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Forbes

The 40 highest-paid entertainers

**Music magnate
Charles Koppelman
with his
hot property**



Ever wonder why the record business makes so many people so rich?

“What’s not to love?”

By Peter Newcomb and Christopher Palmeri

JETTING ON a Gulfstream II, Charles Koppelman, chairman of New York-based SBK Records, explains why he’s such a happy guy.

In 1990, its first full year, Koppelman’s fledgling firm had two of the top four bestselling albums and became one of the hottest labels around. Koppelman’s net worth is approaching \$100 million. “I love this business,” Koppelman proclaims, between puffs on a \$20 Cuban Cohiba cigar. “What’s not to love?”

Not all ex-performers have as much to be happy about as Koppelman. A native New Yorker with a still-intact Queens accent, Koppelman started in the music industry in the late 1950s, singing with a trio called the Ivy Three. Its only hit, “Yogi,” was a takeoff on Yogi the Bear. On the side, he previewed songs by aspiring songwriters for music publisher Don Kirshner. He proved so good at picking winners that Kirshner made him director of his publishing company. Pretty soon Koppelman concluded: Why sing for your supper when you can make more money from other people’s songs?

Koppelman hit the big time in the Sixties when he landed the publishing rights to such acts as the Turtles and the Lovin’ Spoonful. Today his company, SBK Records, has more than a dozen performers under contract. As a record impresario, Koppelman, at 51, stands to become the second richest in the U.S. record industry, second only to near-billionaire David Geffen



Aaron Rapoport/Ortiz

(FORBES, Dec. 24, 1990).

The ex-singer’s hottest acts right now are the pop trio Wilson Phillips (pictured on the cover) and white rapper Vanilla Ice. Perhaps because he is more mainstream than black rappers, Vanilla Ice outsells most of them by far—a prime example of Koppelman’s ability to ride a trend. Together the two new acts, Ice and Wilson Phillips, have sold over 20 million albums worldwide, generating over \$100 million in sales for SBK. Figure SBK’s gross profits at about \$3 per album, or \$60 million.

The FORBES compilation of the

LEFT: Charles Koppelman
RIGHT: Wilson Phillips and Vanilla Ice
Koppelman makes them famous. They make him rich.

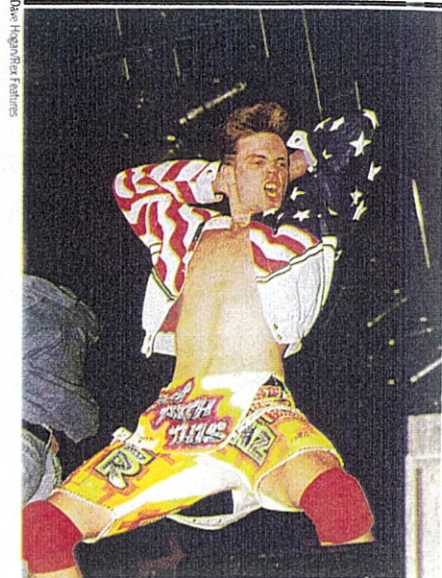
Steve Grant/Ortiz



Top 40 highest-paid entertainers (*p. 113*) contains 18 musical acts this year. At one time or another Koppelman controlled some of the publishing rights to two-thirds of them.

He, partner Martin Bandier and former partner Stephen Swid bought CBS’ music publishing division in 1986. Two years later they sold it to Thorn EMI for \$295 million, more than twice what they paid for it. Koppelman and Bandier then formed SBK Records in a 50-50 partnership with Thorn. In a deal struck earlier this year, Thorn will pay Koppelman and Bandier a multiple of SBK’s revenues in 1993 that could value their half of the company at \$150 million or more.

Koppelman has his fingers in many pies: music publishing, record producing and talent management. A secret of his success is that he runs his far-flung business as if it were a small business. He watches over everything, rarely delegating. SBK Records has released just 20 albums in its two years of existence; that’s as many as a major label might release in a couple of



known for his ability to sing or dance or play an instrument, has become so rich in the record business.

"Everyone in this business will tell you the real thrill is developing new acts," says Jordan Harris, copresident of Virgin Records America, a label that's home to such stars as Paula Abdul and Keith Richards. Read "thrill" here as money. There's a lot of risk in the huge superstar deals and only thin profits for entrepreneurs. "The margins on superstars are comparatively thin," explains Harris.

Here's why baby acts are such a great deal—for the record companies. A new act typically signs a contract for five to eight albums. The royalty rate per album is usually 11% or 12% of retail sales, compared with 25% or so paid to groups like Aerosmith. A good contract for a new act would provide for escalations in the royalty as the album sells more copies, but new acts aren't often in a position to demand huge escalations.

Thus, for all but the established name acts, the entrepreneur, the impresario, is in the driver's seat. The money he advances to the performers to record and produce an album is not a pure expenditure on his part. If the record sells fairly well, the impresario gets his advance back before the performers get a dime. Movie studios should have it so good. It's as if a movie studio could stipulate that the stars and directors of its lesser films wouldn't get paid until the studio had gotten back every cent of its outlay.

months. But 7 of them have surpassed 500,000 copies sold, a success ratio rare in the business. "That's because the big companies are being run by financial guys, not music guys," Koppelman says. "The record gets turned over to marketing and promotion departments, and the guy that signed the act has little input."

Koppelman's success demonstrates the changing economic landscape in the music business. As costs for production and marketing have risen, the impresarios—the money people and deal packagers—have become as important as the performers. Maybe more so. And a Koppelman, who is risking his own money and knows the whole business intimately, has an advantage over the big companies like PolyGram N.V. and Bertelsmann Music Group with their bulging overheads, companies that have gotten so big that the talent rarely deals with the top gun.

"For Warner Bros. there is always another record," observes Vanilla Ice's music attorney Peter Lopez.

"When Charles feels resistance he doubles his efforts."

As the record business swelled from \$3.8 billion in 1980 to last year's \$7.5 billion, it became both more competitive and more concentrated. It cost more and more to bring out records and get the public's attention for them. For those performers who hit it big, the rewards have been astounding. Thus the proven winners, like Michael Jackson, Madonna and Aerosmith, have been able to demand bigger and bigger advances. But even as the big acts were gaining in bargaining power, the aspiring and lesser names were losing bargaining power. Why? Because they were increasingly at the mercy of the money people, without whom they couldn't hope to get started.

All of this has turned the record business—as it did earlier the movie business—into a capital-intensive affair. Thus the growing importance of the entrepreneur who can mobilize the capital and market the talent. That is why David Geffen, who is not



Photo: Langford Light

"I don't know of any other business where the cost of creating has to be recouped by the creator," says Leonard Marks, a New York City-based entertainment litigator. Marks isn't exactly complaining: He won a reported \$80 million settlement largely in payment of back royalties from Capitol-EMI for his client the Beatles. His point, nevertheless, is quite valid.

Show business never was easy for the aspiring talent, but the record industry in the 1990s has carried the exploitation to absurdity; there is no minimum wage in the pop music business.

That's why Virgin's Harris says the development of new acts can be thrilling. With a little risk, the record impresario stands to make a bundle.

But doesn't the lucky performer make a bundle, too? Yes and no. The percentage of retail sales the act receives as a royalty isn't as much as it sounds. The standard record industry contract is loaded with clauses that reduce the numbers on which royalties are calculated. One of the biggest

reductions comes in the form of packaging deductions. Record companies feel the costs for the plastic clamshell cases that house compact discs and audiocassettes should be covered by the performer. So in the case of CDs, record companies routinely deduct as much as 25% from the retail price to cover packaging costs—before allowing royalties to kick in. "It's total fiction," claims Kenneth Anderson, a New York-based attorney who represents rap stars D.J. Jazzy Jeff and the Fresh Prince, among other acts. "There is no actual cost reflected by these deductions."

According to Anderson, when CDs came to market eight years ago, provisions were added to contracts that set the royalties on higher-priced CDs at the lower retail price of vinyl albums, because the manufacturing costs of the CDs were higher. Those costs are dramatically lower today, but the deductions are still there.

Then there is the so-called free goods deduction. Talent typically receives royalties on just 85% of all records sold. What happens to the

A&M Records' group Extreme, backstage on tour

Despite album sales in the millions, the band is still extremely poor.

other 15%? Record companies say these records are given away as promotional items. Record companies also hold back royalties on 30% to 50% of sales as reserves against returned albums. These reserved royalties can be held as long as two years, interest free. Much of the math came about in the days of broken records. It's ridiculous in the age of compact discs.

Producers who help put the album together usually get a piece of the action, too. As the album sells, their share also balloons. The act is also responsible for touring costs and independent promotion, though these are really just marketing expenses. If there are earnings, the act must then shell out as much as 20% to its manager. Add to that six-figure amounts for legal fees and publicists.

There are plenty of other ways for a



Justice Records' Randall Jamail, front, with acts Herb Ellis and Wendi Slaton
He threw the standard record industry contract out the window.

record company to reduce the amount actually paid to the performers. Royalties paid on records sold internationally, for example, are often 50% of normal rates—although it does not cost a multinational company dramatically more to sell records overseas.

Music publishing? Musicians typically give up 50% ownership of the songs they write to publishing houses, many of which are owned by record companies. The songwriters also usually agree to be paid their publishing royalty on just 75% of the congressionally mandated minimum rate of 5.7 cents per song.

All these holdbacks and cozy deals add up to very big money for the record impresarios. Record mogul David Geffen's first million was made by selling the rights to Laura Nyro's songs to CBS Records for \$4 million. As part of his deal with Nyro, Geffen got half of that.

Performers generally agree to not be paid on more than ten songs per album, although compact discs today often have more. "That's record business accounting," Koppelman says, scarcely disguising his glee.

So heavily is the accounting stacked in favor of the impresario, that a rec-

ord or an album can make a great deal of money for him while producing little more than lunch money for the act. Suppose an album from a relatively new act costs \$500,000 to produce and market, and sells 600,000 copies—a nice sale for a relatively new act. The record company would probably reap around \$1.8 million as the reward for its risk and effort. The act might, if lucky, gross \$600,000. But from its share would come, first, \$500,000 to recoup the costs. From the remainder the act would have to pay its managers and its expenses. Thus, a nice success might yield less than \$50,000 after taxes to be divided among the performers.

The public hears from the slavish entertainment media about the lavish lifestyles of the famous pop musicians. It knows little of the desperate struggle most entertainers face.

Arma Andon Jr. is the manager for a relatively new group called Extreme. The band's second album, *Pornograffiti*, has sold over 2.5 million copies worldwide—a smashing success. That's enough to recoup production costs, but because the band's first album didn't recoup, the losses were carried against the earnings of the group's second album. "Let me put it this way," says Andon matter-of-factly. "We've sold over 2.5 million records and we still haven't made a nickel." For A&M Records, it's meant \$15 million in sales.

For years the Rolling Stones recorded on London Records. Their royalty rate then pales compared with the \$1.75 or so per album they get nowadays. "We had a terrible deal, everyone had terrible deals," says Rolling Stones singer Mick Jagger. "Black artists got nothing, literally, and white artists got a derisory royalty which was then ripped off by their management." According to Jagger, if a record earned a dollar, the Stones were lucky to get 2½ cents to a nickel.

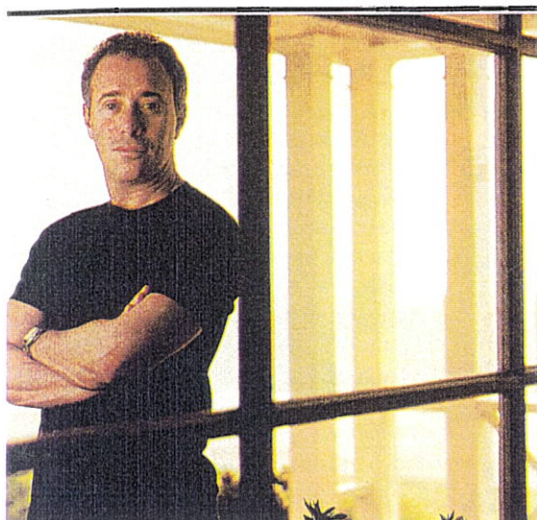
In this lopsided situation, some clever younger impresarios see opportunity. One such is Randall Jamail, the 35-year-old son of the man who took Texaco for \$3 billion on behalf of Pennzoil. That nice little piece of litigation put Joseph Jamail on The Forbes Four Hundred and helped give his son, Randall, a certain amount of independence.

Randall Jamail last year started a Houston-based jazz and blues label, Justice Records. Jamail threw the standard record industry contract out the window. "In light of other sorts of agreements, they look usurious," says Jamail. "The companies know how much it costs to make an album. Why should successful acts subsidize the mistakes of the record companies?"

At Justice the performers' advance is first recouped from the entire wholesale price, \$7 or so an album. The record company doesn't begin to make money until the performer does. "I decided that if I couldn't operate that way I'd go out and sell bananas," says Jamail. Aside from the fact that his dad is a centimillionaire, young Jamail won't have to sell bananas if his outfit is even reasonably successful. There's that much money in the business.

Of course, the record companies argue that they need rich deals because most albums lose money. "There's too much product," says Koppelman. He points out that 85% or 90% of the acts on a record label lose money for the company; that is, even though the talent gets nothing, the record company still loses money.

Time was when this was less of a problem for the record companies and impresarios. They would make so much from their big-name performers that they could easily afford to gamble and lose on lesser names. This



David Sincavage

LEFT: Mogul
David Geffen
RIGHT: Singer
Axl Rose

**Nowadays
performers
battle record
executives in
print and
on the stage.**



Nadia Husarova

is changing.

It is changing in ways that anyone familiar with the movie business will understand. It took years for Hollywood stars to realize that, as intoxicating as they sounded, net points were for suckers; the smart actor would demand a percentage of the gross, not the net. Arnold Schwarzenegger, for example, gets a percentage based on the first dollar brought in to the studio. The similarity of the situations has not been lost on the big-name pop musicians and their agents.

Established stars increasingly are looking to renegotiate, or break altogether from, their existing deals. Geffen Records has taken the most heat lately, largely because of company head David Geffen's unwillingness to renegotiate. In just the last few months, three of Geffen's biggest acts showed their displeasure with the label. Aerosmith has signed with Sony Music Entertainment's Columbia Records, singer Don Henley has said he will leave the label, and Guns N' Roses lead singer, Axl Rose, personally denounced Geffen onstage at a recent concert.

"These are bad times in the record business, buddy," bemoans Irving Azoff, owner of Giant Records. "It's definitely tipped on the side of talent." He means the big talent, of course. The little talent and the rising talent still starve.

Just this year alone, two of pop music's biggest stars, Michael Jackson and his sister Janet Jackson, each signed separate deals that made them two of music's highest-compensated

performers.

Michael's six-album deal with Sony gives the entertainer his own record label, a production deal with Sony's Columbia Pictures division and advances of \$5 million for each of the six albums he'll record. He gets paid even if an album bombs. Royalty rate? Over \$2 per album. Jackson's last album, *Bad*, sold over 24 million copies.

Sister Janet's deal with Virgin Records calls for the singer to deliver just three albums, unusually short terms for an industry that tries to lock in a performer for the long haul. It's estimated Jackson got \$17.5 million just for signing the contract. An equally high royalty rate and advances of about \$5 million per album makes her deal one of rock's richest.

Last month Sony Music signed veteran rock group Aerosmith to a four-album deal worth \$40 million to \$50 million. Aerosmith got a signing bonus of some \$15 million and will get at least a \$6 million advance on each album. The deal carries a 25% royalty rate, said to be among the highest in the industry.

Meanwhile, Time Warner has Madonna demanding a deal similar to Michael Jackson's, and one of rock music's oldest acts, the Rolling Stones, is said to be on the verge of signing a new deal with PolyGram. One can only guess what kind of monies will be paid for them. "These are such astronomical sums, the royalty doesn't even matter," Azoff says.

Getting their investment back could prove to be a tough proposition for the record companies. With a

\$17.5 million signing bonus and a \$5 million advance for the first album, Janet Jackson will have to sell over 7 million copies for Virgin Records to break even. Her last album has sold 8 million copies.

A situation is developing in which the record companies bear all the risks and merely share in the rewards.

In a sense, that's the way it should be: Singers get paid for singing, capitalists get paid for taking risks.

This could, in a way, make things a bit—a bit—easier for aspiring talent. Unable to make much money on the big names, the promoters may be more willing to take risks on relative unknowns. That's what Charles Koppelman is doing. But this doesn't necessarily mean the terms will improve for the performers.

Says lawyer Marks, the man who won the big bucks for the Beatles: "Their desire to be famous and the competition are so fierce that they will sign whatever is put in front of them."

As long as teenagers have bulging pockets and a willingness to pay outrageous prices for an ephemeral product, there will be big money in the recorded music business. But the Gef-fens, Time Warners and Koppelmans will have to take more risk for their profits than in the past. The top performers and their handlers will get richer and richer; it's only a matter of time before they begin to crowd oilmen and Wall Streeters off The Forbes Four Hundred. And the great majority of aspiring talent? Things aren't likely to get much better for them.