

This report provides an analysis on Ministry of Sound, an electronic music label based in London. It begins with the history of the label before identifying their products and consumer bases. An analysis of the micro and macro-environments has also been provided. Ministry of Sound's key revenue streams have been identified alongside an analysis of their most recent financial statement. A link has been provided (appendix 1) to their financial statement for reference. This report concludes with an analysis of lean business principals in relation to a record label in this era and recommendations for Ministry of Sound's future.

Entrepreneurship (REPORT):BMTY7 001

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Remember to check through and change the date of references

Background information

Ministry of Sound (MOS) is a well-known record label based in London, United Kingdom. It started as, and still is, a club based in Elephant & Castle that specializes in electronic music. It was co-founded by James Palumbo and Justin Berkman. In 1993, two years after the nightclub opened, they established their renowned compilation business. Their first release was *Sessions Volume One* (Discogs, 2014), which is an electronic music compilation mixed by Tony Humphries (one of the early pioneers of music). The compilation was a commercial success and MOS have since become famous for them. They have now sold over 55 million compilation albums (Palumbo, 2013).

The artist & repertoire division was created in the early 1990's under the name 'Sound of Ministry'. Sound of Ministry was then followed by in-house labels over the following years; they were Substance, Smoove, Rulin', Open and Data, and collectively they had significant success both here in the UK and abroad. In 2009 they consolidated these labels to form Ministry of Sound Recordings and the rapper Example was the first artist to be signed under this new label. He has since achieved 3 top 10s, 2 top 20s, 2 gold albums and 1 platinum album. Other notable early signings include London Grammar, Wretch 32, and Eric Prydz. MOS as a whole has achieved cumulative album sales in excess of 70 million, including 40 UK No. 1 albums and 21 UK No. 1 singles (Sony Music, 2016).

On August 10th, 2016, an announcement was made that Ministry of Sound's compilations album and A&R divisions. Sony Music states that "the acquisition will bring the Ministry of Sound brand fresh opportunities for growth, with the label's core strength of dance music being enhanced by Sony Music's outstanding international network" (Sony, 2016).

In 2015, Ministry of Sound established a publishing business called Ministry of Sound Publishing that is an independent entity to the label that Sony Music acquired (Ingham, 2016). It is run by Ben Bodie (Cooke, 2014) and its current roster includes big acts like KDA, Mura Masa and iLL BLU. The deal, which was said to worth approximately £67 million, overtook the Universal – EMI buyout of 2012 as the most discussed British buyout of recent years. This poses the question as to what Sony was actually paying so much money for.

Their Products and Consumer base

Ministry of Sound has two main products; their renowned CD compilations and the songs the artists on their roster create. They will also sell things like merch and vinyl however these do not contribute a significant amount. They have created many brands through the release of their compilation CDs such as *The Annual*, *Addicted to Bass*, and *Marbella sessions* which had a feature on the reality tv show *The Only Way is Marbs* (Smith, 2013).

When looking at MOS' consumer base it should be split into two distinct segments: Psychographic and demographic. Psychographic refers to the interests, activities, and lifestyle choices of your consumer base. In the case of MOS their consumer base will typically enjoy electronic music and the culture that surrounds it such as DJing, nightlife and partying.

Demographic refers to the personal attributes of a consumer base such as geography, age, occupation, and income (Chi, 2021). It would be wise to assume that the majority of their consumer base would be over the age of 18 due to the culture around dance music but this could be pushed to

15 years old. Geographically most of the segment would be UK based due to many of the artists being British based but there are some international consumers.

The artists on MOS' roster and the genres they make also play a part in the size and range of Ministry of Sound's consumer base. Ministry of Sound's roster is quite diverse despite being known mostly as an electronic music label that produces and it is actually something they pride themselves on as stated by Dipesh Parmar (2020), the now president of Ministry of Sound (Stassen, 2021). Their roster includes Doja Cat (pop music), London Grammar (indie music) and swizz beats (a rap artist). This means their consumer base will be much broader than just electronic music fans.

It is hard for new competitors to enter the same market as Ministry of Sound. It is a well-established label, and is also under Sony Music's control, which makes it extremely hard for there to be new entrants to the market. It would be significantly easier for competitors if Ministry was a relatively small indie label.

Ministry of Sound has two types of competitors. The first is the other big 4 labels which are universal, EMI and Warner music Group. The reason these labels are competition for Ministry of Sound is because it is actually a sub-label of Sony BMG and therefore indirectly competes with the other big four. The second type of competitors are the large-scale electronic music labels such as Ninja Tune, Defected, XL recordings and Future classic. Ministry of Sound does however cater mostly to the UK market compared to many of its competitors who have a more global market.

Micro and Macroeconomic Analysis

A SWOT and PESTLE analysis has been conducted to analyse the micro and macro factors that affect Ministry of Sound Recordings Limited.

PESTLE	
Political	- Another thing to consider is that the UK are looking to overhaul European data protection laws due to the UK leaving the EU. - o Brexit has meant the UK no longer needs to follow many of the European Union's laws.
Economic	- The covid pandemic has led to supply chain issues which effects the sale of their compilations and artist merchandise - People prefer to stream music rather than purchase individual songs - o This was one of MOS' main forms of revenue - A large number of British highstreets have 'died' over recent years meaning many of the places that sold - This can be seen with HMV - o There used to be countless HMV stores around the country, including the famous store on Oxford Street, but now many have closed including the flagship London store.
Social	- The covid pandemic meant people consumed more music than ever and could not leave their houses to buy physical copies of albums - Big increase in cancel culture so artists need to be extremely careful to not be problematic in the eyes of the public. - The club is world famous and helps keep the brand in the public eye - Many young people do not use CDs and will be less aware of the Ministry of Sound brand

	○ CDs do however get passed down generations so a fair amount of young people will be aware of the brand.
Technological	- Over recent years there has been a huge shift in the way music is consumed. CDs used to be the main way consumers would listen to music, but streaming platforms have changed the game. Ministry of Sound is famous for their compilation CDs, but many people are opting to use services like Spotify and apple music. ○ It is extremely easy to illegally download songs nowadays which further reduces the need for physical copies and reduces the earning potential of songs they release - There is a rise of platforms and businesses that use blockchain technology and/or provide better splits for artists and less bureaucracy
Legal	- Standard employment legislation e.g. health and safety or discrimination - There is the increasing implementation of the use of smart contracts which simplifies the legal process ○ They are however not always enforceable ○ The terms still should however be checked over by a legal professional
Ethical	- The main ethical issue that they face is poor royalty payments from streaming platforms - Labels need to ensure artists are not problematic themselves. This could lead to them being 'cancelled' which casts the label in a negative light - ensuring artists on their roster have not been manipulated into entering contracts which are not beneficial to them. This was seen with Raye, who is a big UK artist. She was trapped in a contract where she was contractually obliged to not release any music until her label said so and had been held off from releasing her debut album for years. This is also cause for negative publicity.

SWOT	
STRENGTHS	WEAKNESSES
- They have a good roster of big stars who are not limited to electronic music genres - Music is an irreplaceable commodity so they will constantly have business - Ministry of Sound are a very reputable brand and an award-winning staff ○ They have an extremely reputable A&R department ○	- The electronic music market is more niche than many other genres, so they lose out on potential listeners by mostly specialising - A large part of Ministry of Sound revolves around the creation and release of physical CDs. This is a dying method of consuming music as most people use streaming services.
OPPORTUNITIES	THREATS
- New chance to promote their artists and generate revenue through the sale of NFTS	- Artists may want to switch to platforms such as Audius that provide a higher percentage of royalties and a more transparent service.

- Use of blockchain technology to help artists and reduce costs	- Lockdowns due to the coronavirus pandemic leads to stores closing and a major shift back to streaming as consumers cannot leave their houses.
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Key Revenue Streams and Analysis of Financial Statements

(Note to reader: the financial documents provided by Ministry of Sound are not super extensive, so they have been interpreted to the best standard possible)

Up until 2015 Ministry of Sound's business model relied heavily on physical releases, especially for their compilations, and less on streaming. But times have changed since and so have their main forms of revenue. The sale and distribution of their compilation CDs is no longer their cash cow due to the increased popularity of streaming services and digital downloads. Royalties from streaming, downloads and publishing are their new money makers due to the increased digitization of society. It states in their financial statement for 2021 that the Covid-19 pandemic has led to a decrease in revenue from physical sales and other ancillary revenue streams. They have however had good success through streaming revenue, and along with cost cutting measures, have managed to reduce the negative effects of the loss of certain revenue streams (Ministry of Sound, 2021).

Each time one of their artists' songs are used in Tv, radio, film or streamed they will receive royalties which are then split between the artist and the company. This is beneficial for larger labels with well known artists as their songs are more likely to be used in external media and streamed. Luckily Ministry of Sound's roster contains some very well-known artists, so their royalty potential is maximised.

Social media, especially TikTok and Instagram, have been vital tools in increasing the number of listeners and streams for many artists and labels (Turner, 2021). For example, Doja Cat, who is signed with Ministry of Sound in the UK, has achieved wider popularity, and therefore streams, due to her songs being popular on TikTok and reaching such a global audience.

In theory, Ministry of Sound should be able to easily incorporate their compilations to streaming platforms in a profitable way, however it is not as simple as it seems. This reason is that streaming platforms only pay royalties to the holder of the copyright and ministry would not receive any money, or credit, through curating these compilations due to only being a license holder (Lexology, 2013). The main way of digitally providing their compilation is through digital sale through online music stores such as iTunes, Amazon, Beatport and Bandcamp. The main issue with this however is that the main people who actually purchase songs are people like DJs who can not use streaming services when playing. The average listener would rather use a streaming service where they don't need to pay for every song they would like to listen to.

Ministry of Sound made £6,772,899 of profit in 2021 compared to 2,972,210 in 2020. This can be explained due to the coronavirus pandemic throwing the world into temporary disarray. MOS, like most businesses incurred significant costs for a significant portion of 2020 due to furlough, disrupted travel and transportation issues. This is why their costs were approximately 75% higher than in 2021. Their financial statement (page 18) also identifies the amount of turnover made in the 2021 financial year and what proportion of it is generated from the UK or abroad. In 2021 their total turnover was £19,206,121 with approximately 77.43% being generated in the UK compared to approximately 22.57% made internationally. The proportion of turnover made in the UK only increased by 4.4% from 2020 to 2021 while the proportion made internationally increased by approximately 28.5% in

the same period. This highlights a growing international consumer base that MOS should aim to market towards as the growth of their UK sales is stagnating.

Ministry of Sound's main costs are due to group relief payable, deferred income royalty payments, and licensing. These figures can be seen in appendix 2. Group relief payable is when a company transfers corporate tax losses to another company in the same group in order to minimize the losses of the initial company (Group Relief, n.d.). MOS' licensing and royalty costs are so high because they license a large number of songs from external labels to use in their compilations which all require a fee and the artists featured need to be paid royalties. Deferred income is a liability on the balance sheet that relates to products that consumers have paid for in advance but have not yet received. Staff costs also led to approximately £1.16 million in costs.

The Recent Major Financing and Investment Activities

Ministry of Sound's most recent major financial announcement was in 2016 when they were bought by Sony Music for £67 million. The figure was considerably higher than many had anticipated and has enabled the growth of MOS. They have not made any significant investments or financing announcements in recent years, probably due to sustainable levels of profit. Also, being under the Sony Music group provides extra levels of financing where they most likely do not need to seek external financing.

The Ministry of Sound Group have however made some investments themselves. In 2015 they provided some financial backing to TickX, an app/website that compares ticket prices across various providers and venues (Begum, 2015). It now collates events from over 75 event providers including Skiddle and Ticketmaster (Roue and Gilbody-Dickinson, 2018). In 2021 the MOS Group provided £705k of seed investment to Reboxed (Marzook, 2021), a Brixton based company that lets customers exchange their old devices in exchange for cash, donations, or having trees planted for you. Reboxed also plants 5 trees for every device that is bought or sold and donates 1% of their profits to charities (Warner, 2021).

Alternative Methods of Obtaining Financing

Should they need to, there are other methods of obtaining additional financing. The main two methods that MOS would use to acquire financing would be through private investment and through loans. Private equity investment refers to investment made by private individuals or private equity firms. In Ministry of Sound's case they would require an investment firm or individual that specialises in the music and/or entertainment industries as the level of funding available depends on the investors' interest and confidence in the business (Harrison, 2019). Unlike loans, you are not necessarily required to provide regular payments, and this means room for total focus on ensuring sustainable growth. (Fora Financial, 2021).

There are however disadvantages to obtaining financing through private investment. The first is that the stakes are quite high due to the investors' own capital being used. It means there is significant pressure to perform and show that their investment was worthwhile. They will also want to have some say in business operations and you can lose a degree of control (Blackman, 2014). The obvious drawback is that investors will at some point require a share of profits which would mean diluted earnings for MOS (Fora Financial, 2021). One final thing to consider is that it could be difficult for MOS to actually secure funding. The reason for this is that a large proportion of their business relies,

or did rely, on physical CD distribution which is being killed by digital methods of consuming music. The licensing issues regarding MOS' famous compilations and obtaining money from streaming would need to be solved before people could have full confidence in their future.

Loans can be obtained through either private investor loans or through business loans. The concept of a loan is simple; they provide funds and MOS would pay it back in a certain time period (usually medium to long term with a fixed interest amount payable). Due to the scale of MOS these would not be from a high street bank like Halifax, although they could try; They would require an investment fund to provide the investment. The main benefit of taking out a loan is that your own personal capital is not necessarily at risk. If you are nearly certain that you will make the money back then there is not really much of an issue. Larger loans tend to have lower interest rates and they also tend to not get involved in business operations (Fora Financial, 2021). Loans are also much simpler than arranging private investment.

The main issue with private loans is that many firms or banks will not want to loan out large amounts unless they have a significant amount of assurance. This can be provided through past financial records, but they will need convincing. The lender may also require some collateral which the lender would be entitled to pay should Ministry of Sound not be able to. Loans should be a last-ditch attempt at raising finance as MOS should have the necessary finance.

Ministry of Sound would not be able to obtain financing through schemes like start-up loans and grants (e.g. Arts Council England and PRS) offer grants for up-and-coming creatives and their businesses) due to the scale and reputation of the business. Those schemes are aimed at businesses who are in the early days of their operations and require the assistance to grow.

Lean Business Model

A business operating with a lean business model essentially aims to maximise the efficiency, and reduce waste, in its operations by frequently surveying consumers regarding their needs and adapting to meet such needs (Reis, 2011). This is usually conducted in fast cycles to stay on top of changing trends. Lean Businesses uses the same principals of lean production regarding efficiency and waste reduction but requires input from customers rather than solely from internal sources (Kenton, 2021). The question is how this applies to a record label such as Ministry of Sound.

One way that Ministry of Sound and other labels embody lean practices is through their hiring practices. They aim to hire the best candidates possible who are adaptable, efficient, and keen to learn (Keaton, 2021); by doing so reduce the risk of failure or a poor end consumer experience. The products they create will be as efficient as possible which results in the minimization of losses.

The lean approach can be applied to MOS' marketing strategy. There are three crucial aspects to lean marketing: iterations, segmentation, and analysis (Bekic, 2020). By undertaking constant iterations (e.g. micro-campaigns and trials) you get to understand your consumer base better which helps market more effectively. These iterations are usually low-cost and fast which makes repetition extremely easy. According to IFPI, lean marketing methods can help reduce "largest single item of spend for a record company on emerging artists" (Bekic, 2020).

Segmentation refers to identifying the consumer groups where their campaigns would have the most impact. The iterations that are undertaken are used to narrow down each segment by identifying their respective demographics and behaviours. Technology, especially social media and cookies can help companies understand their consumer base at a much deeper level than ever

before and this specific targeting eliminates any speculation (Roomi, 2021). The analysis stage is self-explanatory; keep analysing the data the iterations provide (Sutton, 2018) and use it to stay up to date with shifting trends (analytics). Most, if not all, of the big record labels have a team to deal with the analytics that they base their performance on, and it is this data that is used to constantly work on adapting to consumer trends.

A large record label is not the easiest business to apply lean methods to as they are already quite efficient, especially compared to the pre-digital era, due to having the capital to afford the best technology and the best people to operate it; both of which significantly increase the efficiency of a business's operations.

Conclusion

Ministry of Sound have cemented themselves in the minds of the public as a reputable label and the acquisition deal with Sony Music has helped them become internationally renowned rather than just a British electronic music label (and nightclub). They have managed to see commercial success over the years through their diverse roster of artists and have continued to grow financially despite the chaos caused by the pandemic. It is admirable that their streaming revenue managed to offset a large proportion of the pandemic's effects on physical sales and shows that their compilations are not what they are most famous for.

The pandemic has however shown that there is a need for Ministry of Sound to find an intuitive way to start generating revenue from their compilations on a digital format. One suggestion which could help Ministry of Sound transfer their compilations to a digital, or more specifically, a streaming format is by renegotiating the terms of the licenses they obtain to use certain songs. For example, MOS could negotiate a small cut of the royalties for providing exposure through their compilations on streaming platforms. Many people use these albums as a means of discovering new music and Ministry of Sound should be able to monetize the exposure they provide. Obviously it is down to these streaming platforms to agree to the terms, but MOS should definitely try otherwise they may never be able to revive their compilation services to anywhere near previous levels. Also, consumers are able to buy these compilations in an online digital format, but many do not see the need when you can simply make a playlist on Spotify or Apple music that contains all of the same songs.

Another suggestion for the future is that MOS should focus more on the international market instead of mainly the UK as their financial statements showed that there is high growth potential abroad compared to home markets. There are two suggested methods for MOS to enter other markets. The first, and easiest, method of entering a foreign market would be through arranging a collaboration between a well-known foreign artist and one of the artists on MOS' roster. This method has seen tremendous success over the years with songs like Despacito and I like it; both songs that involved US based artists collaborating with some of the largest names

The other method of entering foreign markets would be to identify the electronic music genres around the world that are garnering attention in the industry and signing acts that are well-regarded in their respective scenes. Plenty of different countries and cultures like electronic music but many have their own varieties that do not sound like the mainstream genres we know here in the UK. This does not however mean that they are not valuable genres to become involved with. For example, over the last few years a genre called Amapiano has been sweeping the UK urban club scene and has even filtered into mainstream music with Jorja Smith releasing an Amapiano song with producer Guiltybeatz (Keith, 2021).

Ministry of Sound also seem to be a very efficient business and have embodied some lean business practices. They managed to offset the negative impact of the covid pandemic through improving the efficiency of their operations and have appointed some of the brightest stars in the music business to aid them in their growth. Dipesh Parmar, the president of the label, recently won A&R of the year and they have award winning marketeers on their team. They certainly have the right team to succeed in the future.

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Appendices

<https://find-and-update.company-information.service.gov.uk/company/02829897/filing-history>

Appendix 1

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

11 Debtors

	Note	2020 £	2019 £
<i>Amounts falling due within one year:</i>			
Trade debtors		105,863	1,788,486
Amounts owed by group undertakings		-	6,710,560
Royalty advances		915,737	920,120
Income tax asset	9	561,097	561,097
Prepayments and accrued income		<u>1,662,742</u>	<u>1,058,585</u>
		<u>3,245,439</u>	<u>11,038,848</u>
<i>Amounts falling due after more than one year:</i>			
Amounts owed by group undertakings		<u>13,276,970</u>	<u>-</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. In the current year this balance has been re-classified to amounts due after one year, to reflect the rolling nature of intercompany balances

12 Creditors

	Note	2020 £	2019 £
Trade creditors		36,778	28,397
Amounts owed to group undertakings		312	313
Group relief payable	9	1,123,597	714,786
Royalties and licences		1,925,335	1,812,058
Other taxation and social security		741,821	621,408
Accruals and deferred income		<u>1,395,043</u>	<u>1,556,250</u>
		<u>5,222,886</u>	<u>4,733,212</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Appendix 2