

## Live Music Business Session Script

### Session 3 – Touring: income and costs

In the last session, we examined our expectations of the live music business (to market the artist and that there will be a strategy to do that) and we also examined our assumptions.

One of those assumptions is that **playing live** is expensive.

This may or may not be true, and so today you shall consider the factors that cause expense to the artist when playing live, as well as the income playing live can generate.

It is important to bear in mind that the income and costs you examine today apply to the artist only – these have nothing to do with the promoter or venue.

#### **The diagram.**

You understand from the last session about the relationship in the live music business between the artist and artist manager. As part of their expectations, it will be agreed that a show or tour will go ahead (at this stage we are ignoring the role of the booking agent and promoter). You understand that one consideration is that the artist may make money from their live activity. There are several sources of income and the artist and artist manager should identify and capitalise on them if possible.

## Income

### Tickets

The primary source of income will be from the tickets sold. At a very basic level, the promoter agrees to sell tickets at a designated venue on a specific date. The price of the tickets, multiplied by the capacity (the amount of people that can legally buy tickets) gives us the 'gross potential' the amount of money that potentially is available to the artist.

This is true of almost any music-related event. It is worth studying the differences in venue type, though –as this can have an impact on the artist's share of the gross potential.

### [PDF of venue types]

The screen shows a table containing descriptions and examples of the most commonly known venue –types – bar, theatre, shed, arena, etc.

Certainly, the first five venue types fit very much into the scenario described above, where a promoter books the artist to play a show, works out a tickets price and arrives at a gross potential. However, as you shall learn in subsequent sessions, not all of the gross potential goes to the artist. At the very least, they may have to split the money with another artist on the bill.

For instance, there are three acts playing at the **Lexington in Kings Cross**.

My Sad Captains, Grass House, Great Ytene will perform for a ticket price of £6.00. The capacity of the Lexington is 200. **The gross potential is therefore?**

The gross potential will have to be split between the acts, depending on the deal they have with the venue.

**Gross potential assumes the gig will sell out! (all the tickets will be sold at their face value)**

Remember one of our assumptions – **there will be more competition**. Will this gig sell out and will the bands and venue realise the gross potential?

The pricing and selling of tickets and the deals offered to artists will be covered in depth in subsequent sessions. But, in any case – the majority of artist revenue from the live performance will be from ticket sales.

### Merchandise aka 'merch'

Another source of income for the artist from their live activity is merchandise, or 'merch'. Merch commonly refers to apparel – t-shirts and can involve much more. This merch will be sold at the **venue on the night of the show** to fans directly, with the band collecting the money.

At a basic level, the money a baby band makes from selling a couple of t-shirts a night will help them pay to put petrol in the van to get home. Yes, there are costs involved with getting the t-shirts made and the fluctuating price of cotton means that there are often deals to be had **for t-shirt printing**. Even so, those costs are minimal considering the potential profit that can be made from selling a t-shirt or hoodie.

You shall examine other types of merch later and first you should know that, as with all parts of the music businesses, there is potential for third-parties to capitalise on an artist's success

**Specialised music merchandise** companies can capitalise on an artist's success by offering 'merchandising licensing deals' to the artist. The premise of these deals is simple. They license the designs, logo, brand name, etc. from the artist and agree to print, distribute and sell the merch, in return for a split of the profits. Merch licensing deals are structured very much like a record company recording deal, with one major exception.

In a recording contract, there is often a provision for an 'advance' - an amount of money, agreed by the label and the artist, given to the artist so that they may record their music, buy new equipment, pay themselves a wage, etc. This advance is recoupable – it is paid back to the record company from each sale of the recorded music. If for whatever reason, the deal does not work out (the band split up, or the contract ends) it is accepted the remaining amount owing from the advance (it is always owing!) is written off by the record company, and the band don't owe them anything. (Do not take this as a gospel and you should always seek legal advice before signing any recorded music contract).

With a merch licensing deal there is also an advance. The merch company 'lend' the band an amount of money based on projected merch sales at the forthcoming concerts. The advance is then paid off as the sales take place. However, if the deal goes bad, or the band don't sell enough merch, they still have to pay back the rest of the advance, regardless!

Merch licensing deals should be considered carefully and only work when you are looking at big numbers of sales per night. Sales are counted on a 'per cap' basis; the amount of sales per capita or per person at each show (Waddell, et al., 2007). A baby band may sell 10 shirts at £10 each at a 100-capacity show – the per cap is, therefore, £1. (£100 in sales / 100 people). Established or legacy acts would look at per caps of £18-£20 – not too shabby if you are performing at a 20,000 capacity arena.

Companies such as **Bravado** offer merch deals.

**T-shirts are just the start – you should consider the following items:**

Other apparel – hoodies, hats, etc.

CD/DVD:

Three simple rules: If you **press up, print, and control** the distribution of your CDs, then get them on that merch stall and sell them. If you press and print your CDs and have a separate distributor, then buy a load of CDs back from the distributor and sell them on your merch stall. If you are signed to a label with a distributor, then don't sell your CDs at your show. Why not? Because it will adversely affect any chart placing your CD may have, and will cost you more in the long run.

I have worked with quite a few bands that were signed to labels—major or indie; it does not matter. The bands or their management decided they would buy a few hundred CDs off the label (at cost price) to sell them at the shows on the tour. Usually, the label would say no, and for a good reason. This kind of sale has no bearing on the chart placing, and although you and I might think the sales charts are completely irrelevant these days, record companies still rely on them to prove their worth to the radio stations that will hopefully play the records released by that company. It is a vicious cycle and one that neither the record companies nor the radio stations wish to break.

The bad news for bands would be if the label said yes and sold them a couple of boxes of CDs. First, you should never buy off the label. The deal will be atrocious and will not count toward total sales—the label will probably sell them to you out of its stock of promotional copies, for which you will not receive a penny. The second problem is that every CD you sell at your show then will not be sold in a record store the next day. This means you receive neither the royalty on the sale nor the notification of the number of sales. Yes, you have made a sale, but have you made any money? How much did the label charge you for each CD?

Selling label CDs at your shows also means a lot of angry record-store owners—why are you selling your CD at the show and depriving them of business?

If you really must buy your products from your label to sell on tour, then at least buy them from the distributor. CDs bought this way will count toward total sales, and you may receive your royalty on them.

- Posters
- Buttons/badges/stickers
- Lighters
- Lanyards
- False passes such as sold at festivals as programmes
- Keyrings
- Programmes
- Ponchos/raincoats
- Bottle openers
- Earplugs (!)
- Postcard sets
- Website promo codes – given away to access exclusive (paid-for) content or merch
- Signed anything!
- ..the list goes on.

Don't confuse your fans with too much choice. Choice can lead to indecision which means loss of sales.

With T-shirts, for instance, you should have a maximum of 3 designs in a couple of sizes only.

### **Tips for the merch stall**

As mentioned, sales from merch can be the financial lifeline for a baby band so make sure you can maximise sales by following these simple tips:

### **Position of your stand**

Some venues have fixed merch booths; in other cases, you may be free to construct a booth where you see fit.

You ideally want your merch stand to be an area of high traffic preferably where people can see it when they leave the show. (The convention is that people buy merch after the show – presumably as they have been wowed by the performance and have to buy a souvenir.) So make sure your stand is where people can see it and somewhere they will pass it, either coming in or going out.

The back of the main room, in the dark, is NOT a good place for merch. Music fans will browse on the way in and buy on the way out. Therefore, position your stall or table so that it

is visible to a greatest number of people on the way out of the venue. Try not to position your stall very close to other areas of high activity, such as the cloakroom/coat check or bars. The crowd activity will mask your little stall.

It is always tempting to set up your stall in the main room so you can watch the other bands. In my experience, this does not work. Music venues are often dark and obviously noisy. Audiences will tend to leave a concert room for fresh air, for toilet breaks, to get to the bar, and at the end of the show. Make sure you are there to catch them on the way out. After all, you are there to sell merch, not to watch the show!

### **Display**

Always have a couple of small clip lights, a long mains power extension cable, coloured lighting filters (gels), gaffer tape, and a microphone stand. People can only buy what they can see, so make sure people can see your merch! Position the lights to illuminate the shirts on the wall and to create a focal point. (The microphone stand is there to clip the lights onto—placing lights on your desk will make the beams shine straight into your eyes!)

### **Change**

Have plenty of local currency change and/or round up your prices to avoid having to give lots of change. Confused? Just don't make the fans do the work – big notes and round numbers are easier for everyone.

### **Credit and debit cards**

It is easier than ever to take cards at your merch stall – so do it! Don't leave sales literally on the table.

**SQUARE** is an app-based service that works well pretty much anywhere and the US, UK and Europe. Do the research and if you envisage selling a significant amount of merch it may be for you.

### **Venue commission.**

Examine our table showing venue types again. Most venues do not directly promote the show (more on this in subsequent sessions) and so do not make any money from the sale of tickets. It is only the very small venues that promote their shows and sell their tickets. Larger venues will, therefore, try to maximise their income from other sources such as coat check, car parking and food and beverage. They will also charge YOU to sell YOUR merch at YOUR shows.

Venue charges can be either a fixed amount or a per cap basis. Plus they will charge VAT in the UK, as selling your shirts for you is a service.

## **SPONSORSHIP**

Sponsorship involves a brand (product or service) agrees to help support the show or tour with either direct or indirect financing. Tour sponsorship does not usually result in tangible income, but can help offset tour costs – the bus could be paid for by the sponsor, **as long as the sponsors branding is all over it of course.**

The first step in securing sponsorship dollars is to create a professional proposal presentation. The potential sponsor needs to see the benefit of entering into a deal with you. They need hard facts and statistics, the same kind of statistics you used when approaching concert promoters. The emotional aspect of you and your music (“We are the best band since the Beatles”) is irrelevant. Your potential sponsor wants to know that if they give you \$2,000 and paint their logo onto your van, you will be seen by a certain number of people—people who will have an interest in purchasing the products or services of your sponsor.

**You will need to provide a demographic analysis of your fans and your potential audience.** You will need to identify their sex, age group, purchasing power, influences, and influence. This data is readily available if you know where to search for it through your social media accounts is a good place to start.

## **Endorsements**

Similar to sponsorship in that they rarely provide direct income, endorsements can also help offset the cost of playing live. Endorsements for music are usually in the form of relationships with music instrument manufacturers who seek big names to use **their gear** to persuade other musicians to start using their gear as well.

As with sponsorship, endorsement deals are very hard to get. Most music manufacturers will have an ‘Artist Relations’ department or team who function in the same way as record company A&R department - **finding artists who are going to be a good fit for the brand.** If they like you, and you fulfil the criteria, they will sign you to an endorsement deal.

## **Premier ticketing and VIP packages**

Another way of maximising income is to reach those ‘super-fans’ and offer them extras on top of their ordinary ticket.

Premier tickets (aka gold, silver or platinum tickets) take advantage of the layout of larger theatres and arenas by charging more for those seats or areas nearer the stage or with better sightlines. Thus a shows at the O2, for instance, may have several different ticket prices for the same show, depending on where you sit in the arena.

**VIP packages go one further with premier seats being sold along with extras**, such as early entry, pre-show shopping opportunities and, occasionally, meet and greets with the artist. VIP packages were, until about 5 years ago, the preserve of legacy or very successful contemporary acts who played arenas and stadiums. Now VIP packages have become more popular all artists at every possible career stage.

### **Fan clubs**

We are still examining potential income from an artist's live activities. An activity that ties in with VIP packages is that of the fan club or subscription service. Band fan clubs used to be a huge deal in 'the old days' (pre-1999) and then died off. Now, thanks to our online activity and social media, fan clubs are back and can be used to offer members advance or VIP ticket packages. Remember, sometimes selling out a show is a huge boost for a bands cash flow; knowing that their super-friends will snap up higher priced tickets because they are exclusive means bands can expect a large amount of up-front cash.

### **Buy on**

An extremely lucrative source of tour income is to offer another artist the chance to support/open up for you – for a fee. 'Buying on' to a tour is still common and involves a smaller act (who is being established or honed – see last week) paying to open up on tour for a bigger, more established act. The amount varies; I recently worked on a deal that saw two bands pay £20,000 each to support the headline act for a 14 –date UK tour.

### **Performance royalties**

Performing rights societies, such as ASCAP, BMI, SESAC, and PRS, work to collect any royalties due to you from the public performance and broadcast of your works. If you own the copyright to your songs, and they are performed or broadcast in a public place, you will get paid. This collection of royalties is primarily concerned with radio, TV, and nightclub play, but also extends to live shows, hence the inclusion here.

In the UK, for instance, the PRS will pay you for live performances at the majority of venues in the country, regardless of whether the show is part of a tour. PRS deducts 30% of the

gross potential of every show in every venue that has a license (hopefully all of them) and then distributes that money amongst the rights holders.

In the US, you will only receive royalties on live performance if you perform on one of the top 200 grossing tours (as decided in *Pollstar* magazine).

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## **Artist costs**

You have examined the various income streams an artist can expect from performing live. Some apply to baby bands, others to legacy or established acts but there will be income, at the very least from the sale of tickets.

Unfortunately, it will cost money for an artist to play live. This costs could be as insignificant as having to find the Tube fare and buy some new strings to be able to perform at an open-mike night, all the way up to paying for trucks, buses and staging to mount an arena show. These are examples of the 'artist's costs' and any artist team has to be mindful of them and try to reduce them wherever possible.

### **Visible costs**

The visible costs of playing live are set out in the previous example of guitar strings and tour buses – equipment people and services the artist has to pay for to play a show or go on tour.

**The screen shows** an example tour budget for a 4-piece band with 2 crew, touring the USA in a van for 14 days. It is shown here to highlight a) the nature of our visible costs and b) to prove one of our assumptions – touring is expensive!

You will be researching and calculating touring costs in another module.

### **The hidden costs of touring**

The hidden costs of playing live are similar to those of the hidden costs of the artist recorded activity – ongoing, fixed costs that have to be taken into account when deciding the profitability of the proposed activity.

### **Hidden cost for live performance include:**

#### **Manager**

The artist manager will commission on live income. Should it be on the gross or nett fee? (A; nett as explained in session 1)

#### **Booking agent**

You will be examining the role of the booking agent and how they make money in the next session. Suffice to say, they don't work for free!

#### **Accountant**

Accountants are especially useful to help balance tour income and expenditure resulting from lengthy, multi-country tours – and they charge for this.

### **Lawyer**

Lawyers are not usually required to draft live performance contracts but may be called upon to help negotiate merchandising licensing deals or performance rights deals for televised music events, such as the BBC at Glastonbury

### **Merchandise**

There will be costs associated with the design, print, manufacture and shipping of an artist's merch – costs so high that they may wipe out any potential profit.

### **Secondary ticketing**

You will be examining secondary ticketing in another session. For now, you should know that artists do not benefit from the resale of concert tickets. A fan buying a ticket from the secondary market for one concert at 50 or 100 times the face value, will not be able to afford to buy a ticket for another concert that easily. The secondary ticket is an indirect hidden cost to live performers.

### **REDUCING EXPENSES ...and the psychology of doing it cheaply.**

Finally, I mentioned that any artist team has to be mindful of costs, hidden or visible, and try to reduce them wherever possible.

And yet it would appear that artist of today **doesn't actually slum it** when travelling for live performance.

Is there a psychology involved in presenting an artist in a gleaming tour bus, as opposed to sending them in a train?