other forms of entertainment after our business plan is proven. These are individuals who would be interested in using our B2B services such as management, financing, marketing and so on. We are withholding professional musicians who are supported by major label organizations from our valuation of the market.

²³ “United Kingdom Demographics Profile 2013,” *Index Mundi*, accessed June 24, 2014
http://www.indexmundi.com/united_kingdom/demographics_profile.html

²⁴ *Ibid.*, 78.

However difficult it is to calculate an estimate of the number of musicians within the USA and UK, it is still important to approximate a value. A study has shown that at least 1 in every 5 individuals within the US is an amateur musician.²⁵ According to this approximation, this means that there are approximately 63 million amateur musicians within the United States. We could use this same approximation to calculate an estimate of the number of amateur musicians within the UK as well. Thus, there are approximately 12.6 million amateur musicians residing within the UK. Altogether the total accessible market of content creators within the USA and the UK is approximately **75.6 million**.

Market Size- Conclusion

Realistically, our entertainment label will only be able to provide services to a very select few content creators. The total accessible market of content creators within the UK and USA should be viewed as a pool of individuals that the label can select from. It is impossible to provide our B2B services to a market that large, let alone ten individuals. Content creators who are looking to earn revenue off their creations are more than likely seeking professional help, thus, this number should be demonstrative of a very strong demand for management, marketing and financing services for content creators. Conversely, it is very possible to serve our other market segmentation due to marginalization of distribution and production costs.

²⁵ "In defence of the amateur," *Trust Me I'm A Scientist*, accessed June 24, 2014
<http://trustmeimascientist.com/2013/03/04/in-defense-of-the-amateur>.

Market Profitability (Five Forces Analysis)

I. Threat of New Entrants

Historically, the market for the record label industry has been quite concentrated. However, due to disruptive innovations in technology that has transformed the way music is produced, distributed and consumed, we are now witnessing a shift towards a more fragmented market. As mentioned before, independent record labels now hold a 34% market share, more than any other major record label. Thus, we can infer that these disruptive technologies have lowered the barriers to entry and the power held by incumbents within the industry.

Moreover, operating a sustainable indie label is not capital intensive. Due to advances in recording technology, anywhere between \$1000-\$2000 worth of recording hardware and software can turn any bedroom into a fully functional recording studio; and (depending on the skill of the producer/engineer) music can be developed at a professional level for pennies. Additionally, services like CD baby and Tunecore have greatly lowered distribution costs as well. For less than a \$100 a year, any individual can have their album digitally distributed worldwide.²⁶

²⁶ “Tunecore Pricing”, *Tunecore*, accessed June 24, 2014, <http://www.tunecore.com/index/pricing>.

Although these technologies have made it very inexpensive to produce music, they have also allowed for coagulation and oversaturation of supply. That being said, it is now more important than ever to strive for relevancy in your market and it is becoming more and more difficult to do so. Low profit margins mean that product needs to be sold in high volume.. Thus, one of the largest variable costs will be marketing and promotional.

Traditional marketing costs can still be very expensive, yet there have been successes in the form of viral marketing that have ran on extremely low budgets. All in all, success in this industry is largely a result of talent and ingenious marketing, which may or may not be capital intensive. The learning curve, hence, is extremely steep which makes it more difficult for new comers to succeed. Although technologies have made it far less complicated and expensive to start an independent record label, it is still extremely difficult to be “validated” by the industry as a relevant indie label. Once validated, however, we can greatly benefit from economies of scale.

Switching costs are extremely low as well. Content consumers are as fickle a target market as there can be. To them, it makes no difference where the music comes from, as long as it is good and relevant to the zeitgeist. On the other hand, the switching costs for content creators may be a little more. Parting with a longtime manager and or marketing team can be very detrimental to one’s career. There is no replacement for human capital and a large investment of one’s time and energy is dedicated to building

a team around the artist. Thus, the switching costs are much higher for content creators than for content consumers, which means that we must first focus our efforts on capturing value from the former.

In conclusion, though barriers to entry have been lowered greatly as a result of a dilution of power held by incumbents, it is still very difficult to generate enough profit to sustain a business within this industry due to the nature of low profit margin businesses. In order to succeed, we have to be *very* good in almost all aspects of our business. Anything less than exceptional performance will result in a failure to recoup any start up costs and which will make it far less attractive to continue business within this industry. Finally, we determine that the threat of new entrants in this market is closer to 3 within the Porter's diamond model.

II. Threat of Substitute Products

Other forms of entertainment can decrease the market size of music industry. Consider the film industry and the video game industry. In 2013, the total market valuation of the film industry was measured at close to \$36 billion with an increase of 4% over the past year²⁷. The total revenue for the video game industry in 2013 was almost twice that of the film industry at an estimated \$66 billion²⁸. Both the film and video game industry satisfy the same consumer need, which is the demand for

²⁷ "Theatrical Market Statistics 2013," *Motion Picture Association of America*, accessed June 24, 2014, http://www.mpa.org/wp-content/uploads/2014/03/MPAA-Theatrical-Market-Statistics-2013_032514-v2.pdf.

²⁸ Malathi Nayak, "FACTBOX - A look at the \$66 billion video-games industry," *Reuters*, accessed June 24, 2014, <http://in.reuters.com/article/2013/06/10/gameshow-e-idINDEE9590DW20130610>.

entertainment and leisure. However, the switching cost for these products and services is considerable. Music subscription services can be accessed by anyone with a connection to the Internet for a low cost. However, the cost of enjoying a video game can vary greatly as the consumer must first purchase a console and then the game separately. These initial purchasing costs can vary from \$300 to \$500. Likewise, enjoying film is also costly but not as costly as video game consumption.

There are also many other substitute products and services that consumers can supplant for music in order to satisfy the same need. Many of these goods and resources are non-excludable and not rivalry by nature. For instance, the cost of a walk in the park is essentially zero. Of course, the essence of music is irreplaceable and it is very unlikely that any substitute product can completely diminish the value of music consumption. There will always be a demand for good music regardless.

It makes one the wiser, however, to recognize that of the three major forms of entertainment within this sector, the music industry is evaluated to be the least profitable. This is a clear indicator that substitutes products and services within the entertainment industry as a whole are in effect diminishing the market size of the music industry.

Hence, it is imperative to cultivate a competitive attitude and continue delivering high quality, differentiated product at low costs while developing technology infrastructures that allow for ubiquitous access to the product for nominal. Yet, instead of competing to dominate the market via differentiation, our focus will be on entering a blue ocean market by redefining the market through innovative business models. In conclusion, the threat of substitute products is substantial but not enough for it to discourage a venture within the music industry. We rate the threat of substitute products at approximately five.

III. Bargaining Power of Consumers

Consumers tend to have a relatively moderate amount of buying power within this industry. It does not cost much for an individual to consume music from different record labels since prices are democratized and balanced across the board. Also, music is a very price elastic product meaning that demand is very sensitive to a change in price. This is why most firms sell popular albums within digital retail stores for \$9.99 USD per unit. An increase in its price would very heavily affect the supply in that it would fall significantly. Thus, the music industry is heavily dependent on acceptance of prices set by reports of what consumers are willing to pay, granting consumers more buying power. Additionally, music in itself is not a very differentiated product. There are several major record labels that produce familiar “me-too” songs that are all based off what is the latest trend or what is “hot” at the moment. Consumers can easily switch from one label to the next (without being aware) with little to no penalty.

It is far and well known that the music industry is a hit-driven business and there are little to no long-tail effects. This means that although there is an enormous amount of musicians today attempting to make ends meet by selling their music, only the top 10% of those musicians are able to live off their creative efforts.²⁹ All in all, consumers have a very high bargaining power, which makes market profitability seem less substantial than once hoped.

Thus, it is pertinent to ensure that the label sees income from all forms of revenue streams that the artist may accrue over the course of their career. Additionally, Creative Cake needs to focus on signing and developing a good amount of talent that is likely to appeal to a broad market in order to ensure a sizeable profit. In conclusion, we sit it fit that consumer power is relatively high according to insights provided by industry statistics. Thus, we rate consumer bargaining power at 2.

IV. Bargaining Power of Suppliers

In contrast our suppliers, the content creators, have very little bargaining power. As mentioned previously, the market size for content creators is roughly 70 million. There are plenty of individuals with talent that we can support with our B2B services. It is not a question of whether we will be able to find the talent; the question is more of whether we will be able to market them. For content creators, it would be a substantial cost for them to switch between different indie labels.

²⁹ “2013: The Year in Rewind,” Next Big Sound, accessed June 24, 2014, <https://www.nextbigsound.com/industryreport/2013>.

Successful acts are a result of a well-organized team that has established a deep rapport over time. Content creators usually pair themselves with teams that understand their vision and personality and meld well together. Thus, a sudden break from their team would severely hinder their career and would incur a very high cost of both personal time and energy to find another team that suits their needs. Meanwhile, services like ours are few and far between.

The demand for services like ours is thus very high. We can charge content creators a very high price without fear of lowering demand. In other words, our B2B services are thought of as less elastic than our B2C services. In conclusion, we would like to rate the bargaining power of suppliers at 9. To summarize, content creators offer undifferentiated value proposition, our content creator market pool is vast, and the switching costs for content creators is very high.

V. Competitive Rivalry

Competition will be extremely intense. Although independent labels now take a large portion of market share, most of the revenue generated within the music industry is being distributed to top dog labels such as Warner and Sony. These competitors have a plethora of multi-platinum selling artists on their roster and are continuously searching to sign the next ultra star.

With their resources and Intel, it is much easier for them to search for raw talent and persuade them to sign with the label. However, it is still possible that after building enough brand equity, consistently putting out quality music, and acquiring a strong online presence that Creative Cake will be able to generate sufficient revenue to warrant a pursuit within this industry.

Additionally, with the increase in accessibility of music through mobile platforms, the growth prospects of the music industry are positive. The cost structure of the industry is not necessarily high depending on one's capability to produce compelling content and distribute it within the correct context. While it is true that US record labels have invested a whopping \$4.5 billion in A&R and spend up to \$500,000 in breaking an act in a major market, there have been cases where labels have not had to break the bank in order to reach some moderate level of success.³⁰ However, the market remains highly competitive as the bargaining power of buyers will remain high and product differentiation will remain low. Thus, we rate competitive rivalry at 7.

³⁰ "How Record Labels Invest," *IFPI*, accessed June 24, 2014, <http://www.ifpi.org/how-record-labels-invest.php>

Marketing Mix

1. Products and Services
Content Creation & Distribution
Publishing & Administration
Social Media Marketing
Creative Consultation
Financing
Music Production and Engineering
Management

2. Pricing and Fees
Value Driven
Subscription Based Revenue Model (Royalty Based)
Digital Downloads via iTunes (\$0.99, \$1.29 per song or \$4.99, \$9.99 for EPs and Albums)
Per Hour Revenue Model (B2B Services)
Low Profit Margins, Focus on Scaling
Hybrid Pricing Strategy
Monetization of Online Content (YouTube, Ad Revenue, ContentID)
Special Order Pricing (Vinyl, Custom Merch, Events)
Revenue from Artist Income (Sales, Touring, Merch)



3. Places

Digital Services (Spotify, SoundCloud, iTunes, Big Cartel, YouTube)

Festivals, Shows, and Concerts

The Office (B2B Services Only)

Social Media

4. Promotion

Social Media Marketing

Facebook Ads, Twitter Ads

YouTube Viral Content

Building Brand Equity via Dedicated Personal Assistance

Sponsorships

Creating Compelling Content Through Story Telling

5. Physical Evidence/Packaging

Stellar Product Packaging and Branding Through Brilliant Design

Consistent and Reputable Brand Image

Warm and Friendly Working Environment and Interaction with Clients

Strong and Brilliant Online Presence

6. People

Excellent, approachable and Intelligent Staff and Business Representatives and Ambassadors

Interpersonal and Media Training Services

Intensive Recruitment Process and Talent Search

Great Company Culture and Incentives for Good Employee Behavior

Many Assets and Benefits Provided to Employees to Ensure Retention

Rewards and Remunerations

7. Process

Focus on Creating Spectacular Content Without Compromise

Maintaining Artistic and Business Integrity

Focus On Ensuring Satisfaction and Success for Our Clients

Focus On Critical A&R Searches and Artist Development

Immaculate Organization and Management

Leadership Through Strong Values and Goals

Market Growth Rate

Global recorded music revenues continue to decrease year after year. With the change brought by the advent of P2P file sharing, we have seen physical sales greatly diminish. Physical music revenues were evaluated at an impressive \$26 Billion worldwide at the onset of the 21st century (2001). That number has dropped by almost \$20 billion since.³¹ It is evident that revenue models based on physical sales is becoming a thing of the past. In contrast, however, performance rights within the United States continue a steady rise thanks to the proliferation of streaming services. Just this year, total performance rights income within the United States had crossed the \$1 billion mark.³² Moreover, the US market has demonstrated revenue growth from subscription streams. Revenue from streams has reached \$1 Billion in 2013, a markedly impressive increase from only \$322 million just three years ago.³³

While subscription was the fastest-growing revenue stream in 2013 (51.3%), digital download remains to be the largest form of revenue generated in the digital music format. Digital download accounts for two-thirds of all revenue generated from digital music services. Although these are strong indicators of a thriving revenue model, digital downloads saw its first decline in revenue ever in 2013 (2.1%).³⁴

³¹ IFPI, *The Recorded Music Market in 2013* (London, UK: IFPI, 2014), 9.

³² *Ibid.*, 11.

³³ *Ibid.*, 19.

³⁴ *Ibid.*, 20.


Growth of digital downloads was offset by the increasing prevalence of subscription and access revenue models. Revenue from Ad-supported music video increased by 17.6% from 2012 to a total of \$472 million.³⁵

In both the US and UK markets, revenue from physical sales continues to decrease whereas revenue from digital continues to rise. The US and UK have seen a 34% and 93% increase respectively in digital revenue since 2009. Contrariwise, there has been a 47% & 50% decline in physical sales in the US and UK markets respectively.³⁶ Although the music industry is expected to continue shrinking all the way through 2017, firms within the industry are still generating profit by means of alternative revenue streams that are now taking prevalence over traditional models.

Record labels that are to thrive in this new industry climate have embraced and adapted to new forms of revenue from streaming, downloads, licensing and touring and have shifted away from the traditional lump sum payments from physical sales. Thus it would be wise to fully implement a digital strategy and abandon any notion of generating revenue from traditional models.

³⁵ Ibid., 23.

³⁶ Ibid., 55 & 78.



Digital Music Trends

It is self evident that the market is now beginning to consume a majority of their music via online subscription services. Even more so, the market is now using mobile technology as their preferred method of music and entertainment consumption. As a result, popular music is now reaching larger markets than it has ever before. According to the IFPI, more than 60% of people aged 16-64 with access to the Internet had used a digital music service at least once within a span of six months. Additionally, thanks to advances in technologies, the industry is also witnessing a heightening penetration of digital music services in countries that have previously have limited access to such services.

Services like Spotify and Deezer are now also offering additional features that help drive user experience and engagement. These features include the ability to build and share playlists as well as discovery apps that give recommendations based upon music curated by trusted human sources. Record labels continue to participate in the digital revolution as well. Labels have licensed over 30 million tracks to digital music services. There is also a new market need for music to be easily and ubiquitously available. Consumers are now listening to more and more music on different platforms including mobile phones and tablets. The proliferation of this type of consumer behavior has been supported by cloud-enabled services that allow the user to stream their favorite music from an online locker.

There has also been an apparent shift to consumer spending on apps on both iOS and Android platforms in 2013, which is evinced in a 77% increase from the prior year.³⁷ This shift in consumer spending has driven the music industry to begin investing in R&D for music apps such as Soundcloud and Shazam. Increases in bandwidth speed due to 4G and LTE technology will also allow for content consumers to continue enjoying their music and entertainment everywhere at anytime for a very low cost. Another move that record labels have been pushing for is the ability to give their fans access to exclusive content. According to Nielsen, 40% of music consumers classified as fans are responsible for 75% of total spending on music.³⁸ Additionally, these individuals could spend an additional \$450 million to \$2.6 billion a year if given the opportunity to access exclusive content from their favorite artists. Record labels are reacting to this statistic by diversifying their value proposition.

For instance, record labels are now encouraging artists to offer extras like behind the scenes footage, invites to dinner dates, exclusive merchandise, vinyl, autographed copies and so on. Record labels are making an extra effort to identify their artists' aficionados and offer them exclusive content. Reports indicate that aficionados consist of a minority of the total music consumption population (14%) but account for up to 34% of music spending.³⁸ As a result, record labels are spending more and more to develop mobile apps targeted to satisfy aficionado needs.

³⁷ Ibid., 28.

³⁸ Media and Entertainment, "Turn it up: Music fans could spend up to \$2.6B more annually," *Nielsen*, accessed June 24, 2014, <http://www.nielsen.com/us/en/newswire/2013/turn-it-up--music-fans-could-spend-up-to--2-6b-more-annually.html>.

Artists are also developing new ways to capture value from their fan base by using apps. Recall Jay-Z's recent partnership with Samsung where the Samsung development team created an exclusive app for his most recent, *Magna Carta Holy Grail* album. The app consisted of exclusive access to lyrics and compelling content. Additionally, fans that had downloaded the app were given the privilege of having early access to the album a total of three days before its official release. Although the RIAA did not corroborate the 1 million copies downloaded via the app in their sales results, the deal was worth an estimated \$20 million. Instances like these demonstrate the ways artists and record labels are working together to diversify their revenue streams in order to capture more value.³⁹

All things considered, the music industry is still at a point of instability, but as of recent is demonstrating signs of revitalization. With the deterioration of traditional revenue models, labels and artists are finding innovative ways to create new and diverse revenue streams. All signs point to a digitalization of revenue streams as being the most dominant form of income for the future of the music industry. Thus, it is important to recognize the shift in trends and to adapt to the most successful methods of revenue generation. It is more than likely that the modern record label will focus its efforts on A&R, artist development and financial support of its roster with a cynosure on generating income from repeatable plays from streaming services, brand sponsorship, apps, touring and merchandise.

³⁹ "2013: The Year in Rewind," Next Big Sound, accessed June 24, 2014, <https://www.nextbigsound.com/industryreport/2013>.

Competitive Analysis

Here, at creative cake, we are aware that there are many, many competitors within the recorded music industry. Thus, we will identify the competitors that most closely resemble the products and services that we specialize in. Creative Cake's value proposition is divided into two: Content creation and artist services. We have identified two main competitors that we most closely identify with: The Revels Group & Fools Gold Records.

The Revels Group - Summary

The Revels Group is a boutique Entertainment + Marketing Company.


"Our services and clients exist among a broad ever-evolving spectrum. We embody and embrace the entrepreneurial spirit, constantly exploring, investigating and creating." ⁴⁰

There are three core activities that The Revels Group performs. These are:

- 1) Artist Management
- 2) Marketing
- 3) Tour Management

**Note: We will only focus on artist management and marketing since we are not in the business of tour management.*

⁴⁰ "About," *The Revels Group*, accessed June 24, 2014, <http://therevelsgroup.com/about>.



Artist Management & Marketing

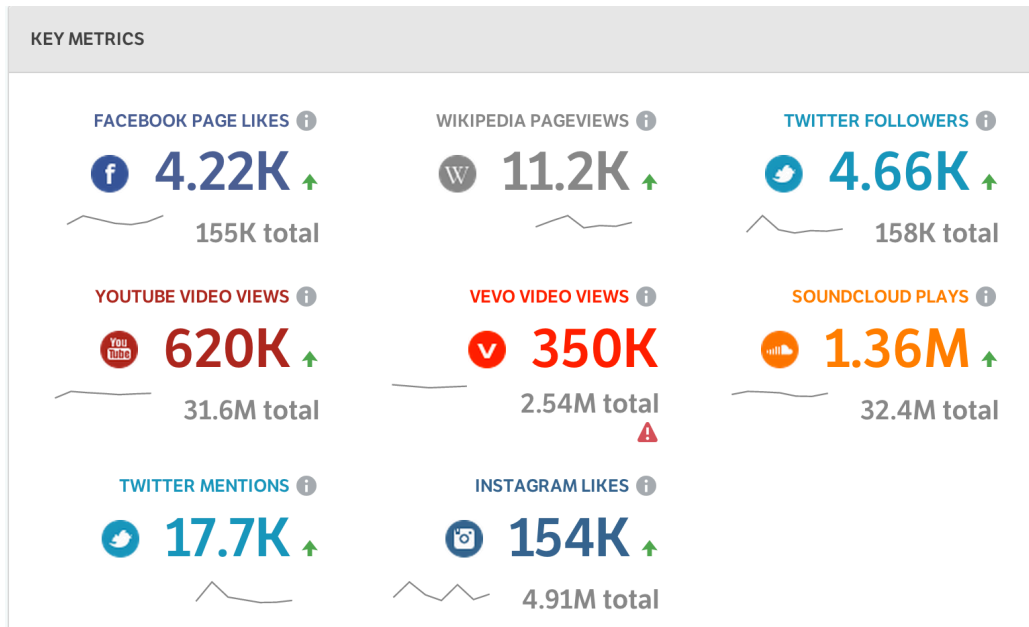
Currently, The Revels Group is home to G-Eazy; a California Bay based artist. Currently, G-Eazy is the only artist that The Revels Group manages. Although there is no statically relevant information that could be used to demonstrate The Revels Group artist management competencies, we have closely observed G-Eazy's career and have drawn some inferences that are helpful in our analysis. G-Eazy has been witnessing plenty of exposure in 2014. He has gone from underground-indie artist to a near mainstream breakthrough. Due to the success of a series of different mixtapes and tours, especially his latest "These Things Happen" tour which ended this April, he has accumulated a large twitter following; currently standing at over 158,000.⁴¹ He has released his debut album, "These Things Happen" on June 23rd 2014. His lead single, "Tumblr Girls", has an impressive count of over 2.3 million streams on Soundcloud.⁴² His management team has also established an impressive web-landing page with links to his merchandise store and music store as well as contact info for booking and press.

His management team also takes care of his social media platforms and they do a phenomenal job at it as well. They understand the concept of "native content" and exploit each platform to its extent. The following is a break down of his audience following and other significant data derived from analyzing his social media presence.

⁴¹ "G-Eazy's Twitter Following" available at: https://twitter.com/G_Eazy.

⁴² "Tumblr Girls" available at: <https://soundcloud.com/g-eazy/tumblr-girls-ft-christoph>.

From Next Big Sound (2014)



*It is self-evident that G-Eazy is a buzzing artist, thanks to the artist management services that The Revels Group has provide.

These statistics provide evidence that The Revels Group is a very competent team of individuals who understand how to guide the career of a young artist who, in fact, is not signed to any label at all. One very important success factor that has been shown to increase an artist's chance of success is his social media presence. Let us focus on how The Revels Group delivers value to G-Eazy by breaking down the components of his social media marketing campaigns.



Social Media Analysis

The Revels Group understands G-Eazy's target market very well and appeal to their visual senses. None of his posts are perturbing, intrusive, or irritating and they do not ask very much of their audience. Instead, G-Eazy and his team focus on delivering visually appealing content with calls to action.



The example above demonstrates the effective strategy that The Revels Group employs during its social media marketing campaigns. These links always lead to one of three content sources: Soundcloud, Youtube or iTunes. One thing that is very crucial in their strategy is that all of the content is offered gratis. In fact, G-Eazy has never sold any of his content up until the announcement of his first official release, "These Things Happen".

Additionally, his management team has compiled his entire back catalog, including a few new songs and some artwork and made it available via bit torrent, A P2P site.⁴³ This further demonstrates The Revels Group's ingenuity and impressive marketing process that will favor G-Eazy's chances of mainstream success. Another key success factor is the management's understanding of consistency. Across all his social media brands, G-Eazy makes good use of his very stoic, 50's retro image and affinity for the female aesthetic. This is especially demonstrated on his Tumblr Page where he makes use of its artistic nuances to appeal to a specific target demographic.

Furthermore, it is apparent that his management has helped guide his career to astonishing levels without the backing of a major business unit. Unfortunately, there are no empirical and impartial data that we can draw from to back our findings. Rest assured that there is physical traces of the success of G-Eazy as a quick Google search will tell all. A great career is only possible if backed by the help of a solid professional management and marketing team. Thus, G-Eazy would not be in his position if The Revels Group were anything but excellent at what it focuses on. Moreover, we can establish a few key success factors from our observations that will prepare us for developing and executing our own management and marketing strategies.

⁴³ "These Things Happen Bit Torrent Bundle" available at: <http://blog.bittorrent.com/2014/06/05/g-eazy-x-bittorrent-bundle-these-things-happen>.

Success Factors
Consistency builds brand equity
Compelling content draws attention and builds anticipation
Small, dedicated teams that have developed rapport with their clients can move mountains
A move to digitalization of content and distribution is a smart one
Intelligent release strategies are key

SWOT Analysis – The Revels Group

Strengths
Focused and dedicated team
Great understanding of social media marketing
Capability to produce high quality and compelling content for marketing campaigns
Vetted staff that are excellent, competent and experienced music industry professionals
Impressive client and past client list

Weaknesses
Very weak online web presence despite the artists' they manage having strong presence
Poor following on social media platforms
Poor SEO

Opportunities

Optimal location, near L.A., a music business ecosystem

Very well connected within the music industry

Guided by industry executives

Threats

Small client list, dependent upon their client's success

Marketing myopia - contacting and promoting to too small a market

Heavily congested business environment: competition is very high

Red Ocean

Fool's Gold Records – Summary

*“Brooklyn-based record label Fool’s Gold was founded in 2007 by DJs A-Trak and Nick Catchdubs and quickly established itself with a non-stop series of releases bridging the worlds of hip-hop and electronic music, introducing artists like Danny Brown, Kid Cudi and Duck Sauce to the world while being dubbed an ‘indie innovator’ by Billboard, a ‘tastemaker label’ by the New York Times, and ‘one of the most influential indies in the music business’ by Pitchfork. With a clever and constantly evolving aesthetic for all Fool’s Gold visuals and merchandise, the company has become more than an independent music powerhouse, but a trendsetting lifestyle brand.”*⁴⁴

⁴⁴ “About”, *Fool’s Gold Records*, accessed June 24, 2014, <http://www.foolsgoldrecs.com/about.8>

Key Activities:

- 1) Content production
- 2) Marketing & “lifestyle” branding
- 3) Distribution

Content Production

Fool’s Gold Records is home to a plethora of indie rap and EDM acts. These artists all have a significant following and are successful in their own right. Artists include individuals such as Danny Brown, Lil B, Chromeo & Crookers. With such a broad and impressive list of clientele, it is safe to presume that Fool’s Gold earns a good portion of their revenue on their artists’ earnings. According to www.billboard.com, Fool’s Gold signs artists to two-page artist contracts and split the revenue 50/50 after overhead costs have been recouped. Interestingly enough, not only does the label produce its own content but is involved in the business of presenting it to the right individuals. For instance, co-founders A-Trak & Nick Catchdubs also do double time as DJ’s and are able to play some of their label’s records at popular clubs across the nation to witness a reaction from their audience.

This is a unique approach that a number of major record labels do not utilize and it demonstrates the innovative mindset that individuals at Fool's Gold have come to possess. Additionally, the heads of Fools Gold Records have a tailored business model that does not leave any of their artists in jeopardy. Their mantra includes a unique approach to each release strategy that is designed to best suit its needs and increase the probability of breaking even. Along with selling records through digital channels, Fools Gold also doubles as a merchandise business where they sell apparel at a premium. This business strategy closely follows a focused differentiation model where products are perceived at a high value. Their reputation as tastemakers within their genre gives them the privilege to sell merchandise like a leather jacket upwards of \$775.

Fool's Gold Records Discography ^[3]				
Release date	Artist	Title	Format	Catalogue
2011	Kid Gloves	Music Power	Digital Download	FGR040
2011	Rogerseventytwo	You Take Me Higher	12"	FGR039
2011	Sammy Bananas	Move your Body	Digital Download	FGR038
2011	Jokers of the Scene	Joking Victim	12", Digital Download	FGR037
2011	Treasure Fingers featuring Haley Small	Keep Up	12"	FGR036
2010	Kid Gloves	Bare Knuckle	Digital Download	FGR035
2010	LA Riots	The Drop	Digital Download	FGR034
2010	K.L.A.M	Funky 4 EP	12"	FGR033
2010	Greenmoney	Gold Ru\$h EP	Digital Download	FGR032
2010	Jokers of the Scene	Revolting Joks	12"	FGR031
2010	Nacho Lovers	Deeper	12"	FGR030
2010	Congorock	Babylon	12"	FGR029
2010	Kingdom	Mind Reader	12"	FGR028
2010	Donnis	Gone	12"	FGR027
2009	Laidback Luke & Lee Mortimer	Blau!	12"	FGR026
2010	Duck Sauce ^[4]	Greatest Hits	12"	FGR025
2010	Bag Raiders	Big Fun EP	12"	FGR024
2009	The Count & Sinden	Mega	12"	FGR024
2009	Crookers	What Up Y'all	12"	FGR022
2009	Malente	I Like It	12"	FGR021
2009	Jokers Of The Scene	Baggy Bottom Boys Remixes	Digital	FGR002
2009	Alexander Robotnick	Obsession For The Disco Freak	12"	FGR020
2009	DJ Gant-Man	Juke Dat Girl	12"	FGR019
2009	Kid Sister	Get Fresh	12"	FGR018
2009	Congorock	Runark	12"	FGR017
2009	Trackademicks	Enjoy What You Do	12"	FGR016
2008	Laidback Luke & A-Trak	Shake It Down	12"	FGR015
2008	Nacho Lovers	Acid Life / Go On	12"	FGR014
2008	Jokers Of The Scene	Acid Bagg	12"	FGR013
2008	Various Artists	Fool's Gold Remixed	12"	.
2008	Sammy Bananas	Braids & Fades	12"	FGR012
2008	Four Color Zack & Pretty Titty	Sing Sing Breaks	12"	FGR011
2008	Treasure Fingers	Cross The Dancefloor	12"	FGR010
2008	Kid Sister	Remixes	12"	FGR009
2008	Kavinsky	Blazer	EP	FGR008
2008	Jokers Of The Scene	Y'all Know The Name	12"	FGR007
2008	Kid Cudi / Crookers	Day 'N' Nite / Day 'N' Nite (Crookers Remix)	12"	FGR006
2007	Kid Sister	Pro Nails / Super High Shine Remixes	12"	FGR005
2008	Sammy Bananas	High Top Fades	12"	FGR004
2008	The Cool Kids	88 / I Rock	12"	FGR003
2008	A-Trak	Dirty South Dance Remixes	12"	FGR002
2007	Kid Sister	Control	12"	FGR001

* From Wikipedia

As seen above, it is apparent that Fool's Gold Records has a consistent track record and has released several artists since its inception in 2007. It is clear that this independent label focuses its efforts on serving a niche market, whereas other record labels like XL recordings have major stars like Adele. Thus, one of their key business strategies that lead them to success is to spread the risk by releasing several artists across a span of years.

Marketing & Lifestyle Branding

Fool's Gold Records also places its focus on marketing and branding for its roster. The firm has been known for its collaborations with apparel and non-music companies.

*"I think one of the things that Fool's Gold does best is figure out how to present something – everything from the wording, to the look, to who the right people are to get it to." – A Trak.*⁴⁵

One close look at their website details a firm that has made it a priority to not only be known for its diverse and ingenious music releases, but also its penchant for appealing to the more visual aesthetics of design. For instance, their office in Brooklyn doubles as a retail store that stocks Fool's Gold Records very own clothing line with original logo design.

⁴⁵ "Independent Study: Fool's Gold Records," *Billboard Biz*, accessed June 24, 2014, <http://www.billboard.com/biz/articles/news/digital-and-mobile/1563055/independent-study-fools-gold-records>



Fool's Gold Gift Card



Fool's Gold "BIG ASS LOGO" Sticker



Fool's Gold x Peas & Carrots "Logo" Slipmats



Danny Brown "Old" Poster



Fool's Gold x Peas & Carrots "Shop" Tote



Duck Sauce "Eagle" Tee & "Duck Tape" Bundle



TWD x Fool's Gold x SHUT "Pixote Snake" Deck



TWD x Fool's Gold x SHUT "Pixote Pyramid" Deck



Duck Sauce "Einstein" Tee



Duck Sauce "Einstein" Tank



A-Trak Zombie Tee - Black



A-Trak Zombie Cut-Off Tee - Black



A-Trak Metal Tee - Black



A-Trak x Pixote Long Sleeve - Black



A-Trak Metal Long Sleeve Tee - Black



Low Pros "All-Over" Tee

Fool's Gold Records makes at least half of its income on the sale of designer goods, apparel and other merchandise.⁴⁵ They develop these goods in collaboration with artists who are signed onto their roster as a means of cross promotion between the artists' brand and the labels brand. Co-founder/DJ, A-Trak, has said that he has considered expanding his business into a full-fledged creative agency since much of the focus already is on branding and marketing.

Distribution

Fool's Gold also handles distribution of its roster's creative product through an entirely digital means. They have partnered with two entities, Seed Worldwide and Drip.fm. This unique approach has forced the firm into thinking precisely about each projects' release strategy as well. Moreover, it has helped lower the costs of reproduction and distribution. This means that the label can reproduce as many records as it wants and distribute to as many retail stores as they like as well without incurring additional costs.

What is most interesting about Fool's Gold distribution strategy, however, is their premium digital subscription service justly called The Goldmine. This service provides users access to new releases at high quality 320 kbps mp3 and WAV downloads. It also includes exclusive extras that are handpicked from the label's back catalog as well as priority access to live events. This service is powered by drip.fm, an alternative music platform that partners exclusively with labels.

The monthly fee to subscribe is \$10.00/month and it comes with instant access to the label's back catalog including three free releases and members only perks.

Additionally, members can sign up to the service from anywhere in the world which is a plus for individuals who live in countries where their access to music is limited by territory restrictions. One of the added benefits of choosing an alternative music platform such as drip.fm as its main form of distribution is the increased artist-fan engagement and the proximity and intimacy that are felt from that relationship. It is clear that the founders of Fool's Gold Records have developed a business that is built upon community and focused on delivering great music, regardless of its positioning within the major realm of the music industry.⁴⁶

Success Factors

Diverse and niche focused roster

DJ's and artists as A&R representatives (fan focused)

Realistic of artist brands

Unique approach to each release strategy

Excellent brand equity and representation that artists absorb through osmosis

Excellent content marketing strategies

Diversification of revenue streams via inventive merchandise and logo design

Eliminated major costs by sticking to digital distribution channels

Community focused. By musicians, for musicians

⁴⁶ "Fool's Gold's Nick Catchdubs on The Goldmine, Indie Label's New Premium Digital Service (Q&A)," *Billboard Biz*, accessed June 24, 2014, <http://www.billboard.com/biz/articles/news/indies/1096136/fools-golds-nick-catchdubs-on-the-goldmine-indie-labels-new-premium>

SWOT Analysis

Strengths
Community focused
Diversification of revenue portfolio
Low distribution and reproduction costs
Fair compensation for artists
Strong marketing and brand image

Weaknesses
Too many artists on roster may lead to a lack of attention
Lack of perspective: too many individuals are too involved with creation processes
Lack of staff may lead to an inability to oversee all business processes
Lack of mass appeal, too niche focused
Opportunities
Artists are generally excited to belong to the label
Live events are community focused
Room to grow and expand to represent other genres
DJ's as A&Rs makes for good understanding of market needs

Opportunities
Ability to rapidly innovate music sensibilities to perpetuate prominence as a label tastemaker
Focus on artist-fan engagement and community provides opportunities to quickly react to and understand changes in market needs
Opportunity to grow into a full fledged creative agency that provides marketing services to corporate clients

Threats
Large repertoire may spread its human resources too thin
Lack of differentiation from local competition
Major record labels may buy off its repertoire due to higher offering

Distribution

Existing Channels of Distribution

Currently, a majority of major and major indie recording labels partner with distribution firms such as RED distribution, Universal Music Distribution and The Orchard to distribute their music to a wide array of physical and digital retail. Music is distributed to physical retail stores like Walmart, Best Buy, and Target as well as digital retail stores like iTunes, Amazon, Google Play, etc. Music distribution firms who

focus on physical retail behave like wholesalers, such that the distributor purchases the CD's in bulk and thereafter sells them to retailers.

Music labels sale their product at around 2/3 of the retail price to distributors, who then sale to the retail store for an additional amount. Labels do not receive money from physical sales until a certain amount of product has been sold. That amount is usually stipulated in a contractual agreement signed between the distributor and the record label. Partnerships like these have presented many difficulties and conflict of interest between labels and distributors, especially if the distributor was not partly or wholly owned by the same firm as the label is.

Digital distributors like iTunes behave differently because they can sell full-length albums and, or singles. Unlike physical distributors, digital distributors sell product at different prices. Prices for singles from a popular artist, such as Rihanna can go as high as \$1.29 on iTunes whereas less popular artists may sell for as low as \$.79. Likewise, albums from popular artists can sell as high as \$12.99 whereas less popular artists sell for a low as \$5.99.

Due to the advent of the Internet, indie record labels have begun to move away from major distribution firms and have begun to release their material via online channels only. Firms that indie labels partner with today offer them more control and more money for their efforts. These firms include firms like Tunecore and CD Baby and

boutique marketing and distribution firms like Drip.fm and Seed Worldwide. The advantage of partnering with indie distributors who focus on digital releases solely is that labels have the advantage of having plentiful options. There is high competition between smaller, digital distributors and thus the power of the supplier is much lower compared to say major distributors such as EMI.

Our Distribution Channel

Being a small, independent start up, Creative Cake will choose to first work directly with digital retail and digital streaming services iTunes, Soundcloud, & Spotify. In order to directly upload our music to iTunes and Spotify's servers, it will be necessary to partner with a global rights agency such as Merlin Network who will negotiate on our behalf. Otherwise, we will choose to work with Tunecore and or Songtrust as they will act as our publishing administrators and/or possibly our distributors as well. Finally, we will release any free material solely through Soundcloud as it is the #1 platform to share music online.

Industry Cost Structure & Value Chain

According to a report by IFPI (2014) the recording industry invests an estimated \$4.5 billion [US] annually (26% of total industry revenues). This investment goes into A&R and the search for the industry's main resource, raw talent. The investment is segmented into the following facets:

- 1) Advances
- 2) Recording funds
- 3) Music video production
- 4) Tour support
- 5) Marketing and Promotion

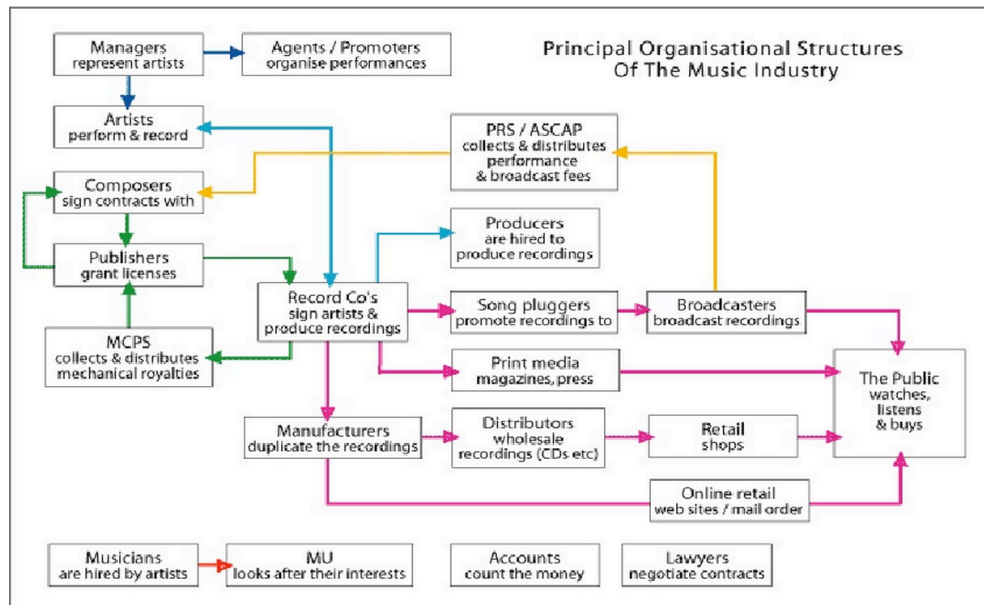
It is reported that it can cost up to an estimated \$1.4 million to break an artist into the mainstream music market.⁴⁷

Breakdown of Record Label Investment	
<i>Advance</i>	<i>US\$200,000</i>
<i>Recording</i>	<i>US\$200,000-300,000</i>
<i>Two or Three Videos</i>	<i>US\$50,000-300,000</i>
<i>Tour Support</i>	<i>US\$100,000</i>
<i>Marketing and Promotion</i>	<i>US\$200,000-500,000</i>
<i>Total</i>	<i>US\$750,000-1.4 Million</i>

(Source IFPI)

⁴⁷“How Record Labels Invest,” *IFPI*, accessed June 24, 2014, <http://www.ifpi.org/how-record-labels-invest.php>

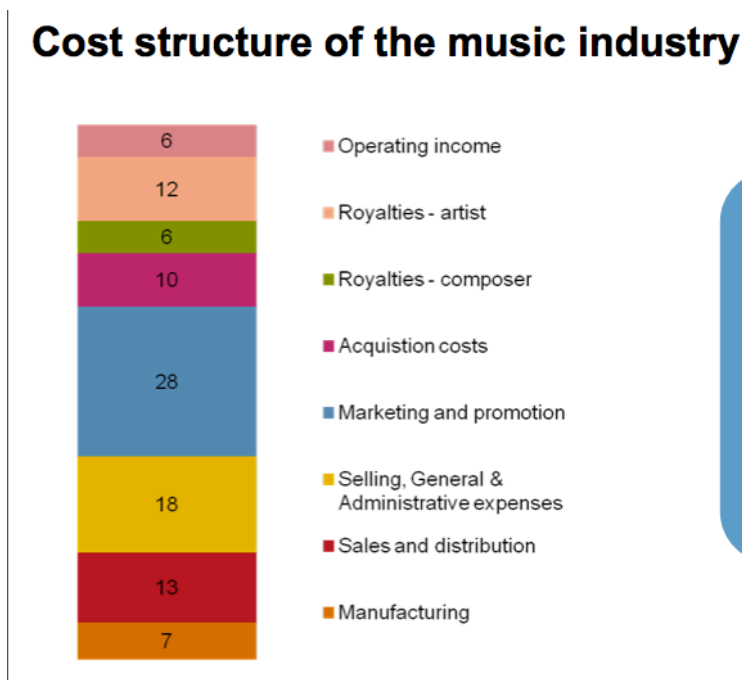
However, there are additional costs that a label may incur because of the partnerships that it has developed within its working ecosystem. Below is a table that demonstrates the breakdown of the value chain within the music industry and the role and obligations that labels play within this environment.



(via Camilla van den Boom, PhD at Eindhoven University, 2011) ⁴⁸

⁴⁸ Camilla van den Boom, "Business Models in The Music Industry," *Eindhoven University of Technology*, accessed June 24, 2014, <http://www.slideshare.net/camillavandenboom/business-models-in-the-music-industry>.

As illustrated above, it is made clear that independent record labels may incur additional costs in the form of hiring business and financial managers, lawyers and working with non-music firms such as sports brands and foods industries. These costs are currently unknown due to the lack of information provided by special partnerships labels form. However, the table below may provide a better idea of the cost structure for the industry in its entirety.



(via Camilla van den Boom, PhD at Eindhoven University, 2011) ⁴⁹

⁴⁹ Camilla van den Boom, "Business Models in The Music Industry," *Eindhoven University of Technology*, accessed June 24, 2014, <http://www.slideshare.net/camillavandenboom/business-models-in-the-music-industry>.

Operational Plan

Production & Services:

Our value offering will be divided into two components:

- 1) Content creation and distribution
- 2) Artist services

Content Creation & Distribution:

In order to ensure the highest quality product is created and delivered to the masses, it is extremely important to highly invest in human resources for content creation. Thus, a large amount of our energy will be invested into seeking the best talent and recruiting the best production and engineering team we can afford. Hence, our costs are divided into a few segments: A&R, equipment, distribution and space.

Our production techniques and costs are as follows:

A&R	Done mostly by attending events and connecting via social media (heavy time investment)
Distribution	Creative Cake will utilize services such as Tunecore or directly upload material to iTunes and Spotify via Merlin Network
Equipment	Creative Cake will invest in state of the art hardware and software for recording purposes
Space	Creative Cake will conduct its business from the owner's home

Product development:

Development will consist upon feedback collected from releases and a focus on developing the artist's craft and vision. As our cultural awareness as a firm increases as well, we will ensure to adjust our release strategies, branding and content developments to the climate of the environment we reside in. As our earning increase, we will invest back into the business by purchasing additional studio equipment and other assets that will help the overall quality of our recordings.

Artist Services

Creative Cake will also deliver artist services to our clients, which consist of:

- 1) Artist management
- 2) Marketing
- 3) Publishing Administration
- 4) Mixing and Mastering



In order to successfully provide these services we will need to focus on hiring a great team.

Production techniques and costs:

Artist Management	We will pay based on time spent with artist, we will hire a business savvy and street smart individual with at least a B.A. in Management services.
Marketing	We will need to hire an individual who is social media savvy and has experience with video & photo editing as well as web design and illustration. We will pay based on time spent on each project assigned.
Publishing Administration	We will manage our client's performance and publishing rights. ASCAP & Soundexchange will collect royalties on our behalf. Tunecore and or Songtrust will collect the rest of our royalties on our behalf as well.
Mixing & Mastering	We will use our in-house production and engineering team to deliver the best content to our clients.

Location:

We are establishing our business in Brooklyn, New York. We have chosen to select this location because Brooklyn is known for being a center of arts and technology. Expenses are not yet known but two bed room apartments in Brooklyn are normally rented from \$900-\$1500 monthly. Our hours are dependent upon the clientele we bring in. We are on stand by 24-7 and will work as many hours as we are able.



Legal Environment:

We have decided to incorporate our firm as an LLC in the state of Delaware for the following reasons:

- Expedited corporate law suits due to expertise in corporate law
- No sales tax, no income tax, or intangible personal property tax
- Delaware allows LLC members to remain anonymous thereby making it easier to hide assets
- Delaware accepts foreign investors
- Low costs for formation and continuation (\$250, \$150 per annum)
- No minimum capital requirements

From Nolo.com ⁵⁰

⁵⁰ “How To Form an LLC in Delaware”, *Nolo*, accessed June 24, 2014, <http://www.nolo.com/legal-encyclopedia/delaware-form-llc-31726.html>.

Management & Organization

CEO

Strong leadership and networking skills

Great understanding of emerging business models and market trends

Focus & Vision with a long-term perspective and patience

Goal setting and business development

Studio Director

Skilled in Pro Tools and music production software

Amazing recording technique

Great interpersonal skills

Social Media Marketing Lead

Savvy with social media and emerging technologies

Very connected network with strong online presence

Experience in graphic design and brand development

Artist Manager and A&R

Connected to local music scenes and clubs

Great understanding of culture

Excels in social situations, understands different points of view.

Stand up individual and ability to create and continue rapport with people

Financial Analysis

Start Up Costs

We have estimated our total, first year start up costs to be estimated at approximately **\$41,076.57 USD**. With this cost in mind, we have estimated that we will need to acquire approximately **\$80,000.00 USD** in order to cover the overhead and ensure a successful first year. We plan on contacting an SBA approved lender in order to participate in the 7(a) loan program. At 6 years with an interest rate on the principal of around 5.5%, our total debt to our lender by the time the loan has matured would equate to approximately \$106,400 USD with an interest payment of \$4400 USD per year. In order to cover these costs and continue to operate from a profitable angle, we have devised the following financial projections in order to better give us an idea of how to best conduct our business:

- 1) 12 Month Profit & Loss Analysis
 - 2) General Journal & Ledger
 - 3) Pro Forma Balance Sheet & Ratio Analysis
 - 4) Income Statement
 - 5) Break-Even Analysis
-

	Cost
Legal	
Incorporation	\$50.00
Insurance	\$150
General Liability Insurance (Yearly)	\$3,000
Taxes & Finance	
Federal Tax (Yearly)	\$14,159
State Taxation (Yearly)	\$250
Business Finance Software (Monthly)	\$80
Tax Return Software (Yearly)	\$99
Equipment	
Pro Tools 11 HD	\$699.99
Logic Pro	\$199.99
Ableton Live	\$649.99
NI Komplete 9	\$999.99
Neumann U87	\$3,199.95
Apogee Quartet	\$1,395.00
Mac Pro	\$2,999.00
LaCie 4TB Storage	\$199.95
Alesis Q88 Midi Controller	\$199.99
2 Yamaha HS8's	\$699.99
Yamaha HS8S	\$449.99
Sony MDR7506 Headphones	\$99.99
Office Supplies	
Office Furniture	\$1,000.00
Sheets of Paper	\$180.00
Writing Utensils	\$120.00
Business Cards	\$80.00
Envelopes	\$120.00
Stapler	\$35.00
Cloud Storage (yearly)	\$800.00
Paper Clips	\$12.00
Post-it Notes	\$24.00
Folders	\$48.00
Writing Pads	\$96.00
Telecommunications	
Deposit for Mobile Plan	\$2,000.00
5 line Mobile & Data Plan (MONTHLY)	\$575.00
Internet (Monthly)	\$75.00
Location	
Rent (Monthly)	\$1,000.00
Utilities (Monthly)	\$200.00



Marketing	
Business Trademark	\$325
Bluehost (Monthly)	\$5.99
Website Template	\$99.00
Logo Design	\$3,000.00
Advertisement Budget	\$1,200.00
TopSpin Account (Yearly)	\$500.00
Total	\$41,076.57

**Total of \$41,076 USD for Creative Cake's first year expenses*

Pricing Structure & Sales Projection

Revenue from singles sold

Singles are sold at \$1.29 USD.
30% taken as commission by iTunes
Thus, we earn .90 USD per unit
We plan to sell 100 singles in the first month with a planned increment of 50 per month
We plan to sell at least 10 different singles in the first year
Each single release on Tunecore is \$9.99 USD which leads to a \$99.99 USD distribution cost within the first year

Revenue from albums sold

Albums are sold at \$9.99 USD
30% taken as commission by iTunes
Thus, we earn \$7.00 USD dollars before tax
We plan to sell 10 albums within the first month with a planned increment of 5 per month
Each album release is \$29.99 USD per album release to Tunecore for 1st year.
We plan to release one album each quarter (4 albums in 1 year).
This equates to ~\$120.00 USD distribution cost within the first year

Revenues from Streaming Royalties

Each stream pays .0084 cents.
We are aiming for 1000 streams within the first month with an increment increase of 1000 per month thereafter.
We will earn approximately \$8.40 USD in the first month.
There are no distribution costs because Tunecore includes the cost in prior distribution agreements.

Revenue from YouTube Ad Revenue

*The CPM is ~\$2.00-\$3.00 USD, so we will estimate to \$2.50 USD per 1000 views
We expect 10,000 impressions on our videos within the first month with an increment by 10,000 every month
First month projection is expected to be \$25 dollars
Implied cost from non-disclosed YouTube distribution fee taken from generated ad revenue*

Marketing Consultation

We will charge upwards \$50 USD/HR for marketing services
We are expecting upwards of 20/HR per month
Marketing Consultation
We will charge upwards \$50 USD/HR for marketing services

Mixing and Mastering

*We are charging upwards \$80 USD/HR for mixing and mastering
We expected steady business upwards of 40/HRS per month*

Management Services

We are working on an on call basis, charging per hour upwards \$100 USD/HR
We are expecting 20 hours per month
Management Services
We are working on an on call basis, charging per hour upwards \$100 USD/HR

Revenue from Vinyl

*We earn \$19.99 USD per unit, we keep 100% income due to big cartel
We expect to sell 10 units in the 1st month, with an increment of 10 units per month
We are ordering approximately 800 vinyl records for the year, which is ~\$1600.00 USD (not including shipping).
Using topspin fulfillment, it will costs \$6.98 USD per vinyl to ship*

12-Month Profit & Loss Statement

According to our price structure and sales projection we expect to generate a total of \$99,805 USD in revenue within our first year.

- 4.1% is earned from sales of digital singles
- 3.2% is earned from digital album sales
- 7% is earned from streaming royalties
- 2% is earned from YouTube Ad-revenue
- 15.6% is earned from vinyl sales
- 38.5% is earned from mixing and mastering services
- 24% is earned from management services
- 12% is earned from marketing consultation services

We expect to incur a total loss of \$7264 USD from the costs of good sold throughout the year. A majority of our costs are incurred via vinyl shipping fees (~75%) for a cost of approximately \$5,444 USD. Thus, our net profit margin equates to approximately \$92,541. Our total expense amounts to approximately \$56,711 USD. Thus, our net profit for the end of the first fiscal year is approximately \$35,830 USD.

Summary of Profit and Loss Statement

Figures	Dollar Amount
Annual Revenue	\$99,805
Cost of Goods Sold	\$7,264
Gross Profit	Annual Revenue - COGS = \$92,541
Total Expenses	\$56,711
Net Profit	\$35,830



12 Month Profit and Loss Projection

Profit and Loss Projection (12 Months)

Year Begins	14-Sep	14-Oct	14-Nov	14-Dec	15-Jan	15-Feb	15-Mar	15-Apr	15-May	15-Jun	15-Jul	15-Aug	YEARLY
Revenue (Sales)	90	135	180	225	270	315	360	405	450	495	540	585	4,050
Cost of Sales	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Profit	90	135	180	225	270	315	360	405	450	495	540	585	4,050
Operating Expenses	100	150	200	250	300	350	400	450	500	550	600	650	4,800
Operating Profit	-10	-15	-20	-25	-30	-35	-40	-45	-50	-55	-60	-65	-750
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit	-10	-15	-20	-25	-30	-35	-40	-45	-50	-55	-60	-65	-750

Pro Forma Balance Sheet

Our pro forma balance sheet demonstrates an optimistic first year of business. Our total assets and liabilities balance to \$102,497.00 USD. Most of our assets are included in our cash account while our equipment account holds the second highest monetary amount. This balance sheet represents what we project our business to look like financially by the end of year one. Thus, our prepaid insurance and supplies accounts are null simply because at the end of our first year we plan to have used those assets all up. Logically, we plan to reinvest our cash assets into those two accounts. At the end of year 1, we will owe a total of **\$66,667 USD** to our creditors.

Balance Sheet	
Assets	
<i>Current Assets</i>	
Cash	\$90,697.00
Prepaid Insurance	\$0.00
Supplies	\$0
Accounts Receivable	\$0.00
<i>Fixed Assets</i>	
Equipment	11,800
Total Assets	\$102,497.00
Liabilities	
<i>Current Liabilities</i>	
Notes Payable- Loan	66,667
<i>Owners Equity</i>	\$35,830.00
Total Liabilities + Equity	\$102,497.00
Balance	\$0



Ratio Analysis

Current Ratio

The Current ratio has been determined to be 1.36. Creative Cake's current ratio is relatively high for industry standards. This is very promising for the business in terms of ability to pay back its creditors with its liquid assets.

Quick Ratio

The quick ratio is slightly lower, at 1.35. Marinating relatively the same unit, this demonstrates that Creative Cake will have a good chance of meeting its short-term financial obligations. Thus, in an instance of urgency, Creative Cake will be able to use its cash assets to pay for any unexpected troubles along the way.

Debt Ratio

Although Creative Cake seems to be in relatively good shape to be able to support its operating costs, it is difficult to admit that it is a heavily debt leveraged venture, coming in at 65%. Though this number seems to be quite high, it is important to note Creative Cake's prospective earnings from revenue generated. Each year, Creative Cake is projected to make a minimum of \$92,000 USD with a likelihood of a steady increment increase throughout the years. The debt and its interest at the onset of the operation is a mere ~\$120,000 USD. Although it will take some time, work and commitment, it is very probable that Creative Cake will be able to pay back its creditors. Especially considering that we will not need to purchase any extra equipment.

Return on Assets

Our earnings made from investments made is quite high averaging at 35%. This is good evidence that we will be using our investments wisely to generate a sizeable earning for the following years.

Return on Capital Employed

Our return on capital employed is exactly 1. Although this may not be representative in the real world, it is an indicator of a financially healthy venture. This means that we will be using our capital very effectively in order to cover any expenses and ensure our creditors of our ability to pay back our loan.

Income Statement

Our business will earn its revenue in two ways, from services we provide to creative individuals and by the product (content) we sell to our target market. Rationally, we are expecting to earn a higher share of our revenue from services we provide. This is because without brand equity, it is difficult to cut through the social noise in order for us to reach our market. Thus, we will be relying much more on revenue earned from providing services to our clients. Our net income for the end of the first fiscal year totals at approximately **\$35,830.00 USD**.

Revenue	
Service Revenue	\$74,400.00
Product Revenue	\$25,405.00
Expenses	
COGS	\$7,264.00
Website Hosting	\$72.00
Incorporation Expense	\$150.00
IRS REGISTRATION	\$50.00
Tax Software	\$100.00
Business Financing	\$960.00
Federal Tax	\$14,200.00
State Tax	\$250.00
Insurance Expense	\$3,000.00
Rent Expense	\$12,000.00
Internet	\$900.00
Mobile Plan	\$6,900.00
Utility Expense	\$2,400.00
Web Template	\$100.00
Trademark	\$325.00
Marketing	\$4,800.00
Interest Expense	\$4,400.00
Depreciation	\$2,008.00
Vinyl Pressing	\$1,596.00
Supplies Expense	\$2,500.00
NET INCOME	\$35,830.00



Break Even Analysis

We have estimated our total fixed costs for year 1 to be approximately **\$56,236 USD**. We have purposely left out some financial information from the fixed costs because these costs belong to only the first year's operating expenses. We have estimated our total variable costs to be approximately **\$7,304 USD**.

After performing a thorough break-even analysis, we have determined that we will need to sale a total of 1090 units on average from all revenue streams. In order to further delineate our break-even point, we have calculated the average amount of products to be sold and hours of services to be earned in order to break even.

In order to break even, we will need to:

- Sell 45 singles
 - Sell 35 albums
 - Earn royalties from at least 10 streams
 - Have our total You Tube streams to accumulate to 8,000
 - Sell 170 Vinyl units
 - Perform 420 hours of mixing and mastering services
 - Perform 260 hours of marketing services
 - Perform 130 hours of management services
-

It is evident that we are making most of our earnings on artist services. Thus, most of our marketing efforts will focus on gaining a large client base of content creators in order to fulfill the break-even point. One area of caution is the sell of vinyl. It may prove difficult to sell 170 vinyl units within one year. However, through ingenuity and creative sales strategies, it is also possible to be able to accomplish this feat.

Break Even Analysis

	Singles	Albums	Streams	Ad Revenue	Vinyl	Mixing	Marketing	Management
Net Margin Per Unit	0.9	7	0.0084	2.5	19.99	80	50	100
Breakout % earned	0.041	0.032	0.007	0.02	0.156	0.385	0.24	0.12
Total Per Unit	58.3							
Total Fixed Costs	56236							
Total Variable Costs	7304							
Total Costs	63540							
BEP							Units Total	~1090
							=	
Approx. Units	45	35	10	20	170	420	260	130
				~8000 streams				



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Appendices

“G-Eazy’s Twitter Following” available at: https://twitter.com/G_Eazy

“Tumblr Girls” available at: <https://soundcloud.com/g-eazy/tumblr-girls-ft-christoph>

“These Things Happen Bit Torrent Bundle” available at:

<http://blog.bittorrent.com/2014/06/05/g-eazy-x-bittorrent-bundle-these-things-happen>

