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Exile Inside and the Internet:  
Managing an Independent Recording Artist

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## STATEMENT OF PURPOSE

For 15 years Jake Shillingford was the leader of the successful English pop band *My Life Story* and for the majority of that time was under contract to various major record labels. In building his new project, however, he has decided to leave the traditional architecture of the music industry behind and explore the unique and largely untapped potential of the Internet. His decision to launch a completely new band, *Exile Inside*, without the support of a major label is based on different reasons. “When you sign a record deal, you sign away the rights to your songs for up to 50 years, you give away your Internet rights, your merchandising rights, everything,” says Shillingford (2002). In addition to surrendering a large amount of control, he also points out that, in today’s environment, even bands who have a long history with a label will be dropped from their contracts if a CD fails to make the top-20 in sales (Shillingford).

The Internet represents a new mass medium through which musicians can promote themselves and their recordings. Unlike print and broadcast media, however, the Internet does not discriminate against those lacking power, influence, and large sums of money. The Internet also provides a basis for CD distribution, making it entirely possible for an artist (or group) to function outside the domain of the major record companies. Internet supported music distribution (through either online ordering or direct digital transfer) is, in fact, already being used by some of the major record companies and is expected to account for 20.8% of all their music sales by 2006 (Mock, 2001).

These exciting possibilities offer new hope to entrepreneurial musicians but also present great challenges. Bands, such as *Exile Inside*, must reinvent themselves, their roles, and the established methods traditionally used to promote and sell recordings. In doing so, they will

need to create a business model which not only maximizes the use of the Internet, but which also accounts for operational and staff management. Through an extensive examination of pertinent literature and current managerial practices, this paper will attempt to determine what changes can be made to *Exile Inside's* business plan which may help the band succeed in its bold and brave new venture.

### CLIMATE

As discussed in the previous section, the Internet provides independent musicians with resources which were not previously available to them. Some of the advantages for other types of businesses which have been attributed to the Internet include enhanced ease of doing business, reduced transaction time, more extensive customer relationships, and access to a larger market of buyers and sellers (Boisvert, 2001). For *Exile Inside*, two pronounced advantages are a means of global distribution for their product and access to a mass medium which can be used to promote that product. By abandoning his major record company, however, Jake Shillingford, faces the challenge of constructing an organization based on, but also diverting from, the traditional framework of the music industry.

For an artist under contract to a major record company, many of the day-to-day efforts of industry personnel can go unnoticed. Radio promoters, lawyers, publicists, production managers, graphic designers, and countless other record company employees contribute to the regular maintenance of a musician's career while he or she is under the care of that company (Shemel & Krasilovsky, 1990). Start-up companies (such as independent record labels) need to establish a management plan to determine what the initial staffing needs are (Beech, 1998). For *Exile Inside* this will mean determining which components of the traditional organizational framework

of the music industry must be retained, which may be discarded, and how the division of labor will be established.

The management plan will also have to account for the twenty-one investors whom Shillingford has brought in following the success of his online solicitation campaign. “We went for a minimum investment because we didn’t want hundreds of people investing ten pounds each and the whole thing getting out of hand” (Shillingford, 2002). Nevertheless, the band will have to establish boundaries for investor involvement within the organization.

To answer these questions, a comprehensive review of literature regarding small business management, music industry management, and business models for Internet-based organizations will need to be instituted. The subsequent conclusions will not only suggest a beneficial course of action for *Exile Inside*, but may also be of use to other such entrepreneurs wishing to liberate themselves from the restrictive machinery of the music industry.

#### LITERATURE

Before investing time and money in a musical project, it is important to secure the commitment of the people involved (Kalmer, 2002). This means making sure that musicians are willing to dedicate themselves to the support (such as touring and interviewing) of a CD release and that stipulations regarding compensation (such as travel expenses and royalties) have been clarified (Kalmer). Obviously, the members of *Exile Inside* represent a key part of Jake Shillingford’s “staff,” however, a handful of other people will also have to be employed or contracted to handle everything from website management to bookkeeping. In conducting this selection process, Shillingford will have to be sensitive to the possibility that an “artists-managing-artists” approach may have hurt other independent labels in the past and that hiring within a tight circle of

friends may not be in the best interests of the band (Masouri, 2002). It is, however, also important to consider that a high level of trust and openness may be easier to achieve with people that have a personal interest in the organization (Gray, 1988). As far as the specific staffing needs are concerned, a business plan will have to be conceived and put to paper. According to Veronika Kalmer (2002), author of *Label Launch*, a business plan serves three major purposes: (1) it draws a road map for the label (or band) to follow; (2) it provides an introduction for those people whom the label plans to work with such as lawyers, publicists, and artists; and (3) if outside investors are being solicited, it provides them with the information they need to make an informed decision.

Since so much of *Exile Inside's* strategy relies on online marketing, the use of the Internet will play a major role in their business plan. Eloise Coupey (2001) points out that “the Internet environment affects the way that companies organize themselves for business activity” in two ways. These are the decentralization of processes and changes to the hierarchical business structures (Coupey). The Internet, however, should not be seen as something that will manage the business by itself after these points are addressed. According to Nick Earle and Peter Keen (2000), authors of *From Dot-Com to Dot-Profit: Inventing Business Models that Deliver Value and Profit*, “a technology model can’t drive business strategy and a technology strategy doesn’t generate a business model.” In other words, it is the business model (or plan) and not the website which creates profit. Potential fans have to know what they are looking for before a band’s website can be effective (Beauprez, 2002) which requires the organized efforts of human beings. Earle and Keen (2000) suggest that an organization wishing to use the Internet as a platform for doing business should first create a model which addresses “value imperatives”

(such as logistics, customer relationships, branding, and distribution) and then fit its Internet business priorities, strategic plans, and execution *into* that model.

Coupey (2001) sees marketing management as the last in a three-part process which also includes strategic planning (determining long term organizational objectives) and strategic marketing (determining objectives for specific components of the organization). Marketing management is used to implement the strategic marketing objectives. The challenge presented by the internet, she says, is the need for these marketing objectives to be adapted with increasing frequency (Coupey).

Being able to pay his staff and keep his operation afloat will also be of paramount concern for Shillingford, and while the Internet has opened certain doors for him, he will still be faced with the challenges of piracy and filesharing. Jay Berman, Chairman of the IFPI (International Federation of the Phonographic Industry), recalls the moment that he first fully comprehended the scope of filesharing: “my first reaction was ... my God ... the click of a mouse can make (anybody) the equivalent of an international distributor” (from Robinson, 2003). Ed Needham, editor of *Rolling Stone Magazine*, is not convinced that filesharing threatens the economic well-being of the recording industry, however, and says that “it’s possible that filesharing will promote a greater consumption of music and, certainly, a greater awareness of the selection that’s out there” (from Robinson, 2003). Jon Healey (2002), a writer for the *Los Angeles Times*, also suggests that the free publicity generated through peer-to-peer filesharing networks may be beneficial to financially-strapped independent labels.

The possibility that the recording industry has over-priced itself in recent years may account, at least partially, for the diffusion of filesharing. Producer Brian Eno points out, however, that “the music that gets downloaded the most is the music that was the most expensive to

produce,” (Robinson, 2003) suggesting that record labels may have to find ways to cut back recording costs and then transfer those reductions to retail price tags. This is a problem that independent labels may have an easier time solving. Bands such as *Exile Inside* retain a much larger percentage of their CD sales than they would if they were with a major label (Shillingford, 2002). Nonetheless, recent mergers have independents arguing that they will be disadvantaged in a market dominated by a few huge players where they will be unable to compete with enormous marketing and promotional budgets (Hargreaves, 2000).

The lack of industry muscle may negate the possibility of selling a platinum record, however, that does not seem to be where Shillingford’s goals lie. “My ambition is to be a musician and make the national average wage for the next five years,” he says. “My ambition before was to be a huge pop star and make millions. But only one-percent of musicians make millions, and the others make nothing. This project hopefully redresses the balance.”

#### RESEARCH QUESTIONS

The literature and interviews cited throughout this study will show that exciting opportunities await independent record companies wishing to market themselves using the Internet, both as a channel of distribution and as a promotional tool. These opportunities will, most likely, dictate a specific distribution of human resources. Such organizations have not been researched or documented extensively, however, due to the relative infancy of the technology which makes their existence possible. *Exile Inside* and its leader, Jake Shillingford, have been faced with the challenge of constructing and managing a new type of company.

Because the answers may provide highly generalizable and valuable information to other such entrepreneurs, the following questions are presented:

- R1** Can a business plan be designed for an independent recording artist (or band) such as *Exile Inside* who utilizes the Internet as a sole means of distribution and promotion?
- R2** What are the advantages and disadvantages of such a plan?
- R3** What are the management challenges and organizational considerations that are unique to *Exile Inside*?

### CURRENT PRACTICES

Jake Shillingford was low in spirits after the breakup of *My Life Story* and was searching for a new vehicle for his music. When a friend of his offered to finance the production of a new demo in return for getting to hang out in the studio and witness the creation process, Shillingford began to wonder if other people would do the same. “I began to wonder how many other people would be willing to invest ... so that I could make a whole album” (Robinson, 2003). Many people were willing to invest, in fact, and the result was *Exile Inside*, an autonomous, independent musical project created by Shillingford and Aaron Cayhill, based in London, England. Cayhill is a multi-instrumentalist who works solely in the studio while Jake takes *Exile Inside* out into the world and is joined by Mal Cambell (Synthesizers), Simon Wray (Drums) and Ian Ross (Bass). Together they plan to release five albums over a period of five years, written and produced over the Internet and distributed via their own label and their website.

Shillingford claims that one of their initial aims upon setting up the *Exile Inside* project was consistency and regular music releases, and it is to this end that they have decided to release one album a year for the next five years. “The reason for this,” he says, “is that we see *Exile Inside* as a free-flowing, constantly moving project. We want to grow throughout the production of the five albums, and we want our fans to have the opportunity to grow with us” (Shillingford,

2003). Shillingford feels that if people like the band's music, they will always want to hear more of it. In keeping with this, the website is regularly updated in order to keep fans up to speed as to the band's activities, current thoughts, and whereabouts. "From very early on," says Shillingford, "we believed that to run the band ourselves would foster a more personal connection with the people that listened to our music. We feel that doing it ourselves means that we can produce work for our listeners which is undiluted and uncompromised" (Shillingford).

Shillingford feels that times are changing, and both artists and record labels are aware that the balance of power is now shifting to the people that create. "In self-financing our output with financial investment from our friends and fans," he continues "it hardly need be said that you will not be seeing multi-million pound advertising campaigns for *Exile Inside*, or effigies of (the band members) floating down the Thames to promote a box set of B-sides, but we feel that this is a small price to pay for retaining control over our work." (Shillingford, 2003). He also believes in having a close interactive relationship with his supporters, and claims that the fact that he chooses not to hide behind a record label emphasizes this attitude. This interactivity manifests itself in the fact that we invite many friends and like minded people to come and contribute to the website and day to day running of the band. In short, we've replaced the record company with (the fans)" (Shillingford).

*Exile Inside's* central core of employees includes Shillingford and his band members; Aaron Cayhill, who manages production; Helen Lewis, who handles administrative duties; and Matthew Knight, who maintains the website. In addition to this core, however, there are also over fifty "Alpha Members" involved in the project. These include people who contribute to the band's efforts in some significant way. Some of *Exile Inside's* current Alpha Members include graphic

artists, copy editors, publicists, marketing specialists, and many other people who donate valuable skills, talent, and advice to the band.

While financial investors are certainly considered Alpha Members, these people have a more involved and clearly defined role in the project. Thanks to the support of 21 such investors, the band has already managed to raise £11,500 which will pay for professional mixing, manufacturing, and promotion of the first album (Shillingford). Investors are solicited on a per-album basis and for a minimum of £500, they receive an *Exile Inside* guest pass, which gives them free access to *Exile Inside* shows, after show parties, and special events; free merchandise (including T-shirts and CDs); and, most importantly, a complete return on their investment after the first 2000 copies of the CD are sold. An additional, and rather significant, benefit that the investors have is direct access to the writing and recording process as well as the power to approve or disapprove of the results. “We want (the investors) to love what we come up with,” says Shillingford, “so we welcome any suggestions from (them) as to how our stuff could get better during the production of our records” (Shillingford).

#### REDIRECTING

In order to address **R1** (Can a business plan be designed for an independent recording artist (or band) such as *Exile Inside* who utilizes the Internet as a sole means of distribution and promotion?) and **R2** (What are the advantages and disadvantages of such a plan?) this study will apply a “SWOT” (Strengths, Weaknesses, Opportunities, and Threats) analysis to *Exile Inside’s* current business plan. The purpose of doing this will be twofold. First of all, it will help determine whether or not this type of organization has the potential to sustain itself. Secondly, it will help to illuminate specific weaknesses in the business plan and allow for the

opportunity to suggest possible solutions. More specifically, the SWOT analysis will examine the strengths, weaknesses, opportunities, and threats of each of four dimensions of the business plan. These are *product*: what it is and what the characteristics are; *price*: what the customer is willing to pay for the product and how that amount compares to the price of competitive products; *place*: where the customer has access to the product; and *promotion*: how the customer finds out about the product and how they find out that it will satisfy their needs.

### **Strengths**

Jake Shillingford's decision not to pursue another major record deal is, in essence, a testimony to his concern for delivering the highest quality product possible into the hands of his consumers. He does this by opening the lines of communication to his fans and by creating intellectual content (music) that will be closer to what they want and devoid of corporate influence.

The "place" where consumers and product interact is *Exile Inside's* website. Eloise Coupey (2001), explains that Internet businesses have many advantages over "brick and mortar" businesses. Time of day and geographic location cease to become barriers between the consumer and the product. Additionally, a CD can be purchased over *Exile Inside's* website and then shipped anywhere in the world. The website also facilitates promotion of the product in a number of different ways. Over the Internet fans can preview songs, learn about the band and its members, find out when and where they play live shows, and read press clippings.

### **Weaknesses**

One problem with *Exile Inside's* product, and one which has plagued many other music industry professionals, is the fact that it is digitally transferable and, consequently, vulnerable

to piracy and mass filesharing. A study published in May of 2000 showed that filesharing was the likely cause for a steady decline in CD sales to college students (Stokell, 2000). Shillingford (2002) has mentioned that he hopes a closer relationship with his fans will dissuade them from such practices, however, this issue may have to be monitored very closely. *Sister Hazel*, a Florida based band who also left their major label to pursue an independent music career, have experimented with some different ways to discourage filesharing. By inserting their new CD, "Chasing Daylight," into a personal computer the user can access restricted sections of their website (Hall, 2003). By adding desirable features to a CD package (such as artwork) which are not digitally transferable, *Exile Inside* may be able to make their "hard" product more attractive to consumers.

Another dimension which is closely related to piracy and filesharing is "price." In an era where so much mediated entertainment is free to the public, consumers may feel unjustified in spending money on a CD of which they have only heard one or two tracks. Others may simply not be able to afford the cost of a new CD and, consequently, resort to filesharing. It is notable, in fact, that CD prices have risen at twice the rate of inflation in many countries (Visser, 2002). As mentioned earlier, independent recording artists stand to retain a much larger percentage of their CD sales than do artists under contract to a major record label. *Exile Inside* currently charges \$19.11 for their new CD (Shillingford, 2003), however, simply lowering the price may not be the best course of action.

In an article published in *Management Accounting*, Humphrey Bourne points out that the ability to charge a certain price is dependent on the degree of differentiation between competing products (1999). The music industry presents a unique case, however. While the degree of differentiation between 60 minutes of the *Sex Pistols* and 60 minutes of Stravinski may be

immense, the two physical products are virtually the same. Nonetheless, the price of a product is part of its perceived value (Bourne). Instead of lowering their price and offering a “cut-rate” product, *Exile Inside* may want to increase the value of their CDs, either by offering more tracks or by offering some of the “desirable features” mentioned previously.

The dimensions of *place* and *promotion* also present certain weaknesses. While *Exile Inside*'s website does offer a comprehensive environment for its visitors, it may not be enough of a tool to reach all of the band's potential consumers. Not having CDs available in “brick and mortar” stores may isolate segments of the public that do not have Internet access, do not have credit cards (possibly due to age), or do not feel comfortable making a transaction over the Internet. Additionally, CD sales will be limited due to the lack of heavy promotion outside of the website, as Shillingford has previously stated. He may be able to compensate for this through publicity, scattered radio airplay, and live performances.

### **Opportunities**

A recent study published in *Media Age* found that the Internet based companies with the highest degree of brand awareness (such as Yahoo and Amazon) were also among those spending the least amount of money on advertising (2000). The authors concluded that this was largely due to their “brand equity” (longevity, consistency, and overall success) in the Internet marketplace. If *Exile Inside* can build this type of brand equity through a dedicated fan base, they may be able to eventually reduce the effects of their limited promotional budget.

Another opportunity, and a pronounced advantage of marketing over the Internet, is the ability to reach a global audience. To do this however, one must have the ability to communicate in many different languages. Fortunately, *Exile Inside* already has an Alpha Member named

Licia Cumin who is translating the website into Italian (Shillingford, 2003). If the band can solicit more Alpha Members to do the same in other languages it may give them a valuable edge over their competitors.

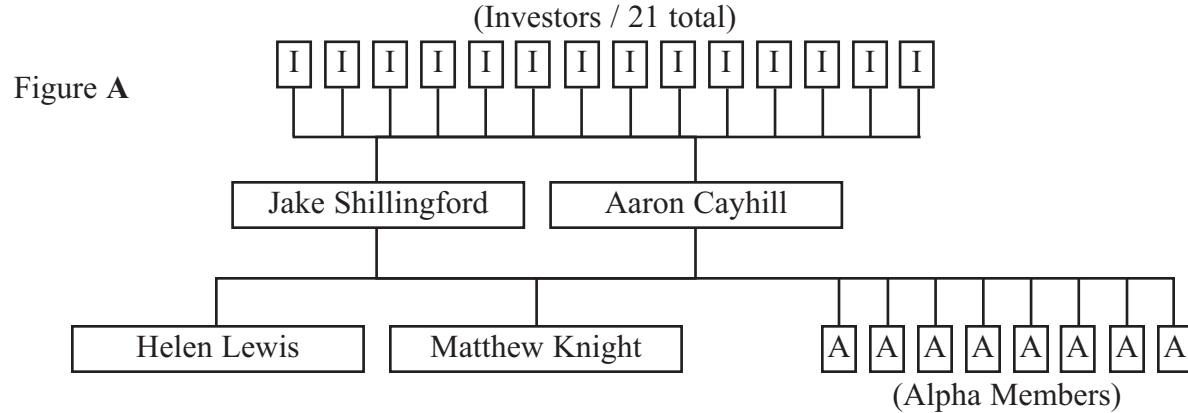
### **Threats**

In addition to the threat posed by piracy and filesharing, *Exile Inside* may face some other challenges in the coming years. Currently in the United States, businesses that sell goods online are only required to collect sale taxes if they have a physical presence in the same state as the online buyer (Krebs, 2003). This may change, however, if the *Streamlined Sales Tax Project* is successful. This group effort, which is represented by 36 states, seeks to impose taxes on all internet based transactions (Krebs). At the same time Congress is also debating the possibility of an internet access tax (Krebs). It is unclear how either of these would affect a foreign-based business such as *Exile Inside*, however, a tax on sales to US customers would almost certainly have a significant impact on the band.

A final consideration for *Exile Inside* is the fact that major record labels are waking up to the magnitude of online music distribution and are becoming more internet savvy (Goodman, 2002). Since their battle with Napster, many have started to invest time and resources in an effort to secure a large piece of the online music market (Goodman). Again, it is unclear whether or not this will have any effect on independent artists, but it will be something that will have to be monitored closely.

### **Management Challenges and Organizational Considerations**

In order to address **R3** (What are the management challenges and organizational considerations that are unique to *Exile Inside*?) it may prove useful to take what we've learned so far



about *Exile Inside* and create a standard organizational chart (figure A). After doing so, some major problems present themselves right away. Shillingford and Aaron Cayhill share equal status as business partners, however, it is unclear who has the greater degree of managerial authority and this creates a “unity of command” issue for the people working under them. Conversely, there is a “span of control” problem which exists above Shillingford and Cayhill in the form of 21 individual investors who each have a certain degree of authority and creative control over the two central business partners. This, compounded by the fact that creative decisions are made by consensus, could cause many costly delays in the production of each CD. A far better way to handle this situation would be to transform the investors into a board of directors chaired by Shillingford and Cayhill. The board would function as a single unit and meet regularly. While the board would have the ability to monitor and consult on the creative process, the ultimate decision making authority would be granted to Shillingford and Cayhill. This would, in essence, constitute an “authority after group discussion” decision making style (Sohn, et al). The following organigraph (figure B) reflects these proposed changes in the organizational structure.

IMAGE NOT CURRENTLY AVAILABLE

Figure **B**

Additionally, the organigraph better illustrates the organization's relationship with its exchange environment (the website) as well as its consumers. Instead of reflecting a hierarchy of people, it follows the evolution of the product and shows how each person involved participates in that evolution. In its final stage, the organigraph suggests a cyclical pattern in which the consumers are solicited as potential investors for the next project.

### CONCLUSION

Being able to understand how individual members of an organization interact with each other is important for almost any type of business. It is also important to recognize how those members participate in the group effort and how they contribute to its success. *Exile Inside* will have to take this one step further, however. They must be able to understand how their *customers* interact, participate, and contribute as well if they wish to sustain the type of interactive organization which they have envisioned. Additionally, *Exile Inside* must be able to fully comprehend the environment (the internet) where most of the communication and interaction with their customers takes place. Having an awareness of its limitations and, at the same time, being able to maximize its advantages will help them to succeed.

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