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An Independent Record Label Business Plan

By

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Advisor: John Cole

An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of Science in Business Administration (or Bachelor of Science in International Business) in

Marketing

Sam M. Walton College of Business

University of Arkansas

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I. Executive Summary

Overview

Fearless is an independent record label that operates in the record production and distribution industry. The focus at Fearless is on signing new artists in the pop, R&B and hip-hop genres as well as providing those individuals with the necessary marketing and promotion to help sell their music and build their brand. Our focus on the digital environment of the industry allows Fearless to keep costs low relative to competitors as well as achieve a reach far beyond the immediate markets we operate in.

Problem

The music industry has been facing a gender inequality problem since its conception in the late 1800's. In 2017, only 16.8% of all popular music artists were women, a number that has actually dropped since the years prior (28.1% in 2016). These numbers reflect poorly on the music industry, where over half of the consumers are female.

Solution

The goal at Fearless is to provide female artists with the tools and resources necessary to create a career out of their music. Our **female-only** artist lineup allows Fearless to concentrate all of our efforts on combating the issue of misrepresentation in the industry. Through artist development and continuous marketing and promotional efforts, Fearless will create a platform that female artists look up to and aspire to be a part of.

Primary Target Market

16-45 year old women who live in one of the following cities: Los Angeles, CA; New York, NY; Chicago, IL and Atlanta, GA. Our target market's median income is about \$51,000 with a high school degree or higher. Primary genres that they listen to are R&B, pop and hip-hop.

Market Size

According to the most available reports, the global music industry generated \$15.7 million last year, a 5.9% increase from the year before. The independent music market is approximately \$6 billion across the globe, or 38.4% of the global music market.

II. Company Description

History

Fearless was founded in 2018 by Jack Raybuck in his college apartment at the University of Arkansas. An honors graduate with a degree in marketing, his real passion lies in music. Mr. Raybuck would like to use his 5+ years of freelance and professional experience, including experience at Universal Music Group, to solve a horrific problem in the music industry: gender inequality. Fearless was created with one goal in mind: increasing the number of female performing artists in the music industry. According to a study conducted by USC Annenberg in 2017, female artists makeup **ONLY** 16% of total popular music acts. This number has actually decreased from a still abysmal 22% in 2012. This information didn't sit well with Mr. Raybuck, an individual who values the state of the industry he loves as much as achieving profitable bottom-lines.

Therefore, he set out to create a company that would provide a platform and resources to women who are passionate about making it in the music industry. Through constant A&R (artist and repertoire), artist development, marketing and promotion, Fearless is determined to become a key player amongst rivaling independent record labels. Fearless would also like to be seen as an industry player who values social responsibility and equality as much as the music that is produced. Through fundraisers, collaborations with groups such as *Women in Music LA* and the *National Organization for Women* and awareness campaigns, we hope to create a brand image built around social reform as well as quality products.

Company Mission Statement

Fearless is a record label that strives to create equal opportunity for female artists in the music industry. The company's main focus is in finding and developing, marketing and promoting female artists and their products.

Philosophy

Equality, creative freedom and innovation are the three values that drive Fearless and ensure that company direction remains consistent. Creating **equality** in the industry. Providing **creative freedom** for our artists. **Innovation** to compete.

Vision

Our company's vision is to become an internationally distributed record label that is known for its lineup of incredibly talented and creative female artists. Fearless will be comprised entirely of female performing acts, creating a position in the market that is currently non-existent (search for a lineup made up only of female performers). We will help locate and develop new talent, as well as doing everything within our power to properly market and promote artists and their products.

Target Market

Based on the company's vision and data acquired from the United States Census Bureau, Fearless' target market will be females, ages 16-45 with median household income of about \$51,000. Average household size is about 2 person(s), with the head of the household typically

renting the unit. More information about Fearless' relevant target market will be covered in further detail in section **IV: Marketing Plan**.

Industry

Fearless operates in the recorded music industry along with companies such as Warner Music Group, Universal Music Group and Sony Music. According to the most recent research done by the International Federation of the Phonographic Industry (IFPI), revenues from the recorded music industry increased by 5.9% in 2016. The 5.9% increase is up from 2015's growth of 3.6%. This shows well for the industry, as GDP in the final quarter of 2016 increased by only 1.9% according to the U.S. Department of Commerce.

Streaming revenues, which are currently accounting for over half of the industry's revenues according to data provided by IFPI, also increased by a staggering 60.4% in 2016. In addition to the tremendous growth seen in 2016, Nielsen Music reported that total audio consumption increased by 10.2% and total on-demand streaming (audio/video) increased by 43% in 2017. These drastic increases in digital consumption are making up for the losses that record companies have been experiencing since the beginning of the digital age in the early 2000's (Nielsen, IFPI).

Fearless will focus a majority of its attention on the shift towards digital consumption in the industry. In these early stages of the company, we will distribute products primarily through digital channels. As physical CD sales continue to decline (-17.7% in 2017, per Nielsen Music), it makes more financial sense for Fearless to invest primarily in digital and forego trying to compete with larger labels in physical sales. This strategy will keep costs relatively low for Fearless, as packaging and manufacturing of CDs can run up expenses for a small company.

The industry will continue to post gains in revenues as long as labels are able to exploit the increased demand for audio streaming.

Company Goals

Short Term Goals (within the first fiscal year)

- Sign a contract with at least **THREE** new artists
- Release first full-length project under the Fearless imprint
- "Loyal" fan base of at least 500 people
 - Measured using Spotify's built in metrics
 - Measured by following count across different social media platforms
- 25% increase in streams between the **first** and the **second** label release
 - Data provided by streaming services (Spotify, Apple Music, Tidal, etc.)
 - Benchmarked against the first-week numbers for the label's prior release
- Finish the first fiscal year (2018-2019) with a positive net income (profitable)
 - Calculated by subtracting total company revenues by expenses required to generate these revenues

Long-Term Goals (1-5 years)

- Sign a **FOURTH** artist
- 5% revenue stream growth (per year)

- Measuring streams, digital/physical downloads and purchases, live performance ticket sales, merchandise revenues, publishing revenues
- Comparing company revenue streams year by year, and how this growth (or shrink) compares to revenue performance for the overall industry.
- Goal is to have a higher growth rate than the industry average
- Increase brand awareness
 - Tactics used to measure brand awareness include, but are not limited to, website traffic, search volume data, surveys and social listening
 - Measured by volume of mentions, reach (potential number of people that we may be seen by) and engagement rate(s)
 - Results will be compared not only against our past performance, but also the performance of our competitors
- Sign a distribution deal with a major distributor to assist in physical production and distribution of sound recordings
 - Potential distributors who have signed deals with independent labels in the past:
 - The Orchard
 - Alternative Distribution Alliance (Warner Music Group)
 - RED (Sony Music)

III. Products & Services

Products

Sound Recordings

In 2017, total audio consumption increased by 10.2% (per Nielsen Music) and IFPI reported that nearly 96% of all internet users consume licensed music. These numbers indicate the importance to labels of having audio recordings readily available for fans, and also the increasing demand for music.

Outlined in our artist contracts, Fearless automatically becomes the rights holder of any master tracks (final songs) that are recorded by an artist under the term of the deal. As the rights holder of these tracks, it is our job at Fearless to exploit these recordings in a way that benefits both the artists and the company. If one evaluates the current financial landscape of the music industry, they will see that competitors (even the major labels) are bringing in a majority of their income from digital revenues (50% of total industry revenues in 2016 were from digital streaming alone, according to IFPI). With CD sales declining since the beginning of the “digital age” (down 17.7% last year, per Nielsen Music), record companies are focusing on ways to offset these losses through digital revenue streams.

Therefore, Fearless has decided to forego the physical reproduction of its recordings (for the time being) and focus all of its efforts on exploiting our artists’ sound recordings digitally, making them available to the public in the following ways:

- Digital marketplaces (iTunes and Amazon)
 - *See figure 1 for what these marketplaces may look like*
- Interactive or on-demand streaming services (Spotify, Apple Music, Tidal, Deezer, etc.)
 - *See figure 2*
- Non-interactive web casters (Pandora, Rdio, ad-supported streaming services)
- Internet radio (SiriusXM, iHeartRadio, etc.)
- Terrestrial radio (FM/AM radio stations)



Figure 1 - John Legend's Apple iTunes artist page

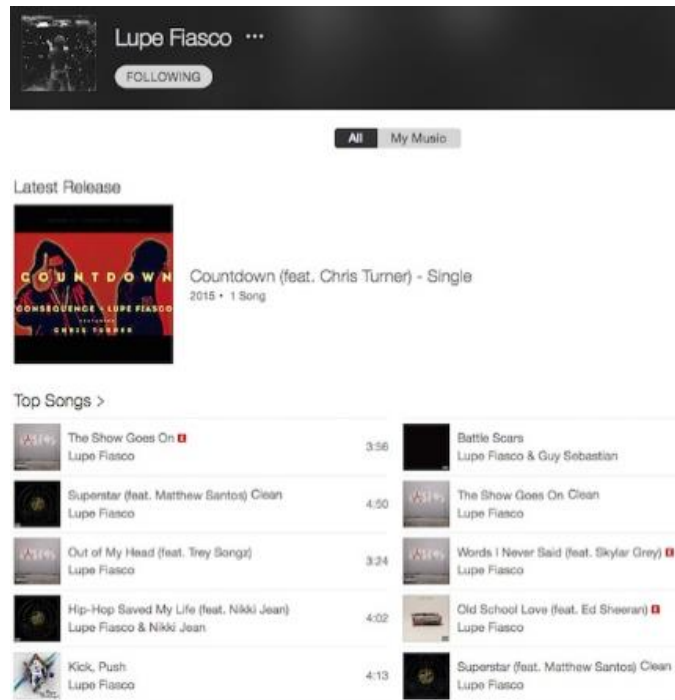


Figure 2 - Lupe Fiasco's Apple Music artist page

How are the sound recordings manufactured?

Fearless' focus on digital revenue provides a competitive advantage by avoiding the costs of manufacturing physical CDs and packaging and keeping expenses relatively low. However, we can't ignore the costs associated with manufacturing a *digital copy of a sound recording*. These costs can include but are not limited to: studio/recording costs, producer fees, mixing/master costs, travel, session performer fees and background artist fees. In an attempt to keep these costs low, Fearless will tap into the abundant pool of resources at CEO Jack Raybuck's disposal. His relationships with an increasing number of producers, studios and sound engineers will allow Fearless to acquire the most competitive rates and fees. Continuous collaboration and increasing volume of product with these individuals will help lower pricing in the future, driving expenses down.

How are the sound recordings distributed?

Sound recordings will be digitally distributed by DistroKid. Through DistroKid, our artists' catalogs and any new releases will be made available on over 150 digital platforms. Digital platforms include the interactive stream services such as Spotify, Apple Music, Tidal and Google Play as well as non-interactive services like Pandora and Rdio. DistroKid will also be responsible for getting our music into digital retailers like iTunes and Amazon and to internet radio providers SiriusXM and iHeartRadio.

As Fearless grows and the company begins to develop more capital and increased brand awareness (measured and benchmarked against past performance) we will consider a change of

distributors from DistroKid to CD Baby. This change would be an attempt to begin physical distribution of our records. CD Baby has a working partnership with Alliance Entertainment, an international wholesale distributor of CDs (currently the largest in the United States). This relationship gives our company the opportunity to sell physical copies of our products in retailers around the world, and in turn increase future revenue streams and reach. CD Baby offers economies of scale to labels where prices will drop as volume increase. As Fearless continues to push physical volume into retailers and grow our output, these distribution expenses will decrease. However, physical distribution should not be considered until the company is in a financial situation where it can handle these additional costs while still maintaining its other segments.

Pricing/Payments on Sound Recordings

Pricing of sound recordings made available on *streaming services* is out of Fearless' hands, as all of the services listed above charge their users a flat fee to gain full access to their available catalogs. For example, a Spotify user pays a monthly fee and is granted unlimited access to the millions of songs available on the streaming service. Streaming services such as Spotify and Apple Music are granted a license of our music (provided by our digital distributor, DistroKid) which gives them the ability to upload our music to their platforms. Fearless is paid a royalty every time a listener streams one of our songs. Below is a list of what some of the major streaming services are currently paying out (royalties) per stream (provided by Information is Beautiful):

- Spotify: \$0.0038
- Apple Music: \$0.0064
- Tidal: \$0.011
- Google Play: \$0.0059
- Pandora: \$0.0011
- YouTube: \$0.0006

Revenue from digital streams (Spotify, Apple Music, Tidal, etc.) will be collected and paid to us by our digital distributor, DistroKid. DistroKid charges an annual fee of \$19.99 per artist, but delivers 100% of the revenue that each artist earns. Fearless artists will receive a 50% royalty (as outlined in artist contract), and thus half of their share of **total** revenue paid out to us by DistroKid. That means if Artist A's music generated \$500 in streams on Spotify last month, she would receive \$250 of that total. The other half of that \$500 is collected by Fearless in order to recoup the artist advance and to cover marketing, promotional, manufacturing and other expenses undertaken by the company in order to help sell the product.

Although streaming pricing is out of our reach, pricing of sound recordings made available on digital marketplaces such iTunes and Amazon.com can be set by Fearless. Right now, the average price of a single (one song) is \$1.29 and the average price of an album release is \$9.99 (information gathered from Apple iTunes store). Apple iTunes and Amazon collect 30% on each sale, leaving Fearless with around 75-90 cents per song and \$6.00-\$7.00 per album. Again, DistroKid will be responsible for collecting any of this revenue. Artists will be paid royalties on these revenues the same way that they are paid for streaming. So, if Fearless collects \$500 from Artist A album sales, she will receive \$250 (50%), and the company will retain the remaining

half (to go towards advance recoupment and covering revenue generating expenses discussed above).

Merchandise

Again, as physical CD sales continue to decline, it is important that we continue exploring other revenue streams to make up for these options. Artist merchandise is a great way for new artists and labels to not only generate revenue, but also build brand awareness and customer loyalty. We also understand that our young artists may not see a lot of revenue generated from streams in their developing stages of their career. Therefore, our goal at Fearless is to use merchandise as a way to ensure that our artists are being paid for the value they bring to the company.

Through the production and distribution of artist merchandise both online on artist/label website and at concerts, Fearless hopes to identify another profitable segment as well as help extend our artists' reach. Merchandise will be priced based off industry averages. At the moment, artists signed to independent record labels releasing merchandise for the first time are pricing t-shirts and sweatshirts around \$25 and \$40, respectively. Fearless wants to ensure that the merchandise sold isn't overpriced relative to what our competitors are charging.

Touring

Touring is usually seen as a promotional effort taken on by labels in an attempt to increase awareness around an album release. However, as CD sales have declined since the early 2000's, labels have used touring opportunities as a chance to make up for these losses. According to data gathered by the United States Industry & Market Outlook, sales of live music performances increased by 4% between 2016-2017 and is expected to grow another 4.9% between 2018-2019. Also, there were more concerts in sports stadiums this summer than any season since the 1990's (per Wall Street Journal). The continuous increase in revenue generated and concert attendance is proof that music fans are still demanding live performances and the obvious **need** for these showings.

Touring will still occur only after an artist has released a full-length project and if it makes financial sense for the company to move forward. Fearless needs to be confident that the tour will bring out enough people to generate the revenue it needs to cover other company expenses. Touring expenses will be covered by Fearless and then recouped from the artist's royalty payments.

Pricing of our first tour(s) will have to be an estimate based on industry averages for the preceding year as well as what competitors (other independent labels) are charging. For example, pollstar.com reported that the average ticket price for worldwide tours was \$84.63 in 2017. Also, *Ibeyi*, a female R&B duo signed to independent label XL Recordings, are charging around \$30 per ticket for their upcoming tour. Based on this information, Fearless would consider charging somewhere between \$30-\$40 per ticket across all shows. These rates are subject to change based on projected attendance as well as location of the show.

Artist payments from touring will be handled the same way that payments from streaming and digital purchases are handled. As outlined in the artist contracts, Fearless has a 50% stake in any revenues generated while the act is signed to the label. Therefore, half (50%) of the money made from ticket sales on any artist tours will be collected by the label and the artist(s) will keep the

other half (50%). In the event that one of our performing acts is composed of multiple artists, the 50% will then be divided among the group members. Artists begin collecting their half of touring revenue AFTER expenses have been recouped.

Services

Artist Development

Fearless' music operations are entirely dependent on our ability to discover and develop new talent. In addition to the discovery and development of new acts, Fearless is responsible for providing the necessary marketing, distributing and licensing of any product produced by these artists. These operations are what Fearless defines as "artist development": anything required to take the artist(s) from their first stage(s) of development to their breaking point as a star.

From preparing our artists for interviews, helping them understand how to carry themselves on social media, to connecting them with the correct producers and helping find the right co-branding opportunities, our artist development services are geared towards identifying each act's respective unique selling proposition. Through constant development, Fearless and their artists work together each day to make sure we offer unique products that are meeting our customer's changing needs.

Marketing & Promotion

Fearless marketing and promotion services are geared towards helping our artists reach their proper target markets. We know that without a proper fan base, talented musicians run the risk of never seeing the success they deserve. The main goal of these services is to help our artists acquire new fans and maintain a relationship with existing fans. Through interviews, album reviews, artist spotlights and other co-branding efforts with both digital and traditional media outlets, Fearless will help their artists increase audience size and brand loyalty (measured by data provided by streaming services and digital marketplaces, as well as data available online from social media services and artist websites). More about Fearless' specific marketing efforts and plan will be discussed in section **IV: Marketing Plan**.

Copyrights/Trademarks

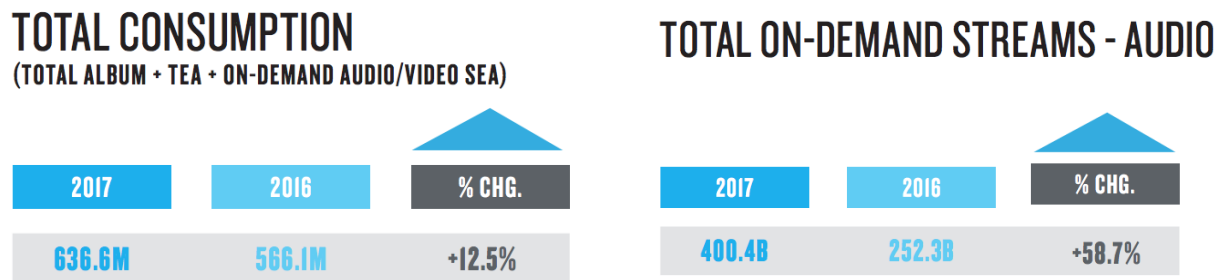
Although musical recordings gain copyright protection as soon as they take tangible form (are recorded in the studio), Fearless plans on filing each song (or album if they are released collectively) through the U.S. Copyright Office. Doing so will provide Fearless the ability to bring suit against someone who we believe has infringed upon our rights. Without registering with the Copyright Offices, our rights and remedies with respect to our work is limited.

Fearless may need to also register for trademarks to ensure that our artists' brands are being fully protected. Trademarks protect Fearless and their artists against the unlawful use of any of our images, designs or other recognizable signs which identify the products and brands.

IV. Marketing Plan

Industry Overview

The worldwide market for recorded music is estimated to be \$15.7 billion, with North America as the largest music market by region. According to the most recent reports published by IFPI, the recorded music industry showed a 5.9% increase in global revenue in 2016. That growth was fueled mainly by a 60.4% growth in streaming revenue which allowed digital share of total revenues to reach 50%. In 2017, the recorded music industry showed a 12.5% increase in overall music consumption which was driven primarily by an increase of about 150 billion on-demand audio streams (see figures 3 & 4 below).



Figures 3 & 4 – Change in total consumption and on-demand stream consumption for 2017 via Nielsen Music

Although streaming and overall digital revenues continue to rise, the industry still faces the challenge of making up for losses in sales and downloads. Each year, physical sales and downloads are falling more and more as streaming becomes gains popularity. In order for competitors of the industry to combat the problem of declining sales, it is important that they develop and implement business models to take advantage of the changing landscape. It's important, especially for independent record labels, to continue increasing revenue generated from online applications and services as well as other revenue segments that could help offset the losses in CD sales.

Barriers to Entry

Brand Recognition Challenges

As a startup independent record label, Fearless' biggest challenge will be increasing our brand recognition. In 2016, the three major record labels (Universal Music Group, Sony Music and Warner Music Group) possessed roughly 68.7% of the total market share (via MIDIA research, 2017). This share is due in part to the massive amount of money, workers and other necessary resources that these firms own. This number poses a risk to Fearless and highlights the

difficulty that independent labels often have in gaining market share. However, independent labels currently own about 31% of the total market and still managed to generate \$6 billion in 2016, a 6.9% increase from 2015 (WINTEL report). These independent record labels are finding ways to compete with the larger companies by focusing on smaller market segments and outsourcing jobs to third parties in order to cut costs. For an independent record label to succeed in an industry primarily dominated by a few firms, it is imperative that expenses are kept low and a niche or more specific target market is focused on. To keep costs low, Fearless will focus its efforts on digital distribution of its products (a much cheaper route than physical reproduction and distribution) and will tap into third party companies to help with merchandise production and distribution, touring, and other promotional operations. Fearless will also focus on a smaller target market, discussed later in the marketing plan, to combat the resource advantages the larger labels possess.

Finding Qualified Employees

The average independent record label generating less than \$1 million in revenue typically employs 4 people (WINTEL report). The reason for this is that these small labels don't have the financial resources to pay any more employees. For this reason, many independent labels will hire third parties or use contracts to get work done, rather than hiring a new staff member. Fearless' lack of initial capital will pose a problem in bringing on employees. CEO Jack Raybuck has already brought on two individuals (Jordan Criddle and Jesse Brown) who he has worked with in years past to assist with artist development and promotion. However, the company will still need to bring on an additional employee or two to help with smaller day-to-day tasks such as coordinating with venues, contacting blogs and writers, managing social media and online content, and other jobs that will help the company push operations forward and increase brand recognition.

Fearless will post job listings on websites like Indeed, LinkedIn and SimplyHired to target individuals who may be interested in working in the music industry. The company will also make all attempts to appear at career fairs held by various universities. We believe that our push for equality in the industry and promotion of social justice will attract young workers who are passionate about the work that they'll be doing.

High Production Costs

Relative to the other costs that Fearless will incur, production costs will weigh the heaviest on our revenues. Production costs in the music industry can span a wide array of jobs, but Fearless is currently focused on any costs associated with creating the final form of a sound recording. These costs include studio time, producer fees and royalties, songwriter fees and royalties, travel, session musicians, mixing and mastering engineer fees, and more.

In 2017, Warner Music Group spent roughly \$628 million on product costs associated with revenue generated. This is the scariest number for independent record labels like Fearless. WMG has an incredibly large pool of financial resources that allows the company to take larger risks and spend more on making the product. Fearless is unable to operate in a similar way, and will be forced to keep costs low in any way possible in order to break-even and generate comparable margins.

In addition to costs required to produce sound recordings, Fearless will also have to consider the costs associated with marketing and selling the product. To point at Warner Music Group once again, the company spent \$472 million in 2017 on selling and marketing expenses, an 8% increase from 2016. Major record labels are continuing to increase their investment into marketing and other associated selling expenses, posing a threat to Fearless and our hope of gaining market share.

SWOT Analysis

Strength - Low Fixed/Variable Costs

Fearless' digital-only strategy allows us to keep both fixed and variable costs relatively low. Our goal is to keep expenses at a minimum in our first year of operation, as we know we may not see much revenue generated. To do this, Fearless will focus most of its spending in its first year on any recording or production costs including studio time, artist fees and travel. Fearless will forego all physical manufacturing and distribution of our sound recordings in its first year of operations, freeing up additional capital to be spent on any marketing and promotional efforts needed to help sell our products.

Fearless can utilize these low costs as a competitive advantage. Although we may not physically distribute like some of our competitors, we still possess the same ability to digitally distribute all of our products to the same retailers as the biggest labels in the world. Through our digital distributor, DistroKid, Fearless is able to upload an unlimited amount of product to over 150+ digital retailers for only \$19.99 per artist. The more sound recordings we are able to upload and exploit, the higher opportunity to generate revenue and cover what few expenses we will have made to produce.

Weakness - Lack of Resources

The biggest risk in running a record label is that a newly signed artist may never “break” and make money for the company. If an artist fails to produce for the label, they have ultimately wasted a large sum of money (sometimes over \$1 million for new artists signed to major record labels) on an unprofitable product line. However, the major record labels are able to handle these defeats because they usually are employing at least one “superstar” artist who can make up for these losses.

Without a “superstar” act that can potentially produce millions in profits each year, the risk runs higher for Fearless. Therefore, we must be more cautious with the acts due to our lack of “safety stock”. The best way to combat this potential weakness is to ensure that all of our expenses are revenue-generating. Fearless can't afford to spend money in its beginning stages if we aren't going to see a return on investment or increase in brand awareness.

Opportunities

Opportunity in Asian markets

Last year, independent labels accounted for 89% and 65% of total digital revenue in South Korea and Japan, respectively (Wintel report, also see figure 5). Compare this number to the 40% market share of digital revenue that independent labels have here in the United States, and one will see the potential opportunity to be had overseas. Although a majority of the music market here in the United States is accounted for by the major labels and their artists, there is

room in other countries for independent record labels to grow and expand their brand. Expanding into countries abroad would give Fearless an incredible opportunity to increase brand awareness and reach. These additional markets may also provide additional revenue segments for Fearless to capitalize on. Differing consumer needs in different geographic locations may warrant additional product lines, depending on the potential and demand that these new markets offer.

Recorded music revenue also grew by 20.3% in China last year, according to information gathered by IFPI. This gain was fueled by a 30.6% rise in streaming in the country.

As an organization who is focusing a majority of their efforts on digital revenue segments, an increase in streaming anywhere around the world poses an opportunity for us.

Streaming services like Spotify, with over 112 million current users, make it easier for a startup company like Fearless to break into other markets around the world. Also, music blogs like Pitchfork, Fader and Complex have readers all around the world. This gives us the ability to reach music fans in different countries without having to invest in expensive marketing or promotional plans.

More Frequent Artist Releases

For artists signed to a major record deal, it isn't uncommon for them

Total Digital Revenue Share			
	Total Market	Major Record Labels	Independent Labels
US	100%	60%	40%
UK	100%	78%	22%
Australia	100%	63%	37%
Canada	100%	79%	21%
Germany	100%	73%	27%
France	100%	60%	40%
Norway	100%	71%	29%
Brazil	100%	61%	39%
Chile	100%	61%	39%
Japan	100%	35%	65%
South Korea	100%	11%	89%
Spain	100%	80%	20%
Belgium	100%	72%	28%
Denmark	100%	78%	22%
Finland	100%	79%	21%
Italy	100%	69%	31%
Netherlands	100%	69%	31%
Sweden	100%	74%	26%
Other markets	100%	63%	37%
Global Total	100%	61%	39.11%

Figure 5 - Digital Revenue Share by Country

to have creative restrictions and control implemented upon them by the label. Oftentimes, major labels will require their artists to produce “commercially satisfactory” recordings. What this means is that the company will only take recordings from their artists that they believe will sell and turn a profit. Also, major record labels often plan months in advance for an artist release in order to facilitate distribution and marketing plans.

At Fearless we understand the importance of new artists releasing music to their fans as often as possible to help build that initial following. To make up for our comparative lack of marketing funds, Fearless will implement a strategy that focuses on consistently releasing product to promote brand awareness and help our artists develop their image and sound. Through more frequent artist releases, Fearless will also be provided with more updated demographic and engagement information. Data acquired from each release can be analyzed and used to help ensure a more successful and profitable release in the future.

Threat - Major Record Label(s) Capitalizing on our Vision/Philosophy

Fearless' biggest concern is the threat of major labels on our business plan and strategy. What concerns the company is the idea that a major record label could utilize their expanding budgets and enormous staff in order to capitalize on the problem that Fearless is trying to solve.

This company is built around our philosophy and vision and having that stolen by a larger company in order to make a profit could potentially leave us at a competitive disadvantage. One of our biggest advantages in the future will be our brand image; one built around social justice, solving the gender misrepresentation problem and ultimately creating equality in the industry. For a major record label to exploit this strategy with larger financial and personnel resources may leave us struggling to refine our vision to become competitive again. In order to combat this potential issue, we need to be sure that Fearless is constantly keeping an ear to the newest and freshest sounds in our respective genres. It is important that we have the upper hand when reaching out to female artists by approaching them first and with a clear and definite vision.

Product/service features and benefits

Products

An Attempt to Solve the Industry's Biggest Problem

In 2017, only 16.8% of all popular music released was by a female recording artist based on USC Annenberg's study of the popular music industry. Compare this number to the 28.1% of total popular music in 2016, and one can see that the problem of gender inequality in the music industry ISN'T improving (see figure 6 below). Fearless' products and offerings are our attempt to try and solve this problem. With a lineup composed entirely of female acts, we believe the benefit of our offerings are derivations of the products themselves. Also, a study performed in 2016 published in the Journal of Consumer Marketing reveals that a social identity experience exerts significant effects on music consumption. Our lineup and the fact that more than half of on-demand streamers are females (MINTEL report), allows Fearless to offer a sense of social identity and a reflection of values that we believe is important to this majority.

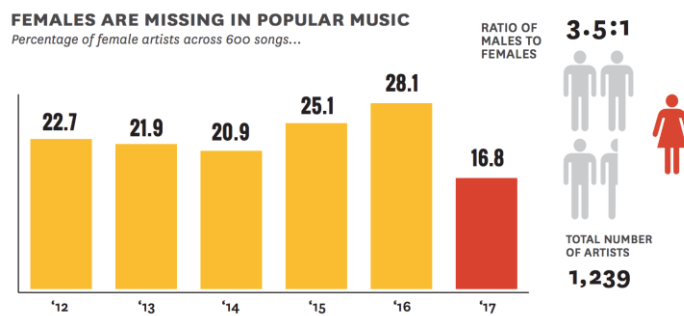


Figure 6 – Female Representation in Popular Music via USC Annenberg School for Communication and Journalism

Supplying an Increasing Demand

Fearless is at an advantage compared to the major record labels in that we are able to release music more frequently. Major record labels often employ marketing strategies and

distribution plans that stretch across multiple months. These plans work great in generating buzz around the release, but the time it takes up to coordinate marketing and promotional efforts along with physical and digital distribution can eat up time that could otherwise be used to release more product.

Because Fearless is implementing a digital-only strategy in the beginning of its operations, we have a much lower lead-time in how long it takes to get our product on the “shelves”. This is extremely important for Fearless in its developing stages, where we need to be further developing brand awareness and recognition and building our audience. Major record labels already possess large audiences or resources to create them, therefore they don’t need to push as much product.

More frequent releases also allows Fearless to help supply the increasing demand in the industry. With digital music consumption and on-demand audio streams up 20.5% and 58.7%, respectively, and monies from digital segments accounting for half of all revenue, it’s important that Fearless supplies this increasing demand of digital content in order to remain competitive.

Services

Concentrated Artist Efforts

One advantage that Fearless possesses because of its size is that we are able to focus more of our attention on fewer “products” or artists that we have signed. A major record label like Warner Music Group might have over 50 artists signed to just one of their sub-labels (Atlantic) alone! That means the record label has even more artists underneath it across its other sub-labels that they are responsible for overseeing. These large rosters of artists on these major record labels is good for the fact that it provides the company with a better opportunity to have a star breakthrough. However, Warner Music Group has to divide its attention across nearly hundreds of different artists. This typically leaves the label’s smaller acts with little support while the bigger, higher grossing artists, receive a majority of the marketing and promotional support.

At Fearless, our roster size allows us to concentrate more of our efforts on our artists. We believe this concentrated support and focus provides a benefit to female artists who are looking for a label to sign with. Fearless guarantees that none of our acts are thrown by the wayside and that we do everything within our ability to help her create a profession out of her passion. Fearless’ lack of capital resources also makes it extremely important that we give our best effort in promoting each and every artist we sign. Fearless can’t afford the risk of an artist not generating revenue for the company, especially early on in its developmental stages. Therefore, Fearless promises each and every signee that they will be provided with the support and necessary resources to help them break through.

50/50

When new artists sign to a major record label such as Warner Music Group, Universal Music Group or Sony Music, they are often given a moderate to large advance (anywhere from \$50,000-\$1,000,000). This advance is nice for the artist as it provides them some financial security over the following months while they are creating their first release under the label. However, what this also means for these new artists is that they won’t see a penny of their revenue generated until they have completely paid back that advance. So, the labels reach into

the artists' pockets every time they make money from streaming, merchandising, touring and other relevant segments until they have recouped the full amount that was advanced. Only then will the artists begin to see any of the money that they've earned. However, the money they receive is slim compared to what the executives at the labels are putting in their pockets. Most of these new artists sign contracts that give them a 10-15% royalty. This means that the artist only receives 10-15% of the revenue that THEY have generated for the company. Therefore, making money, if you do happen to pay your advance back, becomes extremely challenging for newer artists with smaller audiences.

Fearless, like many other independent record labels, agrees to a 50/50 split with all of the artists that we sign. This means that the artist will see half of the revenue that their products generate, after any production or marketing costs have been deducted. Although we can't offer large sums of advance money to our new artists, we believe that this 50/50 split and immediate access to artist revenue provides our acts with the financial security they need over a longer period of time. After major label artists have paid back their advances, they're still only seeing a small percent of their revenue (10-15%). Our artists will keep a higher percentage of their value generated for the company, which we believe provides us with a competitive advantage over the majors. We hope female artists look to Fearless as a partner not only because we are fighting to provide them an equal platform, but also because they will be guaranteed a larger piece of the pie.

Fearless retains half of the revenue generated by our artists in exchange for our marketing and promotional efforts as well as our ability to help build the act's audience and brand in the early stages of their career. Fearless is taking on risk in investing our money in acts that may not be able to make that money back, therefore we keep 50% of revenue as a return on our investment.

Target Market

- Age: 16-45
- Gender: Female
- Location(s): Los Angeles, CA; New York, NY; Chicago, IL; Atlanta, GA
 - 2018 projected sales for establishments with 1-4 employees, by region (from Barnes Reports on Integrated Record Production & Distribution industry):
 - Los Angeles, CA: \$70.3 million
 - New York, NY: \$40.5 million
 - Chicago, IL: \$15.5 million
 - Atlanta, GA: \$13.1 million
 - These four cities account for \$139.4 million (45%) of the total \$306 million revenue that companies with 1-4 employees are projected to generate in 2018
- Income: Median income is about \$51,000 based off of information provided by the U.S. Census
- Education level: High school degree or higher
- Primarily listens to R&B, pop and hip-hop music genres
 - In 2017, these three genres made up 44.2% of total music consumption with an average growth of 24.5% from 2016.
 - Hip-hop saw both the largest share of consumption as well as the largest growth rate, 20.6% and 46.9% respectively.

Proposed Location: *Los Angeles, CA*

Fearless believes it has a greater chance of seeing early success if we set up shop in Los Angeles, California. For record labels with 1-4 employees such as Fearless, projected sales are expected to be higher in California than in any other state, based on data provided by Barnes Reports (Integrated Record Production & Distribution industry). Sales in 2018 are projected to be \$88.1 million in California which is more than twice as much as the next largest competing state. Record labels with 1-4 employees in California are also projected to generate \$117.5 million in live performance revenues in 2018; over \$40 million more than the next highest state (New York, \$74 million).

In addition to the large sales potential available in the state of California, there is also the largest concentration of companies operating in the recorded music business (Barnes Report, number of establishments). From other labels to publishers, venue owners, promoters and more, the opportunity for collaboration and networking is most promising in the state of California.

We decided to choose Los Angeles specifically based on regional data provided by Barnes Reports. In 2018, Los Angeles alone is expected to generate \$70.3 million in sales, or nearly 80% of all total revenue from record labels with 1-4 employees in the state of California. We know that the cost of living can be high in Los Angeles, therefore our goal is to locate as close to the city as possible while still maintaining relatively low costs for the company and its employees.

Key Competitors***IAMSOUND Records – Los Angeles, CA***

IAMSOUND is an independent record label located in Los Angeles, California. IAMSOUND was founded in 2006 with a focus on pop, alternative and electronic music. The record label currently employs 5 people, but its distribution deal with The Orchard allows the company to move an average of 3,000-4,000 physical CD's for each album release. IAMSOUND's distribution capabilities provide them a competitive advantage over other independent record labels that are the same relative size. The label's largest release thus far was Lord Huron's *Lonesome Dreams*, selling over 46,000 copies according to SoundScan data. In order to compete with IAMSOUND, we need to work to scale our distribution to include physical product along with our existing digital offerings. Signing a distribution deal with a major label distributor would allow Fearless to expand our reach and further build brand loyalty among our customers.

Sub Pop Records – Seattle, WA

Sub Pop Records is an independent record label that was founded in 1988 in Seattle, Washington. Releases by Nirvana and Soundgarden in the 90's helped Sub Pop break into the music industry as a serious competitor against the major labels. The label's roster consists mainly of alternative and niche-based artists, or acts that cater to a smaller and specific audience. This strategy has helped Sub Pop expand its reach across the world and build itself a loyal following of customers. Sub Pop currently employs 40 individuals and is distributed globally by Warner Music Group.

Sub Pop Records' time in the music industry, their distribution capabilities and the size of their workforce helps them compete with other independents and majors alike. Again, in order to compete with an already established independent label such as Sub Pop, it is important that Fearless increases its production capabilities through a distribution deal with a major distributor. As Fearless continues to release music digitally, increase bottom-line and build a loyal fan base, our goal is to sign one of these distribution deals to help push more product.

Distribution Channels

As described earlier in the business plan, Fearless will implement a digital only strategy for at least the first year of operation. We do this in order to keep costs low and avoid the expenses of manufacturing and distributing physical CDs. As bottom-lines increase and Fearless is able to better cover our expenses with our existing revenue segments, we will consider physical distribution of our sound recordings through a working relationship with distributor CD Baby.

We also need to consider distribution for the merchandise that Fearless plans on selling via the company website.

Sound Recordings

Sound recordings will be digitally distributed by DistroKid, an online distributor who helps artists and small labels upload their music into over 150+ digital retailers. For a fixed rate of \$19.99/year per artist, we are able to upload an unlimited amount of songs or albums to all of these services. With the help of DistroKid, Fearless will have the ability to upload our entire catalogs to the following digital applications:

- Spotify
- Apple Music
- Tidal
- Google Play
- Deezer
- YouTube music
- Apple iTunes
- Amazon.com
- Pandora
- iHeartRadio
- SiriusXM
- Rdio
- 150+ other outlets through DistroKid's partnership with MediaNet, including:
 - Beatsmusic
 - Songza
 - MTV
 - Yahoo Music

As Fearless grows and we are able to generate more revenue in the years to come, our goal is to develop a working relationship with distributor CD Baby. The reason Fearless would like to eventually switch our primary distributor is because CD Baby also offers the ability to distribute physical product in over 15,000 record stores around the world. A working relationship

with Alliance Entertainment, the world's largest wholesale distributor of physical CDs, allows CD Baby to get their clients' products into a variety of brick and mortar establishments beyond the reach they may already possess. In addition to helping with physical distribution, CD Baby helps their clients who move more product with promotional and marketing services. As Fearless increases the volume of physical CDs that we are distributing via CD Baby, additional promotional help will be provided in order to further increase sales and reach.

Artist Merchandise

Artist merchandise can be purchased in one of two places: at a Fearless artist concert OR on the Fearless company website. Any merchandise that is sold to fans at our shows will be delivered immediately to the purchaser. Merchandise will be sold at every event that Fearless actively participates in.

For artist merchandise that is purchased via the company website, Fearless will provide fulfillment services on their own, at least until overall company margins have increased. All merchandise that needs to be shipped will be packaged and delivered by individuals who work for the company. This will be done in order to keep company costs low. Since we don't anticipate seeing a large volume of merchandise sold in our first year of operation, it makes more financial sense for the company to take up as much responsibility as possible with regards to shipping and order fulfillment.

In the future, Fearless would like to establish a working relationship with Manhead. Manhead is a full-service merchandise company that caters specifically to the music and entertainment industries. They offer services ranging from product design, e-commerce, tour and retail services and customer service. As the volume of merchandise purchased by our audience grows, we will want to not only increase the distribution in order to meet increased demand, but we will also want to make sure we can efficiently track every order that is fulfilled. Manhead provides the services needed to hold, ship and fulfill any necessary orders as well as handle any customer service that may be needed upon purchase.

How we market and advertise our products

Fearless will continue its focus on digital through to the marketing and advertising channels. We will concentrate most of our marketing efforts through online outlets such as blogs, online radio, social media, email marketing and our company website. The reason we have chosen to continue this concentrated focus on digital is due to the potential pool of individuals we can reach at such an affordable cost. According to studies done by Pew Research Center in 2018, 95% of Americans own a cellphone of some kind, with 77% owning a smartphone. Also, 94% of individuals ages 18-29 currently own a smartphone, according to the same study. This group of people falls under our "target customer" umbrella, and thus provides us with a large potential market to tap into.

Other ways we can improve our marketing efforts is through co-branding opportunities with organizations such as Girls Incorporated, National Organization for Women, She Runs It, and Women in Music. These organizations are setup to help create opportunities and equality for women in the United States. Fearless believes that these kinds of collaboration opportunities will help the company further demonstrate our brand image and strengthen awareness in consumers' minds.

The image that Fearless wants to project is one that values equality, representation and fair treatment for those who are underrepresented. Although our focus is women in music, the bigger image revolves around the idea of inclusion for EVERYONE in any industry, no matter your gender, race, age, ethnicity or sexual identity.

Effectiveness of *digital* marketing campaigns will be measured in the following metrics:

- Increase in social media following (Twitter, Instagram, Facebook, Youtube)
- Higher engagement rate per post (measured individually within each social media platform)
- Increase in reach (measured by comparing the audience we previously reached to the new audience we are reaching)

Social Media marketing

In 2018, Pew Research Center determined that 88% of individuals ages 18-29 are using *at least* one social media site. To provide some context on this statistic, there’s around 30 million people just age 18-24 in the United States. This means approximately 26,000,0000 people, 18-24, have used or are using at least one social media platform. Social media platforms that Fearless will target include Twitter, Instagram, Facebook and Pinterest.

When looking at usage data of social media platforms, we see that 79% of online adults use Facebook, 32% use Instagram and 24% use Twitter. Therefore, Fearless will focus its social media marketing efforts according to this information, with most priority on Facebook and Instagram. Also, of ALL adults online using social media, women ages 18-29 are the majority users across all three of these platforms. Again, this plays into Fearless’ hands as our target market consists primarily of women who are young adults.

Pinterest provides Fearless with the opportunity to reach our target customer in the most direct way via social media. 45% of online adults who use Pinterest are women, with 36% (the largest portion) being ages 18-29 (see figure 7).

31% of online adults (26% of all Americans) use Pinterest

% of online adults who use Pinterest

All online adults	31%
Men	17
Women	45
18-29	36
30-49	34
50-64	28
65+	16
High school or less	24
Some college	34
College+	34
Less than \$30K/year	30
\$30K-\$49,999	32
\$50K-\$74,999	31
\$75,000+	35
Urban	30
Suburban	34
Rural	25

Note: Race/ethnicity/breaks not shown due to sample size.
Source: Survey conducted March 7-April 4, 2016.
"Social Media Update 2016"

PEW RESEARCH CENTER

Figure 7 – Online Adults using Pinterest via Pew Research Center

Facebook and Instagram offer paid promotional services that allow individuals and companies to put money behind their posts in order to increase reach and engagement. With Facebook, users can put any amount of money behind a campaign, and the results will correlate directly with how much was spent. Thus, if a company spends \$50,000 on their marketing campaign, they will see a wider reach than the company who only spends \$5,000 on a campaign. As a new company, Fearless will have to experiment with different pricing options on Facebook in order to best understand how to utilize the platform. As time moves on, we will gain a better

idea as to the amount of money we need to spend in order to reach our desired number of individuals. One of the company's main goals in its first year is to increase brand awareness, and using paid ads on Facebook is an incredibly easy and affordable way to reach an audience that would have been inaccessible beforehand.

Email Marketing

In addition to reaching our prospective audience via social media, Fearless will also collect email addresses from fans and customers. Each time an individual purchases an item from the Fearless store, an email address will be collected. If an individual visits the Fearless website simply to browse content, he or she will be asked if they would like to sign-up for email updates. As we collect emails from our customers, it gives us a chance to reach out to them directly when we have news about products being released, upcoming events and with updates on what the company has been working on recently. Fearless believes that this direct line to our audience will help us stay in touch with our most loyal patrons as well as reach new customers in an informal yet informative way. The goal of our email marketing campaigns is to not only provide our audience with new information, but to also acquire new consumer information from them. Constant rapport with our customers allows us to gain insights into what they are interested in seeing or hearing from us, as well as aspects of our operations that they may have liked or disliked in the past.

Music Blogs

Our main digital outlet for promoting new music will be blogs. Blogs have become an important place for individuals to find new music as more people are streaming as well as utilizing a mobile device now more than ever. These music blogs also have social media accounts that makes seeing their posts and discovering new content extremely easy and accessible for mobile-users. Founder Jack Raybuck and COO Jesse Brown have developed a long list of contacts from the freelance work they have done for over 5 years. Contacts include writers, tastemakers, influencers and other individuals online who may be of assistance in promoting and advertising our products. Some of the blogs that Fearless has already developed contact with include, but are not limited to:

- Complex
- Fader
- DJBooth
- Pigeons & Planes
- Pitchfork
- Hype Machine
- Earmilk

Promotional Budget

Fearless' promotional budget will be split between social media promotion and landing our artists' songs on streaming playlists. The split between these two channels will be determined by our ability to get placements on playlists that we believe align with our artist's audience and target demographic. More money will be allocated towards social media promotion if we are unable to lock placements with the proper playlists. Jack Raybuck and Jesse Brown have developed a list of playlist curators who they have worked with on past releases. The

promotional budget will be updated and fixed according to the effectiveness we see in our first campaigns.

Startup promotional budget (first artist release):

- \$200 for social media marketing
 - Instagram: \$100
 - This \$100 will be spread out across multiple posts about the most recent release. Different posts at different times will give us a better chance of obtaining a wider reach.
 - Facebook: \$60
 - Money will be spread out across multiple posts and multiple weeks, similar to Instagram. This allows us to hit as many potential target customers as possible.
 - Twitter: \$40
 - \$40 behind “new project” posts. Artist’s first couple of posts announcing the release of a new project. Money will be invested in a shorter period of time to build engagement around the “release” post.
- \$100 playlist placements

V. Operational Plan

Production

Sound Recordings

The first step in creating sound recordings will be acquiring instrumentals or beats from outside producers. Producers may vary from project to project, based on the direction that Fearless and the artist believe the album should go. In acquiring beats, Fearless will tap into its employees already strong connections to find great deals on great music. Founder Jack Raybuck and the other Fearless employees have created relationships with a handful of producers in R&B, hip-hop and pop through collaborative efforts in the past.

Selecting beats will be a joint assignment undergone by both the artist and individuals at Fearless. After an agreement has been made on which beats the artist would like to try and write over, demos are recorded to see how a final product might sound. Demos are recorded in-house on equipment already owned by Fearless with the assistance of our audio engineer, Jordan Criddle. After demos have been recorded, the artist and Fearless decide which songs are the best fit for the project. If necessary, additional beats will be acquired and new demos will be recorded to have a more abundant set of choices to pick from. When the artist and Fearless have come to an agreement on a group of demos that will be a good fit for the project, it is time to record final products at a recording studio.

Final sound recordings by Fearless and its artists will be produced within our in-house studio run by Jordan Criddle. Having access to a studio in-house allows Fearless to keep production costs low by avoiding recording fees imposed by third parties. Below are the estimated costs for producing a 5-song project; what we *personally* believe to be the gold standard for new artist releases.

Costs of Production for 5-song project (estimates based on typical averages):

- Producer fees (purchasing instrumentals or “beats” from producers to be recorded over by our artists): \$500-\$700 total
 - This number is determined by looking at the average cost of instrumentals from the producers Fearless has developed a repertoire with. Exclusive rights of instrumentals typically cost \$100-\$150/instrumental, but overall prices can drop as more instrumentals are purchased at a time (economy of scale).
- Additional artist fees (optional)
 - If a Fearless artist would like to bring in additional singers or instrumentalists to add background layers to a track, additional fees may be incurred.

Quality Control

The term “quality control” is used rather loosely in the realm of music, as quality is a subjective way to describe each recording. Quality control at one label can mean and look totally different than that of the company next door. At Fearless, our goal is to supply our artists with as much creative freedom as possible, so long as we believe the final products will accomplish one of two things:

- Positive profit margins for both the company and artist
- Increase in brand awareness or audience size
 - Measured in views, engagement rate, social media followings and number of conversations about the brand(s) occurring online

Quality control at Fearless is a collaborative effort between both the artist and the employees of the label. A conversation with the artist(s) will be held in order to determine which sound recordings she would like to release to the public, along with the employees of Fearless' input on the potential profitability of the releases.

Fearless will never release a sound recording under the imprint if there is any reason to believe that this product:

- Will damage the reputation of either the company or the artist(s)
- Will result in a decrease of audience size (data provided by streaming service platforms)
- Doesn't align sonically or conceptually with sound recordings previously released under the Fearless imprint

Personnel

Fearless seeks employees who are passionate about making a positive impact in the music industry. There are no required levels of education or licensing needed for an individual to be qualified for a position at Fearless. However, we do look for potential employees with past experience in the music industry. These employees will be found on job sites such as InDeed, Monster Jobs, Glassdoor and ZipRecruiter as well as through owner Jack Raybuck's network of contacts he has developed from his freelance work experience. Mr. Raybuck has spent a handful of years working with artists, producers, writers and other individuals in the music business. These relationships can be leveraged to help the company find qualified and passionate employees. Fearless will operate with only the three founding employees in the developing stages but will look to hire additional personnel as the artist roster expands and the company begins generating more profit.

When additional staff members join the company, training will involve teaching these new employees about the values and vision of Fearless. All work done by our company should aim towards our ultimate goal of creating fair gender representation in the music industry. New employees need to understand the magnitude of the problem we are trying to solve and be fully committed to spending their entire time at Fearless trying to fix it. "Shadowing" will be the main means of training new employees, as the type of work that one might have to do at Fearless can vary from day-to-day. Following an existing employee during their day at Fearless will give the new employees a better understanding of the work they will be responsible for. Due to its size, one Fearless employee has the responsibility of doing what multiple people might do at a different record label. Because of this, employees of the company must be ready to jump from one assignment to the next across different departments.

Although Fearless will not impose any hiring quotas, we believe that focusing our hiring efforts on primarily women will attract individuals who can find an emotional connection to the work we do. It's important that our vision seeps through the work that we produce, and we believe having individuals on the staff who feel emotionally connected to this vision will help create great final products.

Legal Environment

Artist Contracts

Fearless will bring in a third-party in order to assist in writing artist contracts. It is important to Fearless that all contracts are not only legally-binding, but fair for both parties. Therefore, it is important that we find a music attorney who understands the legal environment of this industry. Attorneys will usually charge clients such as Fearless by the hour for the work that is done, so it's also important that Fearless and the artist both know exactly what the contract will entail to ensure legal fees are kept low. Legally-binding contracts are an important part of the relationship between artist and label because this is where royalty splits are outlined as well as the length of the deal between the two parties.

Sound Recording/Musical Composition Copyrights

As stated earlier in the plan, Fearless will file with the US Copyright Office in order to acquire publicly recognized protection for our artists' sound recordings and musical compositions. Although sound recordings receive copyright as soon as they are recorded and stored on the computer, it is important that Fearless also formally registers each body of work to guarantee full rights and remedies. Without registering our sound recordings under U.S. copyright law, Fearless would be unable to bring suit against someone who is infringing upon our work. Copyrights will be filed and registered on a "per-release" basis; anytime a Fearless artist releases new product, whether it is a single (one song) or an album, the entirety of the release will be filed under ONE copyright. This saves the company time and money when trying to register multiple songs at once, which will be the case when a new album releases.

Licenses for Digital Marketplaces

When DistroKid uploads Fearless' music to the various streaming platforms that have been outlined in this plan, they have provided these streaming platforms with a license that gives them the ability to play our product. When Fearless enters into an agreement with DistroKid, we give them this power of granting other parties licenses to use our music. However, DistroKid keeps 0% of the money made from our products and instead charges a simple flat fee to allow unlimited uploads.

Fearless Trademark

Fearless will need to fill out a trademark application through the United States Patent and Trademark Office in order to gain protection of our brand name and logo. Filing for a trademark can be an expensive cost for a startup company of our small scale to handle, especially when we need to focus a majority of our dollars spent on production and marketing. However, in order to protect our company from any potential infringements or unlawful uses of our brand, Fearless will make sure that the logo and name are protected BEFORE the first product release. Filing for a trademark can cost \$225 or more and is NOT refunded if the application isn't registered.

Inventory

Below is a list of the inventory owned by Fearless that is required to create our final products. Inventory consists of recording equipment that can be found at Fearless' in-house studio:

- Warm Audio WA-47 Tube Condenser Microphone: \$899.00
- Rode NT1-A Cardioid Condenser Microphone: \$229.00
- Universal Audio Apollo Twin Duo MKII: \$899.00
- Yamaha HS7 Speakers (x2): \$399 x 2 = \$798.00
- 13-inch MacBook Pro, 2.3GHz Processor, 256GB Storage: \$1,499.00
- Avid Pro Tools (recording and mixing software): \$599.00
- Waves Platinum bundle (audio effects/post production tools): \$249.00

Suppliers

The Best Screen Printing and Embroidery

www.thebestscreenprinting.com

2500 S Main Street, Los Angeles, CA 90007
323-433-0033

Fearless will partner with The Best Screen Printing and Embroidery, an apparel company based in Los Angeles, in order to produce artist merchandise. Graphics are created in-house together by founder Jack Raybuck and the Fearless artist. Raybuck's graphic design experience provides Fearless the knowledge needed to create compelling artist merchandise. After graphics have been made, they will be sent over to TBSPE to be printed on selected apparel. To keep costs low, Fearless will be selling a select number of apparel pieces including t-shirts, hats and crew necks. TBSPE then screen prints our graphics onto the selected apparel pieces until enough have been produced to fill our order. TBSPE ensures that all orders can be filled within a week.

Apparel is picked up by a Fearless employee on-site, and brought back to "home base" to be sold and shipped out to our online customers. Artist merchandise will be made available both online at Fearless' website as well as at concerts and events that Fearless is a part of.

Manhead Merch

www.manheadmerch.com

136 Baxter Street Unit 1B, New York, NY 10013
212-533-7360

As the Fearless brand grows larger and we begin to develop a bigger audience, we will look to expand our artist merchandise selection into a more diverse range of apparel. Manhead Merch, an artist merchandise company based in New York, will help Fearless produce artist merchandise outside of the typical apparel supplied by The Best Screen Printing and Embroidery. Manhead will assist in the production of items including, but not limited to:

- Stickers
- Tote bags
- Posters
- Mugs and water bottles
- Key rings
- Calendars

VI. Management and Organization

Jack Raybuck

CEO/President of Marketing

Founder and CEO Jack Raybuck is a business graduate from the University of Arkansas. Raybuck began his work in the music industry as a music producer when he was 16. As he got older, Mr. Raybuck wanted to make additional contributions to the local music scene and started learning design fundamentals. This newfound knowledge gave him the ability to assist artists both locally and abroad with design needs including artwork design, concert visual design and branding assistance. Mr. Raybuck's drive and self-initiative gave him the opportunity to work at Universal Music Group as a digital marketing intern. Here he acquired both experience and additional knowledge not only in digital design, but in the additional business aspects of a record label. Mr. Raybuck had the ability to see how a fully functioning record label works cohesively and the required departments necessary in help releasing and promoting a music project.

Now, at 22, Jack Raybuck has identified a critical issue in an industry that has provided him with so many opportunities, and he is working to do whatever he can to stop it. Mr. Raybuck started Fearless in attempt to combat the gender inequality problem in the music industry. His experience in the digital world of music combined with a marketing attitude provides Raybuck with the knowledge and no-how to operate a record label in this new age of digital consumption.

Jesse Brown

COO/President of Artist Development

Jesse Brown is a 30-year-old from Kansas City, MO. Mr. Brown has a bachelor's degree in Music Business from Full Sail University. His work experience includes time spent at RED Music, a label services division of Sony Music Entertainment. Mr. Brown's time at RED Music gave him the opportunity to implement marketing campaigns and curate advertisements for artists under Sony. In addition to his experience at RED, Mr. Brown has an additional 6 years of freelance work as an artist manager and marketing coordinator. His time as a freelance worker has provided Mr. Brown with experience across multiple genres and responsibilities. Jesse Brown works as the President of Artist Development at Fearless. His day-to-day duties include preparing artists for interviews, performances, and meetings with third parties. Mr. Brown is also in charge of identifying new partnerships that may be beneficial to Fearless and its artists. This includes relationships with writers, bloggers, DJ's, and event coordinators. Mr. Brown plays a critical role in the promotional efforts of Fearless, as he has developed a long list of important contacts in the industry from his years of freelance work.

Jordan Criddle

Lead Audio Engineer

Jordan Criddle is a 31-year old audio engineer from Kansas City, MO. Criddle has been working with artists to help them record, mix and master their tracks for 5 years. What began as a job helping local artists has turned into an online business with Criddle working with individuals from around the globe. Mr. Criddle completed a studio apprenticeship at JTL Studio in Kansas City where he learned advance techniques in recording artists as well as making the necessary mixing adjustments to attain a "commercially satisfactory" recording. Jordan has

worked with over 100 different artists over the past 5 years, providing him with the necessary experience and knowledge to adapt to any situation that may occur in the studio.

Jordan Criddle serves as the head audio engineer at Fearless. He is responsible for recording artist demos, recording final audio recordings, and mixing and mastering tracks so they are ready for radio and streaming services. Mr. Criddle spends most of his days at work in the studio, where he is either working one-on-one with an artist or fine-tuning the mixing of a track to ensure it is up to our quality standards.

VII. Startup Expenses & Capitalization

Startup Expenses

Fearless

Sources of Capital

Owners' Investment (name and percent ownership)

Jack Raybuck (33%)	\$	1,000
Jesse Brown (33%)		1,000
Kaileb Brown (25%)		750
Jordan Criddle (<10%)		250
Total Investment	\$	3,000

Startup Expenses

Leasehold Improvements

Acoustic Treatment	\$	100
Total Leasehold Improvements	\$	100

Capital Equipment List

Furniture		\$400
Equipment		-
Fixtures		-
Machinery		-
Other		-
Total Capital Equipment	\$	400

Location and Admin Expenses

Rent & Related Costs	\$	1,291
Utility deposits		13
Legal and accounting fees (artist contract)		400
Prepaid insurance		-
Pre-opening salaries		-
Other		-
Total Location and Admin Expenses	\$	1,704

Advertising and Promotional Expenses

Advertising	\$	300
Signage		-
Printing (promotional posters)		50
Travel/entertainment		-
Other/additional categories		-
Total Advertising/Promotional Expenses	\$	350

Reserve for Contingencies \$ 400

Working Capital \$ -

Figure 8 - Fearless startup expenses

Opening Day Balance Sheet



Opening Day Balance Sheet

Fearless

Assets

Current Assets

Cash in Bank	\$ 3,000
Inventory	0
Prepaid Expenses	-
Other	-
Total Current Assets	\$ 3,000

Fixed Assets

Machinery & Equipment	6,372
Furniture & Fixtures	400
Leasehold Improvements	-
Other	-
Total Fixed Assets	\$ 6,772

Total Assets	\$ 9,772
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Liabilities & Net Worth

Current Liabilities

Accounts Payable	\$ -
Taxes Payable	-
Notes Payable (due within 12 months)	-
Current Portion Long-term Debt	-
Other current liabilities (specify)	-
Total Current Liabilities	\$ -

Long-term Liabilities

Bank Loans Payable (greater than 12 months)	\$ -
Less: Short-term Portion	-
Notes Payable to Stockholders	-
Other long-term debt (specify)	-
Total Long-term Liabilities	\$ -

Total Liabilities	\$ -
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Owners' Equity (Net Worth)	\$ 9,772
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Total Liabilities & Net Worth	\$ 9,772
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Figure 9 - Fearless opening day balance sheet

VIII. Financial Plan

Balance Sheet (Projected)		Beginning	Projected
Fearless		5/1/2018	5/1/2019
Assets			
Current Assets			
Cash in bank	\$	3,000	\$ 2,000
Accounts receivable		-	-
Inventory		-	-
Total Current Assets	\$	3,000	\$ 2,000
Fixed Assets			
Machinery & equipment	\$	6,372	\$ 7,000
Furniture & fixtures		400	600
Leasehold improvements		100	100
Total Fixed Assets (net of)	\$	6,872	\$ 7,700
TOTAL Assets	\$	9,872	\$ 9,700
Liabilities and Equity			
Current Liabilities			
Accounts payable	\$	-	\$ -
Interest payable		-	-
Taxes payable		-	-
Notes, short-term (due within		-	-
Current part, long-term debt		-	-
Other current liabilities		-	-
Total Current Liabilities	\$	-	\$ -
Long-term Debt			
Bank loans payable	\$	-	\$ -
Notes payable to stockholders		-	-
LESS: Short-term portion		-	-
Other long term debt		-	-
Total Long-term Debt	\$	-	\$ -
Total Liabilities	\$	-	\$ -
Owners' Equity			
Invested capital	\$	3,000	\$ -
Retained earnings - beginning		-	4,505
Retained earnings - current		-	-
Total Owners' Equity	\$	3,000	\$ 4,505
Total Liabilities & Equity	\$	3,000	\$ 4,505

Figure 10 - Fearless first year projected balance sheet

Fiscal Year Begins

Jan-19

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	YEARLY
Revenue (Sales)													
Streaming Revenue	200	200	300	300	600	750	750	1,200	1,000	1,000	1,000	1,000	8,300
Digital Download/Purchases Revenue	45	50	45	45	75	75	80	700	300	150	135	120	1,820
Artist/Label Merchandise Revenue	0	0	0	750	0	0	0	3,475	1,025	0	0	750	6,000
Concert and Event Revenue	0	0	0	0	0	0	0	0	800	400	800	0	2,000
Total Revenue (Sales)	245	250	345	1,095	675	825	830	5,375	3,125	1,550	1,935	1,870	18,120
Cost of Sales													
Streaming	100	100	100	100	200	200	200	800	300	300	300	300	3,000
Artist Merchandise	0	0	0	300	0	0	0	954	276	0	0	300	1,830
Concert and Event Costs	0	0	0	0	0	0	0	0	100	100	100	0	300
Total Cost of Sales	100	100	100	400	200	200	200	1,754	676	400	400	600	5,130
Gross Profit	145	150	245	695	475	625	630	3,621	2,449	1,150	1,535	1,270	12,990
Expenses													
Salary expenses													0
Marketing and promotional expenses	50	50	50	50	100	100	100	400	200	150	150	150	1,550
DistroKid distribution expense	20	0	0	0	20	0	0	0	20	0	0	0	60
Supplies (office and operating)	0	0	0	40	0	0	0	30	0	0	0	0	70
Car, delivery and travel	0	0	0	0	0	0	0	0	30	0	0	0	30
Accounting and legal	400	0	0	0	400	0	0	0	400	0	0	0	1,200
Rent & Related Costs	387	387	387	387	387	387	387	387	387	387	387	387	4,648
Utilities	13	13	13	13	13	13	13	13	13	13	13	13	156
Sub-total Expenses	870	450	450	490	920	500	500	830	1,050	550	550	550	7,714
Reserve for Contingencies	87	45	45	49	92	50	50	83	105	55	55	55	771
Total Expenses	957	495	495	539	1,012	550	550	913	1,155	605	605	605	8,485
Net Profit Before Taxes	-812	-345	-250	156	-537	75	80	2,708	1,294	545	930	665	4,505
Federal Income Taxes													
State Income Taxes													
Local Income Taxes													
Net Operating Income	-812	-345	-250	156	-537	75	80	2,708	1,294	545	930	665	4,505

Figure 11 - Fearless profit/loss projection for the year 2019

Fearless projections for 2019 are based off of an estimated 50,000 streams each month. This number is divided among the different streaming services, spreading revenue from this segment across multiple channels. We also project increases in stream numbers as we sign more artists and release additional Fearless albums. The revenue and cost patterns that can be observed in the streaming category are due to consistently scheduled product releases. In an attempt to increase brand awareness during the first year of operations, Fearless will release new sound recordings from its artists each month. Sporadic rises in these numbers in the months May and August are a result of signing a new artist and an album release.

A spike in sales and costs during the month of August are due to the first official project release under the Fearless imprint. We expect to invest more marketing dollars this month to help promote the project as well as investing in artist merchandise.

DistroKid distribution expense is incurred every time we sign a new artist. DistroKid charges a \$19.99 flat fee to upload unlimited sound recordings from an artist. Accounting and legal costs are also charged each time we sign a new artist. These fees go towards covering the cost of having our artist contracts written. Marketing and promotional expenses will begin low as Fearless tests the water and learns which channels and platforms are working best for our product offerings. The increase in marketing and promotional investment in the months of August and September are due to a project release.

General label merchandise will be sold in April to help promote the Fearless brand and increase our customer base. In August, Fearless will begin sell artist merchandise to help promote the project that is released. Revenue numbers are based off of projections. Fearless believes that at least 75 t-shirts and 40 sweatshirts can be sold this month. T-shirts and sweatshirts will be sold for \$25 and \$40, respectively. This number comes from industry averages of similar artists. Merchandise costs are directly charged to Fearless by our apparel provider, The Best Screen Printing and Embroidery. T-shirts and sweatshirts cost \$6 and \$12.60 each, respectively. Rent for the building which we will live and operate out of is \$1,291/month. Approximately 30% of the living space in the apartment will be designated to our "recording studio" as well as extra room to discuss operations and strategy. $1,291 * .30 = \$387.30/\text{month}$

Fiscal Year Begins

Jan-20

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	YEARLY
Revenue (Sales)													
Streaming Revenue	1,200	1,000	1,000	900	800	800	800	1,400	1,200	1,000	1,000	900	12,000
Digital Download/Purchases Revenue	900	400	200	150	150	170	170	900	400	150	135	135	3,860
Artist/Label Merchandise Revenue	3,475	1,025	500	250	0	1,400	0	3,475	1,825	500	250	0	12,700
Concert and Event Revenue	0	800	0	0	0	0	0	0	800	0	0	0	1,600
Total Revenue (Sales)	5,575	3,225	1,700	1,300	950	2,370	970	5,775	4,225	1,650	1,385	1,035	30,160
Cost of Sales													
Streaming	800	300	300	300	400	400	400	1,000	400	400	400	400	5,500
Artist Merchandise	1,260	900	120	60	0	426	0	1,260	492	120	60	0	4,698
Concert and Event Costs	0	200	0	0	0	0	0	0	200	0	0	0	400
Total Cost of Sales	2,060	1,400	420	360	400	826	400	2,260	1,092	520	460	400	10,598
Gross Profit	3,515	1,825	1,280	940	550	1,544	570	3,515	3,133	1,130	925	635	19,562
Expenses													
Salary Expenses													0
Marketing and promotional expenses	600	400	300	300	500	400	400	700	500	400	400	400	5,300
DistroKid distribution expense	60	0	0	0	20	0	0	0	0	0	0	0	80
Supplies (office and operating)	100	0	0	0	0	0	0	40	0	0	0	0	140
Car, delivery and travel	100	0	0	0	0	0	0	0	0	0	0	0	100
Accounting and legal	0	0	0	0	400	0	0	0	0	0	0	0	400
Rent & Related Costs	387	387	387	387	387	387	387	387	387	387	387	387	4,648
Utilities	13	13	13	13	13	13	13	13	13	13	13	13	156
Sub-total Expenses	1,260	800	700	700	1,320	800	800	1,140	900	800	800	800	10,824
Reserve for Contingencies	126	80	70	70	132	80	80	114	90	80	80	80	1,082
Total Expenses	1,386	880	770	770	1,452	880	880	1,254	990	880	880	880	11,906
Net Profit Before Taxes	2,129	945	510	170	-902	664	-310	2,261	2,143	250	45	-245	7,656
Federal Income Taxes													
State Income Taxes													
Local Income Taxes													
Net Operating Income	2,129	945	510	170	-902	664	-310	2,261	2,143	250	45	-245	7,656

Figure 12 - Fearless profit/loss projection for the year 2020

In year 2, Fearless will continue to release new songs each month. We hope to release our second artist project under the imprint in January of 2020, thus the increase in revenue and expenses seen here. Also, Fearless will sign another artist in May of 2020 which will account for the legal fees as well as an increase in marketing and promotional expenses from that month forward. The additional artist signing will also help Fearless generate more streaming revenue for the third and fourth quarters of 2020.

Another album will be released in August 2020 from our third signee, which is represented here by spikes in both revenues and expenses. The fourth project release from Fearless will be released in 2021.

Fiscal Year Begins

Jan-21

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	YEARLY
Revenue (Sales)													
Streaming Revenue	1,000	1,100	1,200	1,400	1,600	1,400	1,200	1,100	1,100	1,100	1,100	1,000	14,300
Digital Download/Purchases Revenue	100	100	200	500	1,500	1,000	750	400	300	200	150	150	5,350
Physical CD/Vinyl Revenue	0	0	0	0	10,000	5,000	2,000	1,000	0	0	0	0	18,000
Artist/Label Merchandise Revenue	250	250	250	1,800	7,000	3,500	1,650	1,350	1,025	900	900	900	19,775
Concert and Event Revenue	0	0	0	0	0	1,200	0	0	2,200	0	0	0	3,400
Total Revenue (Sales)	1,350	1,450	1,650	3,700	20,100	12,100	5,600	3,850	4,625	2,200	2,150	2,050	60,825
Cost of Sales													
Streaming	400	400	400	400	1,000	400	400	400	400	400	400	400	5,400
Artist Merchandise	60	60	60	492	1,830	915	426	369	276	246	246	246	5,226
Concert and Event Costs	0	0	0	0	0	200	0	0	800	0	0	0	1,000
Total Cost of Sales	460	460	460	892	2,830	1,515	826	769	1,476	646	646	646	11,626
Gross Profit	890	990	1,190	2,808	17,270	10,585	4,774	3,081	3,149	1,554	1,504	1,404	49,199
Expenses													
Salary Expenses													0
Marketing and promotional expenses	400	400	400	500	800	700	600	400	300	300	300	300	5,400
DistroKid distribution expense	80	0	0	0	0	0	0	0	0	0	0	0	80
Supplies (office and operating)	100	0	0	0	0	0	0	40	0	0	0	0	140
Car, delivery and travel	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounting and legal	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent & Related Costs	387	387	387	387	387	387	387	387	387	387	387	387	4,648
Utilities	13	13	13	13	13	13	13	13	13	13	13	13	156
Sub-total Expenses	980	800	800	900	1,200	1,100	1,000	840	700	700	700	700	10,424
Reserve for Contingencies	98	80	80	90	120	110	100	84	70	70	70	70	1,042
Total Expenses	1,078	880	880	990	1,320	1,210	1,100	924	770	770	770	770	11,466
Net Profit Before Taxes	-188	110	310	1,818	15,950	9,375	3,674	2,157	2,379	784	734	634	37,733
Federal Income Taxes													
State Income Taxes													
Local Income Taxes													
Net Operating Income	-188	110	310	1,818	15,950	9,375	3,674	2,157	2,379	784	734	634	37,733

Figure 13 - Fearless profit/loss projection for the year 2021

An album release in May 2021 is represented here by an increase in streaming, merchandise and digital purchase revenue as well as the expenses needed to generate these revenues.

By 2021, Fearless will have signed a distribution deal with a company that will help us manufacture and distribute physical CD's. Potential distribution partners include The Orchard, RED and the Alternative Distribution Alliance. Our distributor handles the expenses associated with the manufacturing and distribution of our product in exchange for a percentage of the profits (industry norm is 20-25%). Based on numbers from other independent record labels similar to Fearless, we believe that we will be able to sell 2,000-3,000 physical copies of our first physical release. We believe that of the 2,000 records sold, at least 400 of them will be vinyl. With CD's and vinyl records sold at \$9.99 and \$20.00 respectively, we expect to generate around \$24,000 in revenue, leaving us with approximately \$18,000 (75%) after the distributor takes their 25%.

Physical distribution will also help Fearless expand the customer base. We believe that digital downloads and purchases will increase as a result of this expanded reach. Increases in this revenue segment can be seen in the same month that physical distribution begins. Also, we expect revenues from merchandise to rise as our core following continues growing. This is represented in the projections as well.

Fearless also expects to see an increase in our revenue segments in the month before a project release. Marketing and promotional efforts as well as the release of singles from the album will help build "buzz" around the project. Fearless will capitalize on this month by making sure that merchandise is offered and songs are made available to be digitally downloaded and purchased.

Concert revenue this year represents shows following the release of the project in May as well as an additional show in September. The September show will be a "label showcase", or an event where all of our artists perform. We believe that this show will generate nearly twice as much revenue for our company based on past earnings and continuous development of our customer base.

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