Record Labels Are Not Venture Capitalists by David Rose

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Having worked for both venture backed technology companies and record labels I often have friends from one industry attempt to relate to the other by saying something along the lines of “record labels are just like venture capitalists”. It is true both venture firms and record companies invest their time and money into a third party with the intent of making a (large) return on their investment. However, in my experience there are more differences in their traditional approaches to investing than similarities.

Venture capitalists typically understand how important it is for the employees at their investment to have cash to pay their rent and eat. One of the secrets taught in business school is: No payroll = No employees = No company = Lost investment. The traditional record label agreement dictates the artist or band doesn’t get paid any royalties from sales until after the record label has been paid back (or “recouped” in music industry language) from their initial investment in its entirety plus any and all other new release related expenses. Since the advance most non superstar artists receive for a new record is often times just enough to cover the recording costs and they won’t receive royalties from sales for some time (if ever) it’s not uncommon for the lack of income to cause a new band to break up before they have a chance to develop to their potential. It’s doubtful even Google would exist today if their investors demanded to immediately “recoup” their investment and keep every cent earned from ad sales instead of making sure the company had cash to pay their employees and other expenses during their early days.

Venture capitalists don’t demand ownership of the intellectual property the employees of their investments create. With the traditional record label agreement the record label retains ownership of the master recordings the artist or band creates in the studio.

Venture capitalists understand there is more that goes into a successful investment than just a sales and marketing strategy. They are involved with management, product development, legal, staffing in addition to sales & marketing at their portfolio companies. Record labels spend almost all their resources and money singularly focused on their artist’s sales and marketing results and very little on the other aspects of their business. Even the 360° degree deals record labels are now pursuing are really just ways to extend the labels involvement into other sales and marketing related areas of their artists such as licensing, touring and merchandise.

Venture capital firms usually invest in promising new companies along with other venture firms, each firm taking a minority ownership position. Having multiple investors helps spread the risk around and allows for collaboration on making the investment successful. Record labels have traditionally not worked with or collaborated with other labels (outside of their ownership group) on developing new artists.

Venture capitalists are far from perfect and certainly don’t always have the owners or employees of the companies they have invested in best interest at heart when making decisions. But the approach they take gives their investments a much better shot a long-term success than a traditional record label deal.

Some artists, like some startup companies, do need an investor and team of professionals to help them succeed. Hopefully as the music industry continues its ongoing transformation new and more equitable models for investing in artists will emerge and Patrons & Champions will give more of them the chance to build long-term, sustainable careers.