The Studio BUSINESS

By Murray R. Allen

What the world doesn't need is another 24-track recording studio. However, entrepreneurs are searching out acoustical geniuses, interior decorators, equipment suppliers, etc., and putting together more and more recording studios. Just what are the motivations for such folly in the face of scores of studios going out of business or being sold?

Hopefully the new studio owner is that rare breed of person who intends to spend his whole life in this business. If this is his motivation then he will probably go about it in a sensible fashion and build an institution that will further the cause of all recording studios and the industry in general. But, there are many other motivations that cause people to go into this business. To varying degrees the motivations are all valid; but when the priorities get mixed up the results are less than perfect. The first motivation, hopefully, is to make great records. If one's goal is to turn out a superior product, everything else being equal, the end result will probably be a studio the industry will be proud of, and one that will ultimately be successful.

Let's talk about what should make a studio successful.

Success means different things to different people. Success can be measured artistically; it can be measured financially; it can be measured relative to one's ego. These are the success orientated motivations that cause studios to continually pop up. Then why aren't more studios successful? The reason is simple: The ingredients of success are not in balance. Just having the motivation is not enough. The artistic, the business, the ego must all be orchestrated in such a way as to work together. Also, all the ingredients must be present. A studio built just for artistic purposes with no sense of business or ego drive is in reality a sound laboratory. A studio built just to make money does damage to the entire industry. A studio run only as an ego gratification will only be perceived as a studio by the egomaniac running it.

Let's not talk about the artistic motivations other than to quote Aristotle. He said for anything to be considered art it must appeal on four levels of human perception. **ONE:** It must appeal to our carnal instincts, our animal drives. It must reach our very core of life. **TWO:** It must have an emotional quality. We must love it, hate it, fear it. **THREE:** It must have an intellectual quality. We can analyze the substance and get gratification from its form. **FOUR:** It must have a spiritual quality that either elevates us or lowers us depending on the nature of the spirit.

To put Aristotle in everyday studio language, **ONE:** I feel that bass drum right in my chest. **TWO:** That rhythm section really turns me on. **THREE:** I find it very interesting the way they mixed the guitar relative to the Fender Rhodes on the background passages. **FOUR:** That record makes me glad I'm alive.

Perhaps it's the artistic motivation that really separates the men from the boys.

Money. In the sixties and seventies when there were more artists than the studios could handle, studios made lots of money. This writer personally knows of two studio owners during this time that cashed out to be millionaires. However, in the late seventies and early eighties everything changed. There were more studios and fewer artists, and, to make it worse, each artist had less money to spend on more expensive goods. The result was that the studio business was no longer that once highly profitable business.

Well, just how profitable or unprofitable is the studio business?

Here is a simple example:

John Doe is a recording mixer. He has a small following of non-superstar acts. He decides to open a recording studio. He feels his studio will be superior to all the others he has worked in and he will be able to keep all the money for himself. John has it totally under control. His wife Jane will act as receptionist, bookkeeper and his father, who has a lot of electronic experience learned in the Navy during the Korean conflict, will be his chief tech. Currently John is earning \$30,000 a year as a mixer, his wife is earning \$18,000 as an office manager for a computer company and his father is earning \$24,000 a year as a dispatcher with the local bus company. This new studio will have to pay its three employees a total of \$72,000 a year plus about another \$10,000 in miscellaneous payroll taxes to the government (city, state and federal) in order to maintain their present income levels. The major medical, dental and life insurance plans might run about $1,000-1,500 in addition for the three of them. Oh yes, there will be a company car, and a company van that Dad can use for himself. This will cost approximately $5,000 a year. So the entire employment package necessary to equal what everybody was making on the outside would come to about *$88,000* a year—plus gasoline.

The studio will cost about $300,000 including construction and equipment. The construction runs about $80,000 and will be financed by taking a second mortgage on Dad's home. John was lucky and was able to obtain a mortgage at 16½%. This will cost the company about $13,000 a year in interest. Everything else is leased. Of course, being a new business, both John, Jane and Dad have to guarantee the lease. The yearly cost on the lease might be around $58,000 a year. This brings the total yearly nut to $159,000 before any money comes in.

There will be some other expenses. John's rent should be around $12,000 a year plus utilities and increases due to real estate taxes. These figures vary across the country, so let's for the sake of discussion round out rent and utilities to $20,000 a year. The phone will be $4,000 a year. Various kinds of insurances...$5,000 a year. Then there are all those supplies. Boxes, labels, log sheets, invoices, stationery, envelopes, pencils, coffee, typewriter ribbons, white-out, ashtrays, matches, withholding slips, shipping cartons, felt-tip pens, splicing tape, extra reels, razor blades, grease pencils, toilet paper, towels, cleaning materials, plus more that has to cost a minimum of $10,000 a year. Now the nut is at $198,000 a year. Let's add another $33,000 on general principals and the final cost of operation is $231,000 a year. Good luck. It will be higher.

Assuming John, Jane and Dad are good managers, engineers and janitors and they indeed can bring the operations in on budget, how much must they charge to break even? Since John is the only engineer and Dad can only be an assistant when he is not fixing or cleaning up, probably forty hours a week could be a good average to put in without sapping John's creative juices. It might be twelve hours on one day and four on the next, but an average of 40 hours. Taking vacations and holidays into consideration there are about 2,000 hours John will be able to book in a year. In order to break even John Doe has to charge $115 an hour. Of course he will make profit on his tape sales. At this volume it might be $12,000 a year which in effect would help to off-set the start up cost when no income came in.

Assume the start up cost was $100,000. John borrowed this amount from Dad who withdrew it from his money market fund. (Those bus dispatchers are thriftier than one thinks.) Dad's lost interest is $15,000 a year. John replaces this by booking an extra 2.6 hours a week. But Dad is stubborn. He thinks John should start a sinking fund, so in five years he can have his $100,000 back. John books another 3.5 hours a week. His work week is now 46.1 hours long. Poor John used to get overtime when he put in over forty hours. Well, eventually John has to get an attorney and an accountant, and to make matters worse, once in a while John and Jane have to entertain a new client. Fifty hours a week is not too much to put into your own business, if only you didn't have to put in those extra 10 hours to replace the money lost through bad debt and slow payers.

Jane asks John why he doesn't increase his price from $115 an hour to $125 an hour. John replies, "How can I, our competitors down the street who have a $400,000 studio and a resident gourmet chef only charge $90 an hour including the tip."

Dad speaks up, "Diversify, expand." Well, Dad is wrong and so is John. And so is Jane for marrying into this family.

If John could get a "class" act that might pay more, his cost would go up. If a smaller act got a hit, they would probably build their own studio for "tax purposes" and never use John again. Remember that to break even John must book 60 hours every week, 50 weeks a year. So where did John, Jane and Dad go wrong?

They did not understand their power base.

Rule #1: *ONE SHOULD NEVER OPEN a RECORDING STUDIO UNLESS HE CONTROLS ENOUGH BUSINESS to CAUSE the INFLOW of REAL CASH to EXCEED the OUTFLOW of REAL CASH by at LEAST 40%.*

The definition of real cash in is the actual money one receives and is able in turn to spend. The definition of real cash out is all money spent, including interest, bad debts, reserves, depreciation at replacement value and most important of all, the cost of money—those monies you lose by borrowing, not taking discounts or simply by not having the availability of funds for short term investment. The reason for the 40% figure is also quite basic. This whole business is very risky. In a risky business one's possible downside losses must be protected by an upside gain. Inflation will eat at least 15% out of that 40%, leaving only 25%. If you have doubts that you can't make a real 25% before taxes you should not enter the arena. You will need this much to overcome the obsolescence factor and still show real profit.

In John's case, he eventually needed $345,000 to break even. To make 40% profit, he would have to do $483,000 a year. His federal taxes on this would be about $46,000, leaving a profit in his bank account of about $92,000. Not bad, but let's look at reality. To obtain this figure John would have to work 60 hours a week at $161 an hour. Remember John only has $220,000 in equipment. Most top studios have this much cash tied up only in their console, automation and a couple of 24-track recorders. These same studios have to occasionally fight to get $161 an hour, so where does this leave John?

It leaves John selling his studio not for $161 an hour, not even for $115 an hour, but more likely for under $100 an hour. History shows that for every 10% decrease in price one must increase his sales by 22% to make the same money. So John must now work 72 hours a week or more.

There is no money or time for maintenance and repair. Everyone is too tired to think about it. Panic sets in. Dad already has a part time job to replace some of the cash the studio is not coming up with. John turns to the most used weapon of frustrated studio owners: He puts down progress. John is heard telling his clients that his $220,000 in equipment is all anybody

---

Murray R. Allen is president of the Universal Recording Corporation in Chicago, a member and guiding light of the professional recording organization SPARS and a most respected member of the recording community.

needs. "Those new super consoles, those new floppy disc automation systems, those new digital reverberation units, those new quieter microphones, those new improved analog or digital tape machines, that new test gear that really shows you what you're getting, those new monitors and monitor amps—none of this is important because nobody can hear the difference."

Poor John also is no longer a member of the community, which brings us to:

Rule #2: *CONTRIBUTE in an ORDERLY and POSITIVE FASHION to the PROGRESS and GROWTH of ONE'S INDUSTRY. DO NOTHING to DISTRACT from ITS GROWTH.*

By impeding the progress and growth of an industry one impedes progress and the growth of all the members of the industry including himself.

Historically, well-meaning people have held back progress for mistakenly narrow commercial reasons. The church ex-communicated anyone who said the earth revolved around the sun. Pasteur was not taken seriously by his peers. Congress will not give NASA funds to bring samples of Haley's comet back to earth for study, but this same congress will waste twice the amount necessary to do this job on bureaucratic regulation and patronage.

All this brings us to:

Rule #3: *TO FULLY REAP the AWARDS an INDUSTRY HAS to OFFER, ONE MUST GIVE TOTALLY of HIMSELF and HIS BUSINESS. IF the INDUSTRY CAN be MADE HEALTHY ALL WILL PROSPER. IF THIS INDUSTRY DEVELOPS a CANCER ALL WILL PERISH.*

The John, Jane and Dad story is a compilation of many case histories. Take your own case and substitute your own numbers. Ask yourself these questions: Is your return on investment out-stripping inflation? Is your life style improving as to real purchasing power? Are you really turning out better records? Are you being honest with yourself about your studio's posture relative to healing a sick industry, or have you secretly given up and started hoarding your spoils before the collapse?

Speaking as one who has been in this business for over 30 years, I do not want to see the recording business go the way of the U.S. automotive and steel businesses. It's too new a business to develop a status quo attitude as we see in other American businesses. Fill the pipeline with under-capitalized studios charging 1970 rates for 1981 service and you will eventually have only a few studios left in business serving an ailing industry with nobody making any records or money.

Perhaps we should return to this article's opening statement. What the world *does* need is more 24-track studios, 32-track studios, 48-track studios that are devoted to our business as an industry and will be willing to put more in than they will eventually take out—be it carnal, emotional, intellectual or spiritual. By following this recipe, it's nearly guaranteed the money will follow.