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**NAVAL
POSTGRADUATE
SCHOOL**

MONTEREY, CALIFORNIA

MBA PROFESSIONAL REPORT

**Business Plan
for the
JABEZ Records**

**By:
Dimitrios Kalosakas
Anastasios Karakasis
Evangelos Morris
Konstantinos Mousonis
David Rhone**

December 2003

**Advisors: Cary Simon
Mary A. Malina**

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JABEZ RECORDS BUSINESS PLAN

Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

**NAVAL POSTGRADUATE SCHOOL
December 2003**

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BUSINESS PLAN FOR THE JABEZ RECORDS

ABSTRACT

The purpose of this MBA Project was to provide a formal business plan for JABEZ Records of Vallejo, California. This project was conducted with the sponsorship and assistance of Cal-Precisions General Contractors, a residential and commercial general construction and contracting company of Vallejo, California. Special assistance was from Mr. Learinza Morris, the Chief Executive Officer of JABEZ Records and Mr. Eugene Cole, part owner and singing artist of JABEZ Records. The primary objectives of this project were to identify and document the specifics of the market for the business; analyze the company's organizational structure; and analyze and document JABEZ Records' financial activity. The ultimate goal for the business plan was to provide investors with a formal document that would put into plain words, the structure, credibility, vision, and justifiable financial requirements of JABEZ Records.

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BACKGROUND

I. ORIGINS OF JABEZ RECORDS

JABEZ Records Company began with a conversation between two men, Learinza Morris and Eugene Cole, both of whom were interested in gospel entertainment. Morris was the CEO of MorrEntertainment; a Christian Theater entertainment company in Vallejo, CA and Cole was a Christian Theater actor in the San Francisco Bay Area. In conversation, Morris discovered that Cole was more than just a local actor; he was also a well-known singing artist in the Gospel music industry. Cole explained to Morris how he was forced to leave the music industry primarily because his former record company breached its music contract with him. The breach of contract resulted in Cole losing tens of thousands of dollars. In spite of the risks involved, Cole expressed to Morris that he still has a burning desire to get back on tour as a Gospel singer.

Morris believed that managing the production, marketing, and sales of gospel music CDs was not too far of a stretch from what he was already managing at MorrEntertainment. While Morris had the managerial experience in gospel entertainment and Cole had the talent in singing and directing gospel music, neither had adequate contacts with high-ranking religious officials necessary to start a network of support in the region. As a result, Morris brought in Author Johnson, a well-known retired police chief and savvy businessman who had great influence with the higher-ranking church officials. The three men together formed a partnership called the JABEZ Records Company.

II. JABEZ RECORDS PARTNERSHIP

As of November 2003, JABEZ Records is a partnership, not a corporation. The owners elected to run the business as a partnership to avoid corporate taxes, labor cost, and other personnel related expenses. Only Morris, Cole, and Johnson are legally eligible to draw (withdraw funds) from the company's account. Job titles and withdrawal limitations of the partners are shown on Table 1. The three partners solely run the business and there are no other formal employees. All services that cannot be handled

within the partnership are outsourced. The partners of JABEZ Records have created a sixteen-page partnership agreement that outlines the rights and duties of each partner.

III. OUTSOURCED AND VOLUNTARY LABOR

Most of the services required when producing a CD and music video for JABEZ Records are outsourced; the company manufactures nothing. Instead, the company coordinates the services of several other companies to produce Gospel music concerts, live music, video recordings, music CDs, and music video DVDs. Volunteer workers carry out over 35% of the services required by JABEZ Records. While this percentage of free labor is unheard of in most companies, it is commonly performed in religious organizations. While JABEZ Records intends to use free labor as long as it is available, it knows that the workers will eventually grow weary and demand pay or quit.

One volunteer labor resource in the JABEZ Records Company is the “Persuaded Gospel Choir.” These singers are the background vocalists for Cole. They are featured on every track of Cole’s latest CD. All members of the Persuaded Choir pay their own travel expenses when accompanying Cole on promotional tours.

Another volunteer labor resource for JABEZ Records is a group called the “Boosters.” The Boosters are eight loyalist of Cole that primarily assist in marketing, sells, and crowd control. For example, the boosters will go from door to door handing out tens of thousands of flyers and other mail-outs to help promote Cole’s music. During concerts and promotional tours, they will serve as ushers that escort dignitaries, special guest, and seat visitors, as well as control the crowds. After the concert or promotional tour, they work as cashiers and sell CDs, DVDs, and other paraphernalia for the company.

IV. PURPOSE OF JABEZ RECORDS

JABEZ Records exists for the sole purpose of spreading the teachings of Jesus Christ via song. The direct quote from their motto is: “Spreading Gospel Music around the World.” JABEZ Records believes that their traditional and contemporary Gospel music will be well received by millions of people who are overworked, depressed, oppressed, or stressed out for a variety of reasons. The company is certain that their spiritual music will motivate people when they are fortunate, and encourage them when they are misfortunate.

JABEZ Records also believes that their gospel music will make a positive impact on society because it encourages people to have an optimistic view on life and it helps them cope with their current situations. The company understands that there are several ways to spread the Gospel, but they believe that the purpose of this company is to spread it by singing.

V. INITIAL GEOGRAPHIC SCOPE OF JABEZ RECORDS

From January 1, 2003 to June 1, 2003, the geographic scope of the JABEZ Records Company was limited to a local customer base in the San Francisco Bay Area. During that timeframe, the company promoted its first singing artist, Mr. Cole. In the Gospel music industry, national support for Cole did exist, but relative to other “big named” Gospel singing artist like Kirk Franklin and Yolanda Adams, his popularity was not as convincing. Therefore, the company opted to focus on promoting Cole and the JABEZ Records label in the San Francisco Bay Area to get an initial customer base prior to marketing or promoting the singing artist and record company nationally.

JABEZ Records decided that the best way to determine if there was a demand for their product was to sponsor a concert featuring Cole in the local San Francisco Bay Area. As a result, on May 30, 2003, JABEZ Records conducted its first “Live Recording & Video” concert featuring gospel-singing artist Cole. The concert was held in Union City, CA, located 35 miles southeast of San Francisco. The facility reached its maximum

capacity of 2,000 people shortly after the doors were opened. An additional 400 portable seats were brought into the auditorium to increase the seating capacity to 2,400 people. In spite of this addition, there were still another 100 customers who waited outside in hope of entering the auditorium who were denied entry. JABEZ Records believed that the positive response to the concert was a strong indicator that there was a potentially high demand for their product both locally and nationally.

VI. CURRENT GEOGRAPHIC SCOPE OF JABEZ RECORDS

Three months after the live recording, JABEZ Records released the music CD and promoted it at two local churches; one located in Sacramento, CA and the other in Richmond, CA. During the local promotional tours, Cole performed on stage for 30 minutes to help promote the new CD. JABEZ Records deemed that the promotions were successful because in a two-hour time span, the CD sold over 300 copies.

The success of the two CD promotional tours in Sacramento, CA and Richmond, CA encouraged JABEZ Records to immediately get its national tours underway. On October 4, 2003, JABEZ Records went on a two-week promotional tour to market the new Cole CD, but this time in the southern U.S. region. During the tour, JABEZ Records conducted several singing engagements throughout Huntsville and Birmingham, AL, as well as Atlanta, GA. In early November, JABEZ Records plans to continue the promotional tour by traveling to Richmond, VA as well as other east coast cities. During the Richmond, VA promotional tour, the Cole Video on DVD will be released.

In addition to conducting promotional tours, JABEZ also promotes the new CD via a distribution network. On November 1, 2003, JABEZ Records will send 500 copies of Cole's new CD to the Central South Distribution Company to be distributed nationally to several retailers and gospel radio stations. Retailers to will receive distributions include Wal-Mart as well as several Christian bookstores, music stores, and malls.

VII. OBJECTIVES OF JABEZ RECORDS

The JABEZ Records intends to live up to its legendary name, "JABEZ." The word "JABEZ" is the name of an honorable man in the bible known for praying the

following prayer: “Oh (God), that you would bless me indeed, and enlarge my territory.”¹ The company’s goal is to expand its territory (market share) annually.

Like any new business, the success of JABEZ Records depended squarely on start-up capital during its early stages of development. In 2003, a residential and commercial renovation company called Cal-Precisions (CAL-P), also owned by Morris, and financed JABEZ Records. Undoubtedly, Morris knew that JABEZ Records’ growth factor would soon exceed CAL-P’s supportability. The company is firmly structured, knowledgeable of its market, and efficient in its core competencies. With adequate financial backing, JABEZ Records will quickly become a chief competitor in the gospel music industry.

Continuous and timely funding is essential for JABEZ Records primarily because the gospel music industry is a time sensitive business. Delays in music production or delays in getting the CD to the market may diminish the returns on the investments. It is essential to have funding for production, marketing, and sales upfront. If funding is available, high revenue items such as CDs and DVDs can be made readily available to customers during promotional tours and concerts.

¹ King James Version of the Bible, First Chronicles, First Chapter, Tenth Verse. (First Chronicles is a book of the Old Testament.

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PRODUCTS AND PRODUCTION

I. GOSPEL MUSIC HISTORY²

In the gospel music industry, several Christians refer to Thomas A. Dorsey (1899-1993), as the “Father of Gospel Music”. Dorsey, the son of a minister, was a talented musician who accompanied famous blues singers such as Bessie Smith and Ma Rainey. He wrote and composed blues tones. However blues did not keep him from attending the annual meetings of the National Baptist Convention. Dorsey began writing Christian music, moving away from his impetuous lyrics but not the jazz rhythms and blues genres and rhythmic style. As to be expected, reserved and conservative Christians viewed the mixing of the gospel and secular music as a work of Satan, and denounced it. The Christians in the traditional churches did not understand how contemporary music could be effective in drawing listeners closer to God. It is this passion and spiritual quality in gospel music that lifts it up beyond its mere structure. In the years following Dorsey’s initiative exceptional singers spread gospel around the country and indeed the world – Mahalia Jackson, Clara Ward and James Cleveland are but a few. From the 1920’s through the 1940’s, the quartets, vocal groups of mostly male singers, reigned supreme in gospel music. Quartets influenced many latter rhythm and blues musicians of the 60’s and 70’s. Even the current pop/R&B group Jodeci was once a gospel group called Little Cedric Haley and the Haley Singers. The mass choirs and choruses replaced the quartets in terms of overall popularity during the 80’s and 90’s.

Once limited to the label “religious,” gospel music has surpassed those restrictions to become a profound force in American music and culture. Thanks to major recording companies, gospel music has excelled beyond its traditional religious walls and is now considered to be a diverse and inspirational genre of music. Seven major recording companies have pioneered gospel divisions within the last decade. Also, independent gospel labels have increased by 50 percent, and total revenues for gospel music have increased in the past decade – from \$180 million in 1980 to \$500 in 1990.

² Phil Petrie (managing director of Gospel Today magazine), *the history of Gospel Music*. Retrieved November 5, 2003, from <http://www.afgen.com/gospel1.html>

II. NEEDS TO BE SATISFIED BY JABEZ RECORDS

The primary mission of JABEZ Records is to spread the word of Jesus Christ via song, specifically, traditional and contemporary gospel music. In the first few years of operations, JABEZ Records plans to satisfy the needs of its customers by producing and distributing several records featuring quality Traditional and Contemporary gospel-singing artists. Traditional Gospel as an individual genre under the broader term “Gospel/Christian music” (music industry’s segmentation³) uses more classic forms of gospel music developed through the last decades. Traditional Gospel uses rhythms and styles found in blues, jazz and soul music. In the long term, JABEZ Records plans to broaden its business spectrum by promoting young gospel artist that sing more liberal Contemporary Gospel music as well as other forms of Christian music. JABEZ Records knows that this is necessary in order to gain market share with young Christian music listeners, who are thirty years old and younger. However, JABEZ Records will always keep the Traditional gospel music genre as one of its core competencies primarily because it is the mainstream of Christian music and it is not a fad. There will always be a solid demand for Traditional gospel music by the core group of Christian music listeners. The company is also encouraged by the fact that during the first six months of 2003, gospel music sales in the US represent 7.14% of all music sales.

III. MUSIC INDUSTRY AND RECORD COMPANIES

Record companies stand at the center of a complicated industry.⁴ Composers, lyricists, and performing artists provide the raw artistic input for the business. Music publishing companies mediate between composers and lyricists on one hand and deal with record companies on the other. Retailers and distributors deliver products from

³ Contemporary Christian/Gospel music industry overview 2001-2002, (October 2002). Retrieved November 5, 2003, from http://www.gospelmusic.org/Industry_Brochure.pdf

⁴ Jan, W., Rivkin, (2000), *BMG entertainment*, Harvard Business School

record companies to consumers. Radio and music television stations provide the primary promotional channels for record companies. Rights agencies see to it that royalties are distributed properly.

Composers write the music and lyricists the words for a composition. If not the same person, the composer and the lyricist of a song share the copyright. They are compensated through advances or one-time fees from music publishers, from royalty payments that accrue when their music was sold downstream, or by both means.

Artists perform their own compositions (music and lyrics) or repertoire created by others. They sign contracts with record companies typically for more than one or two albums at a time. Subsequently they tend to stay with a single company for some time. They earn income from royalty fees paid by record companies for the sale of their recordings. Concerts and merchandise provide additional income. Personal and business managers, assistants, agents, and lawyers typically accompany a successful artist.

Music publishers purchase partial or total rights to pieces of music from composers and lyricists. The publishing houses then promote the music vigorously through a variety of channels. The key to success is striking the proper balance between selling the same piece through multiple channels and regulating content tightly so as not to cheapen the content. This balance often raises tensions between artists and the business people who run the publishing houses. Major record companies acquire or create a publishing arm to be part of its operations.

Each record company takes performing artists under contract, purchases musical rights from publishing houses, manages the recording process, manufactures CDs/DVDs/cassettes, distributes them to retailers and other channels, and promotes its products aggressively. During this process the company pays for all costs associated with launching new music. In return it receives the wholesale price of the CD/DVD/cassette less all the expenses already described.

A. Types of Record Companies

The mainstream way most records are made is through a major record company. An artist signs a recording contract with a major label (Warner Bros, Columbia, and Sony

Records) and hands in his or her recording tapes. The company then turns these into records and ships them to a distributor, the wholesaler, who in turn sells the records to the stores. The company then gears up its advertising, promotion, and marketing (figure 3). Another type of record company is a Mini-major. A mini major is a fully staffed company, with everything except the ability to distribute records to the stores. Majors distribute all the mini-majors, and in almost every case they are co-owned by the major. A Major-Distributed Independent is an independent entity that has little stuff but rather signs artists and contracts with a major or mini major to perform all functions except recording the records. The value these companies bring to the music industry is the ability to find talent. A True independent is a record company that has no affiliation with a major or mini-major, but rather is financed by its owners and/or investors. True independents distribute their records through independent distributors, which are not affiliated with a major. The independents are often better for specialized product like folk music or speed metal. This is because specialized markets are too small to get the major's attention and furthermore the independents are "wired into" the smaller retailers who cater to this trade.

JABEZ Records along its first steps in the music industry falls into this category. However, the company does not deal with a specialized product. Gospel music sales represent a large portion of the music market during the last few years and major record companies have invested huge funds in acquiring numerous prior small independent Gospel record companies. However, there is a strong affiliation between Gospel labels, distributors, and retailers who sell exclusively Christian/Gospel music. JABEZ Records intends to start as an independent label and later, as it obtains recognition and reputation, become a mini-major.

IV. PRODUCTS

The primary products sold by JABEZ Records are music CDs and music videos (DVD). On average, CDs contain twelve songs that are either produced solely in a music-recording studio or at a Live-Recording concert. The music video, on DVD, will include the video footage from the artists' performances at the live concert. Gospel

music concerts are another source of revenue for the JABEZ Records. During the concert, the primary sources of revenue are the ticket and CD sales. However, much of the revenue generated by concerts is consumed by variable cost, fixed cost, and overhead cost of the concert production.

As singing artists sponsored by JABEZ Records become increasingly popular, the company's profit margins increase. The company's profit margins increase because ticket and CD prices are directly proportional to a singing artists' popularity. For example, Donnie McClurkin, a well-known singing artist in the gospel music industry, conducted a music concert in October of 2003. The price for his tickets was \$53.00. Cole held a concert two months prior, and the tickets sold for \$15.00. As a result, the Cole concert lost thousands of dollars during the concert due to the high cost structure of the concert. Even if tickets are sold for over \$50.00, the net profit realized is still small.

A. Studio vs. Live Recordings

For every gospel music CD that JABEZ Records produces, the company must decide on whether to record the songs while at a concert or in a private studio. This decision is based on variables such as cost, marketing, personality of the singing artist, and complexity of music. Recording the songs at a concert, i.e. a Live-Recording, requires the use of a concert hall or facility that is technologically and acoustically capable of producing and recording quality the songs. When recording the songs in a music studio, JABEZ Records is not concerned with ticket sales, lighting, choreography, or concert advertisement. Instead, the company's two primary concerns are the cost of hiring a music producer and the hourly cost of the studio. These two cost drivers cannot be avoided and will determine the bulk of the production cost.

The trend in the music industry is that well-established and popular artists release live records. They do not sell as much as the studio records due to the fact that most of the material has been previously recorded. JABEZ Records elected to produce a live CD and DVD primarily because of Cole's powerful performance when on stage. His energetic personality added another dimension to the recording process that would not be captured if the recording were held in a studio CD.

The production cycles for live and studio CDs are shown on figures 3 and 4. Live recording products lag in production in comparison to ones produced in a studio. Also they are not available for sale after the initial concert (where the recording takes place). That means the company creates demand for the product when the product is not available yet. Most importantly, more money is needed for a live recording production due to the requirement of a concert hall or facility that is technologically and acoustically capable of producing and recording the songs with high quality. Finally when recording the songs in a music studio, JABEZ Records is not concerned with ticket sales, lighting, choreography, or concert advertisement. In the future, JABEZ Records intends to follow the industry's trend and focus on the production of studio CDs while seizing the opportunities for live records only when there is strong belief for satisfactory sales and profit afterwards.

B. Production Cycles

Historically, artists signed contracts with record companies that lasted three to five years. The pattern over the last few years in the music industry is to have terms geared to album cycles. An album cycle is a period of time from the commencement of recording an album until the end of the promotional activities surrounding it (tours and concerts).

C. Key Production Costs

The most important cost drivers for the production of a studio CD are the following:

- i. Marketing and promotions: 28% of the wholesale price is used to advertise and promote the artists and their music; which primarily includes video clips and tour promotions.
- ii. Distribution and sales: This accounts for 13% of the wholesale price for a major company that has its own distribution network. For an independent label, it could as high as the 20%.
- iii. Royalty payment to artist: Usually the 12% of the wholesale price or 9% (new artist) to 20% (superstar) of the records suggest retail list price (SRLP – used by almost all of the record companies).

- iv. Artist and repertoire: at 10% of the wholesale price includes production studio costs.

The costs of an artist's managerial staff are an expense of the artist and not the record company. Members of the artist's managerial staff may include professionals such as personal managers, attorneys, business managers, or booking agents. Obtaining a percentage of the artist's royalties, flat fees, or other means may finance the managerial staff. For example personal managers typically get from 15% to 20% of the artist's gross earnings and agents charge a fee of 10% of concerts revenues.

JABEZ Records produced 5,000 CDs and 2,500 DVDs from its first record production. The primary cost drivers associated with generating their high quality CD and DVD was contracted services and marketing expenses. Notably, the company's cost structure was found to be in compliance with the cost structure of the gospel music industry. Above all, JABEZ Records understands the strategic importance of a robust marketing plan to help give its products a competitive advantage.

D. Customer Reaction to Products from JABEZ Records

The reactions of customers from the Live-Recording production were encouraging. Fans asked for Cole's CD as they departed the facility. Even though the CD had not been produced yet, hundreds of people still wrote personal checks in exchange for promissory CDs to be delivered once it was produced. JABEZ Records received thousands of positive reviews and remarks concerning the anointing and vibrant color that Cole brought to the concert and the CD. Others expressed that Cole's performance on stage was exemplary. Furthermore, it was refreshing to Morris to hear one fan express to him that Cole's personality truly connected with the audience.

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SWOT ANALYSIS FOR JABEZ RECORDS

I. STRENGTHS

A. A New Company

The JABEZ Records is a new company in the gospel music industry that has no ties to any other organization in its class. Therefore, the decisions that the company makes are independent, not from the influence of other entertainment companies. JABEZ Records has no debt. Furthermore, there are no outstanding legal matters pending or unsettled deals with former singing artist or other interest groups. The company's new leadership consists of personnel who truly love gospel music and are willing to devote endless hours of work to help the company achieve its goals. JABEZ Records has a clean and untainted slates to build an efficient and innovative infrastructure on that will help secure its success in the gospel music industry.

B. Well Established Singing Artist

JABEZ Records primary singing artist, Cole, is an experienced gospel singer who has built a solid foundation of supporters and loyalist. JABEZ Records directly benefits from Cole's followers and supporters primarily because they provide the company with several services for which it would otherwise have to pay. As Cole's popularity grows, so does the number of supporters, willing to do voluntary work for the company. Having a well-established singing artist saves the company thousands of dollars in labor costs during promotional tours and concerts.⁵

C. Gospel Music Gaining Market Share

Over the last ten years, gospel music sales have shown sustained growth. One reason is for this growth is because of the simple fact that gospel music today is of better quality than the music produced over a decade ago. Also, modern technology makes it possible for record companies to conduct target marketing. JABEZ Records uses

⁵ From personal interview with JABEZ Record's CEO, Morris taken on October 3, 2003.

marketing and sales research to take full advantage of this growing segment of the music industry. (Article: gospel rises again) ⁶

D. Traditional Gospel Music is Dominant

Most of JABEZ Records' resources are allocated to producing Traditional gospel music, which is the largest genre of Christian music (Table 2). The primary reason why Traditional gospel music has led all other genres of Christian music is because it is the only one that is appropriate at nearly any Christian sponsored event or religious program. For example, Traditional gospel music is played during formal church services, weddings, funerals, memorial services, drama plays, or in the car on the way home. The rhythms and styles of other genres of Christian music are considered to be inappropriate to play during some religious programs. JABEZ Records is producing the genre of music that will always be in demand as long as the Christian cultures, values, and traditions exist (Cole)⁷.

E. A Company with Cohesion

The leadership of JABEZ Records and its singing artists all share the common vision of "spreading gospel music around the world." Since the company is a religious organization, it automatically inherits a strong common culture of cooperation and support. Fortunately for JABEZ Records, this culture is also shared by most of the affiliates of the company. For example, during business meetings, the member in charge of the presentation will start the meeting with a sincere and warm prayer, which indirectly reminds everyone that they are to always conduct themselves in a Christian-like manner. As a result, the meetings are usually more productive. Throughout JABEZ Records' workforce, friendliness, honesty, and cooperation are some of the most noticeable characteristics found.

F. A Voluntary Workforce Committed to God

While it is true that most of the people in JABEZ Records' voluntary workforce are loyalist of Cole, they are more importantly believers in Jesus Christ. They only support Cole because they believe that he brings a message that exalts God. As a result,

⁶ Shawn E. Rhea, Gospel Rises Again, Black Enterprise magazine. New York 1998. Vol. 28, Iss. 12 pg.94.

⁷ Interview with Cole Cole.

they are willing to go to great lengths to help the company spread the gospel around the world. For example, prior to the Live-recording of Cole's latest CD, the Persuaded Choir members each spent approximately 150 hours rehearsing in preparation for the Live-recorded concert. They each spent another 120 hours performing during promotional tours, totaling 270 hours per choir member. Since there are twenty-five members in the Persuaded Choir, JABEZ Records has used over 6,750 man-hours of voluntary labor from this group alone. The company realizes that voluntary labor, by default, is a natural strength that will exist as long as the people are committed to God. JABEZ Records believes that they can take advantage of this strength as long as they do not overextend the volunteers.

G. Quality of Service

At JABEZ Records, quality of service is a benchmark. The company is determined to distinguish itself from the competition by producing concerts that are noticeably more organized, hospitable, cordial and entertaining. The company also uses brighter lighting, more enhanced staging, and cleaner choreography than its competition. While other record companies will not hesitate to use second-rate musicians just because they are free or low cost, JABEZ Records insists on using the best performers on the market. For example, the company uses professional dancers, skilled musicians, enthusiastic singers, and the best music producer available.

II. WEAKNESSES

A. Limited Funds

In the music industry, record companies must follow through on the entire record production cycle otherwise revenue cannot be earned. The steps included in the production cycle are producing, replicating, marketing, distributing, promoting, and selling of the record. Once the record is produced, it must be immediately marketed and distributed throughout the industry. Notice only the last two steps, promotions and sales, can potentially generate revenue. Therefore, it is essential for a record company to be able to financially walk through the entire record production cycle. Most of the record company's initial fixed cost, such as music producer fees and studio rates, must be paid in advance of any services being rendered. Limited funding may only provide enough

money to pay for the initial fixed costs, leaving little or no funds available to pay for the marketing and promotional costs. As a result, JABEZ Records cannot recoup its losses nor create any profits if it does not have the funding to investing in the marketing and promoting of its records.

B. A New Record Company with Limited Exposure

JABEZ Records has few resources and alliances, has to work hard to make its name and artists known, and has to find the channels that will bring publicity. In the gospel music industry, new companies have to prove themselves to the market. JABEZ Records is growing fast, but is still unknown to the gospel music industry as a whole, and must spend time and money introducing itself to the industry. The company must also spend funds trying to convince the market that they have superior products and services.

C. Conflict of Interest of Partner

Cole is part owner of JABEZ Records. Having any singing artist as part stake owner, may serve as an obstacle during course changes that are vital to the success of the company. Such a condition is analogous to having the coach of a sporting team also perform the duties of one of the players. Even if the individual were a good coach and an extremely gifted player, he or she would serve the team best as either a coach or a player and not both.

III. OPPORTUNITIES

A. Close Proximity to Large Market

JABEZ Records is based out of the San Francisco Bay Area. This is a big opportunity for the company primarily because it is an area that is less than ten hours away from the nation's largest gospel market, Los Angeles, California. The close proximity to Los Angeles allows JABEZ Records to be able to schedule multiple events in the Los Angeles metropolitan area without incurring high traveling cost. Any music that becomes popular in Los Angeles will, more than likely, make its way around the country in a short time span. Los Angeles has dozens of churches that consist of 6,000

plus members. The company well worth the marketing expense incurs churches with memberships in excess of 6,000 people. Los Angeles provides JABEZ Records with an opportunity that far exceeds the company's requirements.

B. Good Network of Churches and Pastors

The founders of the JABEZ Records Company have established solid relationships with over 50 churches throughout the nation. The company has also established reliable points of contacts with hundreds or more churches and pastors nationwide. Churches and pastors hold the keys to the success of new record companies in the gospel music industry. Churches provide large groups of instant customers that can quickly become loyalist to the company and the singing artists. While the singing artists are on promotional tour, several hosting churches will gladly provide quality musicians to assist in the musical event for little or no pay.

C. Large Selection of Talent

There are several gospel-singing artists that are looking to be promoted by a respectable record company. The JABEZ Records Company currently has three top quality-singing artists that are patiently waiting to be promoted. The company will continue to scout for new talent and carefully select singing artist to perform on its records. The company is currently taking advantage of the abundance of potential gospel singing artists that exists in the industry today.

D. Internet Radio Technology

The technology of web casting (streaming-live audio) allows major online entertainment companies to provide listeners with commercial-free web casting. Basically, radio listeners can go online and tune into a variety of Internet radio stations and listen to an array of online music. In 1995, Congress passed the Digital Performance Right in Sound Recordings Act (DPRA), which gave record companies and copyright holders the right to control the digital performances of their songs and to receive royalties when web casters play their music online. This technology would allow JABEZ Records to market its product, via the Internet, around the world at very little cost. However, it is up to the record company to ensure that its music is played on the Internet capable radio stations or web casters.

IV. THREATS

A. No Funding for Operations

Singing artist who are waiting to be produced by JABEZ Records may become impatient and seek the services of other record companies. If JABEZ Records loses the singing artist, they may also lose the original songs that the artist would have released. This could happen in situations where the artist and the lyricist are the same person, or when the singing artist owns the copyrights. Therefore, adequate funding is required to secure quality singing artist and their songs.

B. Online Competition

Currently, it is perfectly legal to purchase and download music from the Internet. Two very popular companies that are taking advantage of this technology are *Napster* and *iTunes*. These companies are selling individual songs (tracks) for \$0.99 on the Internet. The Napster Company is back in business, and recently launched its new software called Napster 2.0, which makes downloading music very easy. The Recording Industry Association of America (RIAA) is the main advocate for record companies around the world. Even though iTunes and Napster must pay royalties for the music, record companies could gain more profit from Internet sales if they owned the downloading websites.

C. Tough Competition in the Industry

The major record companies enjoy the privilege of having large economies of scale. These companies have at a minimum, the products and services offered by JABEZ Records. One way that they increase their record sales in retail stores is through airtime on radio stations. The more renowned singing artist are generally well funded, and as a result, generate more spins⁸ than the unfunded singing artists. Likewise, JABEZ Records must acquire the funding necessary to promote its records so that it can increase the number of spins for its records, and ultimately increase its records sales.

⁸ Spin is a term used in the record industry that means the act of a radio station playing a song on the air. If one radio station plays a song on the air ten times per week for four weeks, then that song has received 40 spins. The total number of spins for a record is a good indication of an artist's popularity and the demand for the record in the industry.

MARKET ANALYSIS

I. THE MUSIC INDUSTRY

A. Christian/Gospel Music

JABEZ Records' line of business is in the production of Christian/gospel music. In the United States, under the Christian/Gospel umbrella, we find a huge collection of separate musical styles appealing to different audiences; rock, country, gospel, southern gospel, inspirational, praise & worship, urban/R&B, Latin, instrumental, children's. All these genres from the music aspect provide exactly the same product with the mainstream record companies. However, all variations share a common ground of projecting the Word of God in song. The 2002 Christian/Gospel music genre sales percentages are shown in table 2.

B. Market Volume and Future Projections

According to the Recording Industry Association of America, Christian/Gospel music accounted for 6.7% of the total albums sold in 2001 - totaling over 920 million dollars in sales. Christian/Gospel music sales for 2001 outpaced album sales of 2000 by 13.5% in a year that saw the overall music industry album sales off nearly three percent, according to Nielsen Soundscan. Total sales of contemporary Christian and gospel albums for 2001 equaled 49,965,000 units (figure 3). This was the peak sales over an array of six years (1996 – 2001). The 2002 year-end album sales remained almost stable at 49,664,000 units. At the end of the first six months of 2003, Nielsen Soundscan sales of Christian and gospel music were at 21,046,000 units compared to 23,445,000 units at the same time in 2002, a 10.23 percent decline. These sales represent 7.14 percent of all music sales, which puts gospel music sales ahead of Latin, jazz, classical and soundtracks. The same issues are affecting gospel music sales as the rest of the music industry – an uncertain economy, music piracy and illegal downloading.

The projections of future sales of Christian/Gospel CDs cannot be determined with any certainty. The reason for this is two opposite music trends. First there is an overall decline in music CDs sales. Secondly, Gospel music has dramatically increased

its market share in the last decade. We could estimate sales for 2003 by assuming the same percentage of sales for each half realized in 2002 (23,445,000 out of 49,664,000 units or 47% for first half year and the remaining 53% for second half year). Since sales for the first half of 2003 were at 21,046,000 units, under the assumption that this will be the 47% of total Christian/Gospel sales for 2003, we conclude that 44,582,000 total units will have been sold by the end of current year. Using a regression analysis based on historical data from 1996 to 2002 we created a regression chart in figure 5 and sales projections up to 2012 shown in table 3.

However, it must be emphasized that the results of the above regression analysis was driven by historical data. The music industry as a whole faces many challenges today and therefore goes through many changes. For example, should downloadable MP3s dominate in that market then projections for number of CD sales is of no value? Even if the number of people listening to gospel music in the US were to remain stable at the 6-7 percent (assuming the number of CDs sold for any musical style is proportional to the number of music buyers/supporters of the particular style), we cannot project the revenue for the record companies abandoning CDs' production.

Downloading from the Internet Christian/Gospel music in the form of MP3 files presents a unique paradox. First, there is the moral argument that stealing music is wrong. Secondly, some naively have argued that downloading and sharing gospel music is a type of ministry, perhaps unaware that it is copyright infringement. While organizations like the Recording Industry Association of America (RIAA) are working on the matter (mainly by suing illegal downloader's), gospel organizations and record companies try to address this unique situation as they explore ways to move consumers away from illegal downloading. Recently a task force was formed, comprised of leaders from the industry's three leading distribution companies, to address digital distribution issues. The task forces' include five main goals. They are, educating Christian music labels on the importance of making music digitally available (legally), helping to facilitate the digitization of all catalogs, encouraging dialogue between Christian labels and their parent company departments devoted to digital distribution, increasing

visibility/availability of music online through online services such as Apple's iTunes, and increasing sales retail stores.

C. Gospel Trends

Gospel music has evolved from a church-basement business to a sophisticated, multimillion-dollar enterprise. What used to be called "Grandma's music" has become as cutting edge in sound and imagery as any secular genre of music. Artists such as Kirk Franklin, who started out singing traditional gospel, stepped into a more modern musical form. Many black gospel songs are driven by hip-swaying rhythm-and-blues beats; if you took out the words, you could put the rhythm in nightclubs. Gospel marketing companies nail the right look for the artists. Kirk Franklin looks like any urban youth; he wears Timberland boots and baggy jeans. His record company will have to spend several months trying to achieve the proper look just for a cover photo.

Ten years ago, record companies only marketed to Christians, now they are marketing to the whole world. The result is obvious when looking at Christian/Gospel sales in figure 3. Sales rose from 32 million units in 1996 to almost 50 million units in 2001. Gospel today provides almost all secular music styles and therefore can appeal to everyone, every age group. However demographic analysis of Christian/Gospel buyers provides some very interesting observations; most significant is the fact that 84% of those who purchase Gospel music products are white and only 11% are black. Also, the charts in figure 4 shows Christian/Gospel buyers are between 35 and 44 years, married with children, have income between \$50,000 and \$75,000, and own a home.

There are two distinct trends in the top album sales in the Christian/Gospel music for the first half of 2003. The first distinct trend is the continued success of the Praise & Worship genre. Nearly half of the top Christian albums are worship records, which tell us that consumers desire a real connection to God with their music and are actively seeking music that extends their church experience into daily life. On the flip side, consumers, particularly the younger generation, are just like all other young music buyers who want their music to be hip (modernized / trendy) and relevant. Artists like Chevelle, Reliant K

and Switchfoot are making very contemporary music without the offensive lyrics and negative stereotypes that are too often found in their mainstream counterparts.

D. Target Markets

JABEZ Records, in the effort to grow and obtain publicity, targets the African Americans in the US. The areas of the highest concentration of the black/African American population in the US are shown in figure 8. In the future, the company will try to reach and appeal to all the people in the United States who are interested in Christian/Gospel music. Such a customer basis is much larger than the one consisting only of the African American population. One very interesting trend that facilitates the widening of the target customer basis from African Americans to Christian/Gospel listeners is shown in table 4. Most of the top ten metropolitan areas in Christian/Gospel music sales are located in those States presenting the highest absolute numbers for the African American population. Whoever the targeted customers, JABEZ will continue to market and promote its products at the same geographical locations: the top sales markets.

It is possible that the increased demand for gospel music at the top sales metropolitan areas will cause the entrance of more new gospel record companies increase the competition and eventually saturate these markets. If this will be the case JABEZ should try to target as well areas where large numbers of African Americans live yet are not top sales markets. Florida, North Carolina, Michigan, Louisiana, and Virginia could be such states with a potential for higher future sales of Christian/Gospel music (table 4).

II. MARKETING AND SELLING

A. Marketing and Promotion

JABEZ Records is a company that gives great value to the human being whether artist, musician, customer or listener. They want to spread the word of Jesus to the people, with hopes to make them feel better emotionally, mentally and physically. Also they wish to help the community in whatever way is that possible, and make some profit,

which is needed to keep this company alive and able to do what the founders set out to do for the good of the society.

Management at JABEZ Records works hard because they know they have something of value to offer and they want to reach as many people as possible with their music. Marketing is the main emphasis that helps them reach their goal. For that reason they have to consider how major labels market themselves. They select and promote artists that they feel have the potential to appeal to as many people as possible. Then the labels spend millions of dollars in what it has been called ‘shotgun’ advertising. They spray their marketing message over a targeted chunk of the population (which often amounts to many millions of people), knowing well that only a small percentage will be interested enough to respond and become fans. Sometimes, this widespread tactic works well enough to sell lots of CDs and concert tickets; but it's very expensive. As a new small company in the industry, they can't afford that type of marketing campaign. They know that potential fans are out there, and they can be successful by connecting with far fewer people than any major label requires. It's just that your ideal fans haven't found out about Jabez yet and they are not quite sure how to find them.

According to Bob Baker, a writer, Indie musician and former music magazine editor (currently writing books and articles to help new musicians market their music and songs) “once you know exactly what type of music fan you're going after, start making a list of the various resources these specific people are attracted to. What magazines and newspapers do they read? Where do they hang out? What radio stations do they listen to? What retail outlets do they frequent? What web sites do they surf to? What e-mail newsletters do they subscribe to?”

He suggested: “Armed with this targeted list of contacts, get busy! Send e-mail press releases to niche media outlets. Contact the webmasters and editors of appropriate publications. Post messages in specialized forums. Visit and interact via the web sites of similar-sounding bands. Contact organizations and charities related to your musical niche. In short, go to where your ideal fans are. And market yourself through these outlets

relentlessly. Why waste time and money trying to promote to everyone ... when you can save money and be far more effective by going directly to those valuable one-in-a-thousand fans?"

JABEZ people seemed to follow the suggestions given above and they have started by creating Traditional Gospel. Traditional Gospel in relation to the different genres provided in Table 3 by the Christian Music Trade Association, musically lies somewhere between "Gospel" and "Inspirational". The company's current focus market niche is, the religious Christian youth and middle-aged African Americans that they demand a traditional way to express its love and dedication to Jesus.

There are several reasons that JABEZ has decided to deal with Traditional Gospel, which is only a subset of Christian/Gospel music. First, as one of JABEZ shareholders, Cole is an experienced singer who has been an active artist in the era of Traditional Gospel for many years and the other artists that will be introduced after him will compliment as well.

Secondly, traditional Gospel concerts are performed primarily in churches. JABEZ and churches share a common goal: to increase their audiences while praising God. Gospel concerts can be a win-win situation for both. They can increase membership in the church and also increase the exposure to the JABEZ Records Label. There are many pro's to this scenario, which are, you can worship in the church and attend a gospel concert at the same time.

Nonetheless, in the long run Traditional Gospel seems to be a rather restricting factor for company's growth. The reason is that it appeals exclusively to one segment of gospel music and to the African Americans as well. The African American population was only the 11% of the Christian music buyers in 2001. Of course that may not be the case if they start spending a lot more on Gospel than Caucasians for the music they like.

For that reason the company should explore more developing genres of gospel music such as Adult Contemporary and Praise & Worship. In the future, JABEZ should find artists that are interested and try to exploit them as soon as possible to the clear existing trend in the gospel music industry.

Currently as a new company in the market, JABEZ Records cannot target a sizeable market in gospel music, but it could focus its marketing strategy to gain considerable share in the areas that has most influence because of the religion, race and artists relations.

Therefore the current objectives for the company are to make known its artists to the audience that love this traditional gospel music and sell the anticipated number of CDs and DVDs that have been already produced. Promotional performances in churches with a big number of members is a common practice for the new companies in the Gospel music industry to make their product known and their name recognized.

Hence, JABEZ Records has made some promotional trips with its first artist Cole in Southern California and the Eastern States, primarily where the majority of their potential customers reside. Their main focus is to present the fans of Gospel music and those of Cole's that he is currently recording on the JABEZ Records Label, trying to exploit his well known name in the industry, and among religious people. In addition the company is planning to give out several hundreds of CDs to the Central South Distribution Company to promote and distribute its product nationwide via radio stations and retailers.

Finally, JABEZ Records has to develop a promotion plan in California, (the company's base State) and one of the best selling States for gospel music. The Los Angeles metropolitan area is in the top sales market in the Unites States of America for this kind of music, so there is a fertile ground for the company to grow in sales. They have to make some contacts and allies in that huge area to promote their artist and the company's name. Since JABEZ is a new company with limited funding it will be paramount to enter into the existing local State market where sales for gospel music are the largest in the nation. Then they should proceed with promoting the company's image of a Gospel friendly records label in other States too, focusing in the cities (Table 6) where the Gospel music has the top sales.

B. Selling and Distribution

The Gospel recording industry has a big market share of about 50 million units sold and 6.7 per cent in the whole music industry (Nielsen SoundScan 2001 sales in USA). In addition there are a lot of radio stations playing only this kind of music, there are special magazines just for gospel and the big retailers such as Wal-Mart devotes at least 20% of its music selling space in gospel.

JABEZ Records follows a competitive pricing policy. Nowadays it is very easy to know what the prices are for an existing product and how to compete with the industries counterparts. Christian/Gospel music CDs are sold in prices ranging from about \$10.00 up to \$22.00. Prices depend on the year of the first release, how renowned the artist is, and where the consumer buys them. The trends for prices are: old releases are cheaper, purchasing from the Internet and the most expensive are the new releases being bought from a music store. JABEZ follows the industries standards and sells its CDs where the demand is desired.

JABEZ Records initial products are CDs and DVDs from live recordings during concerts performed by their first artist Cole. Live recording products lag in production in comparison to the ones produced in a studio. There is a demand created for more production money, as they are not available for selling after the initial concert. That means the company creates the product on demand since it is not available at the time of the concert. Therefore selling those products requires more promotion and effort. The methods used by the company to promote the sales of its products are common methods used from all the new companies in the industry.

According to many marketing experts, timing is essential for a new company trying to get into a competitive market. Hence, for the music industry in an issue of the trade magazine Billboard, columnist Chris Moore, once expressed his bewilderment over the avalanche of new releases from independent labels during the months of October,

November and December. Obviously, these record companies want to take advantage of the holiday buying frenzy. The only problem, argued Moore, is that the major labels choose these same months to release most of their heavy-hitting new albums.

Moore's suggestion: Independent labels should save their biggest moves for times when the majors are putting forth their smallest efforts. He cited January, a month when major labels are catching their breath after the big holiday push, as being the perfect month for smaller companies to act.

Furthermore, Al Ries and Jack Trout in their book "Marketing Warfare" (McGraw-Hill)⁹, recommend launching your attack on as narrow a front as possible. This is an area where marketing people have a lot to learn from the military. Where superiority is not attainable, you must produce a relative one at a decisive point by making skillful use of what you have. The marketing army that tries to gain as much territory as fast as possible by attacking all at once with a broad line of products will surely lose in the long run.

The philosophy here is simple: When you are not the leader in your field, you can't possibly win by playing on the same turf and using the same tactics as the leader. Instead, you must use the leader's strength to your advantage by focusing your efforts on areas too insignificant for them to bother with. That is why pinpointing areas where the big players are weak is the best strategy for marketing.

JABEZ Records up until now have almost accomplished what was mentioned earlier as its strategy. They are trying to focus its marketing in ways that the big companies cannot or do not want to go after. Promotional tours and personal live performances in churches are methods that are rarely used by big companies and renowned artists for marketing their new CDs.

Thus, JABEZ began to sell its first CDs immediately after the release in the promotional tours that they made with their first artist. The reception for the CD is encouraging. However, the company's partners continuously work hard devoting their free time to make the company and its products known, using their personal

⁹ Al Ries, Jack Trout, *Marketing Warfare*, McGraw-Hill.

acquaintances to push the sales. In the near future, except for the use of traditional distribution channels, the company is planning to sell both CDs and DVDs via the Internet through sites like eBay and Amazon. In addition, the company feels they could go a step go further. They believe that in a few months they will be able to sell their products through their own website in MP3 format.

The JABEZ Records management team's experience from the first concert they have just promoted gave them ideas on how they can improve their sales in the future. One way to prepare and produce a studio CD with all the new songs that the artist will sing in a concert and have it available immediately after the performance ends. Many who have just enjoyed the concert and the artist are willing to purchase a CD with the songs they have just listened to. This method will help boost the sales and promote the artist from the beginning.

FINANCIAL ANALYSIS

I. FINANCIAL BACKGROUND

Financial analysis was based on January 2003 to November 2003 actual results, current gospel music industry trends, and field expert assessments. This section includes a Pro Forma Income Statement, Balance Sheet, and Statement of Cash Flows for 2004 thru 2008 and a 2003 Income statement. Our financial analysis was based on the following assumptions:

- JABEZ Records will not produce any additional Live-Recording CDs prior to the end of the year 2008. Live CD recording sales continue to lag studio CD recording sales in every genre. Some record companies still produce live CD recordings; however they do so as compensation to their artists.
- Virtually all CDs and DVDs are sold directly by the record company and not by intermediary or independent singing artist. The number of sales made through distributors is negligible.
- Timing is crucial. Delays in the production cycle or not following the production schedule could lead to a cash deficit and production scheduling problems. As soon as adequate funding is received, the company will begin executing the business plan in all aspects.
- The current amount of “Voluntary Labor” will continue through 2008.
- JABEZ Records will attract enough new singing artists to support the sales plan.
- The sales price for CDs and DVDs will remain constant from 2004 thru 2008.
- Inflation was not considered significant and therefore not included from 2004 thru 2008.
- As a singing artist becomes more popular, concert ticket prices usually increase. The \$15 ticket price used in the projections is a very conservative approach to determining potential earnings from concert ticket sales.
- The record company will continue to outsource services and equipment at the current level through the year 2008.

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FINANCIAL REPORTS

I. PRO FORMA BALANCE SHEETS

December 31, 200X

TOTAL	2004	2005	2006	2007	2008
Cash and Cash Equivalents	371,589	675,527	1,122,010	1,565,366	2,069,192
Office Furniture	75,000	75,000	75,000	75,000	75,000
Less Accumulated Depreciation	(7,500)	(15,000)	(22,500)	(30,000)	(37,500)
Computer and Peripherals	50,000	50,000	50,000	50,000	50,000
Less Accumulated Depreciation	(10,000)	(20,000)	(30,000)	(40,000)	(50,000)
Telecommunications Equipment	25,000	25,000	25,000	25,000	25,000
Less Accumulated Depreciation	(5,000)	(10,000)	(15,000)	(20,000)	(25,000)
Vehicles	50,000	50,000	50,000	50,000	50,000
Less Accumulated Depreciation	(10,000)	(20,000)	(30,000)	(40,000)	(50,000)
Total Assets	539,089	810,527	1,224,510	1,635,366	2,106,692
Paid-in-Capital	550,000	700,000	850,000	850,000	850,000
Retained Earnings	(10,911)	110,527	374,510	785,366	1,256,692
Total Equity	539,089	810,527	1,224,510	1,635,366	2,106,692

II. PRO FORMA CASH FLOW STATEMENTS

TOTAL	2004	2005	2006	2007	2008
Beginning Cash Balance	550,000	371,589	675,527	1,122,010	1,565,366
Cash Flow from Operating Activities					
Earnings Before Income Taxes	(10,911)	121,438	263,983	410,856	471,326
Depreciation Expense	32,500	32,500	32,500	32,500	32,500
Cash Flow from Investing Activities					
Investment in New Assets	(200,000)				
Additional Paid-In Capital		150,000	150,000		
Ending Cash Balance	<u>371,589</u>	<u>675,527</u>	<u>1,122,010</u>	<u>1,565,366</u>	<u>2,069,192</u>

III. PRO FORMA INCOME STATEMENTS

TOTAL	2004	2005	2006	2007	2008
Sales	779,930	1,829,820	2,969,700	3,464,670	4,004,640
Cost of Sales					
Materials	32,940	73,160	145,500	166,110	201,870
Advertisement	304,200	665,120	1,269,600	1,448,490	1,746,330
Equipment	35,280	70,560	79,175	87,972	87,972
Payroll	81,450	162,900	162,900	162,900	162,900
Studio	138,600	277,200	413,100	413,100	413,100
Lodging	23,661	47,322	47,322	47,322	47,322
Misc	16,710	33,420	33,420	33,420	33,420
Total Cost of Sales	<u>632,841</u>	<u>1,329,682</u>	<u>2,151,017</u>	<u>2,359,314</u>	<u>2,692,914</u>
Gross Margin	147,089	500,138	818,683	1,105,356	1,311,726
Selling Expense	22,500	52,000	84,000	99,000	115,500
Administrative Expense	62,000	194,000	330,000	442,000	562,000
General Expense	41,000	100,200	108,200	121,000	130,400
Depreciation Expense	<u>32,500</u>	<u>32,500</u>	<u>32,500</u>	<u>32,500</u>	<u>32,500</u>
Earnings Before Income Taxes	<u>(10,911)</u>	<u>121,438</u>	<u>263,983</u>	<u>410,856</u>	<u>471,326</u>

IV. PRO FORMA INCOME STATEMENTS BY PRODUCT LINE

CONCERTS		2004	2005	2006	2007	2008
		(3 @ 6,000)	(6 @ 6,000)	(6 @ 8,000)	(6 @ 10,000)	(6 @ 10,000)
Sales (\$15 ea)		270,000	540,000	720,000	900,000	900,000
Cost of Sales	Materials	-	-	-	-	-
	Advertisement	34,740	69,480	78,300	87,000	87,000
	Equipment	35,280	70,560	79,175	87,972	87,972
	Payroll	81,450	162,900	162,900	162,900	162,900
	Studio	2,700	5,400	5,400	5,400	5,400
	Lodging	23,661	47,322	47,322	47,322	47,322
	Misc	16,710	33,420	33,420	33,420	33,420
Total Cost of Sales		194,541	389,082	406,517	424,014	424,014
Gross Margin		75,459	150,918	313,483	475,986	475,986
DVDs		2004	2005	2006	2007	2008
		(1 @ 7,000)	(2 @ 9,000)	(3 @ 10,000)	(3 @ 11,000)	(3 @ 12,000)
Sales (\$29.99 ea)		209,930	539,820	899,700	989,670	1,079,640
Cost of Sales	Materials	12,740	32,760	54,600	60,060	65,520
	Advertisement	99,260	255,240	425,400	467,940	510,480
	Equipment					
	Payroll					
	Studio	75,000	150,000	225,000	225,000	225,000
	Lodging					
	Misc					
Total Cost of Sales		187,000	438,000	705,000	753,000	801,000
Gross Margin		22,930	101,820	194,700	236,670	278,640
STUDIO CDs		2004	2005	2006	2007	2008
		(1 @ 20,000)	(2 @ 20,000)	(3 @ 30,000)	(3 @ 35,000)	(3 @ 45,000)
Sales (\$15 ea)		300,000	750,000	1,350,000	1,575,000	2,025,000
Cost of Sales	Materials	20,200	40,400	90,900	106,050	136,350
	Advertisement	170,200	340,400	765,900	893,550	1,148,850
	Equipment					
	Payroll					
	Studio	60,900	121,800	182,700	182,700	182,700
	Lodging					
	Misc					
Total Cost of Sales		251,300	502,600	1,039,500	1,182,300	1,467,900
Gross Margin		48,700	247,400	310,500	392,700	557,100

V. 2003 INCOME STATEMENT

Products	Concerts	CDs	DVDs	Total
	(1@ 2,000)	(1@5,000)	(1@3,000)	
Price	15	15	29.99	
Sales	30,000	75,000	89,970	194,970
Cost of Sales				
Materials		5,074	4,429	9,503
Advertisement	7,250	25,020	29,200	61,470
Equipment	4,531	1,000	7,170	12,701
Payroll	24,650	7,000	10,110	41,760
Studio	900	15,050	75,000	90,950
Lodging	7,887			7,887
Misc	4,170		2,800	6,970
Total Cost of Sales	49,388	53,144	128,709	231,241
Gross Margin	-19,388	21,856	-38,739	-36,271
Selling Expense	0	0	0	0
Administrative Expense	0	0	0	0
General Expense	0	0	0	0
Depreciation Expense	0	0	0	0
Earnings Before Income Taxes	-19,388	21,856	-38,739	-36,271

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FIGURES

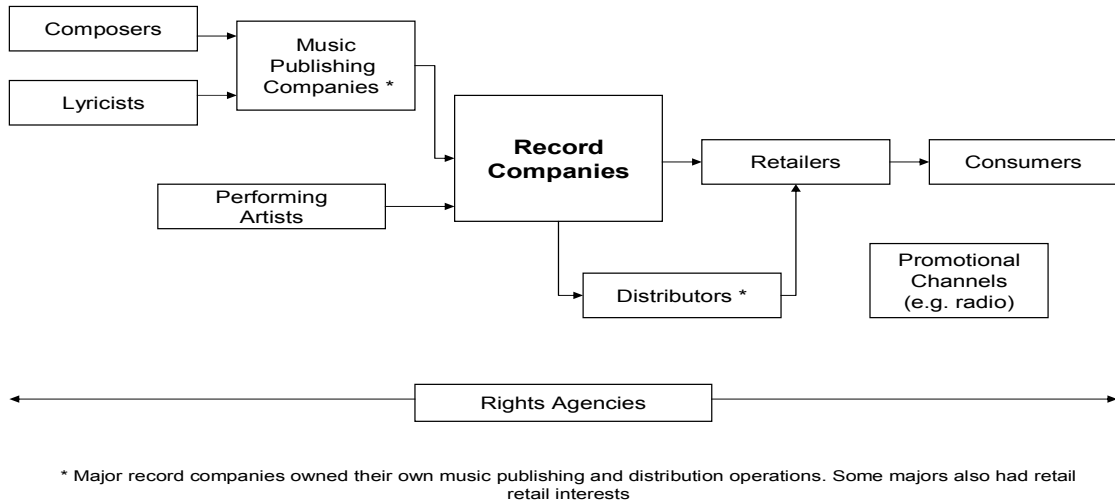


Figure 1. Music industry roles
 (From Harvard Business School Case Study, BMG Entertainment (9-701-003))

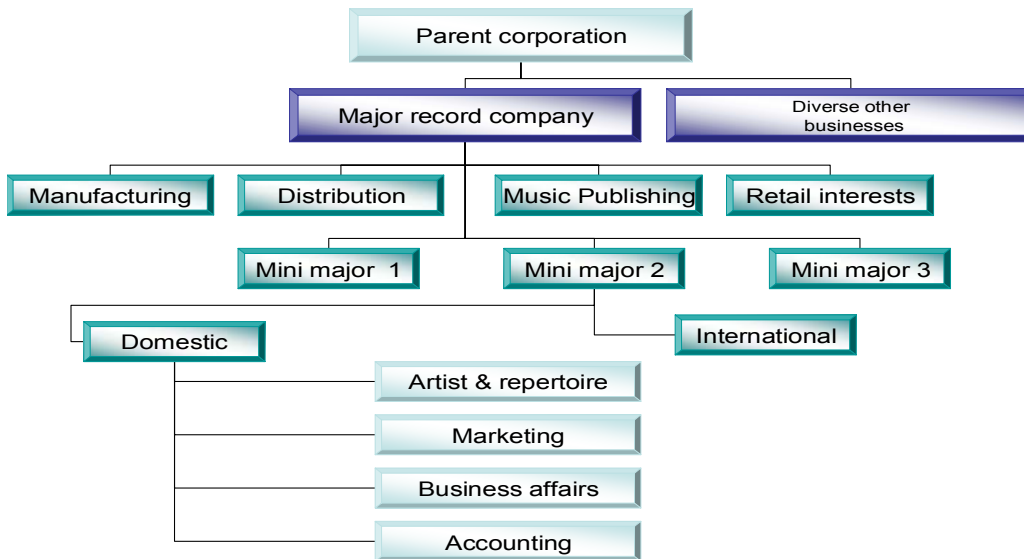


Figure 2. Organizational structure of a major record company
 (From Harvard Business School Case Study, BMG Entertainment (9-701-003))

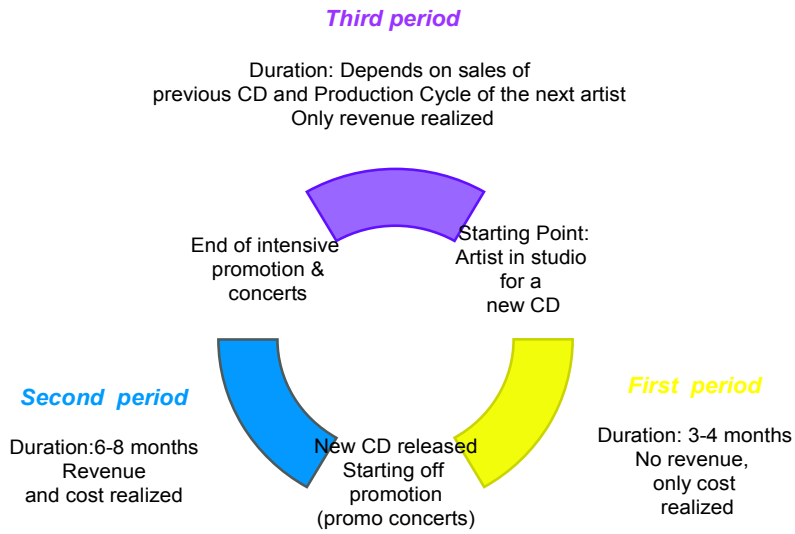


Figure 3. Production cycle for studio CD.

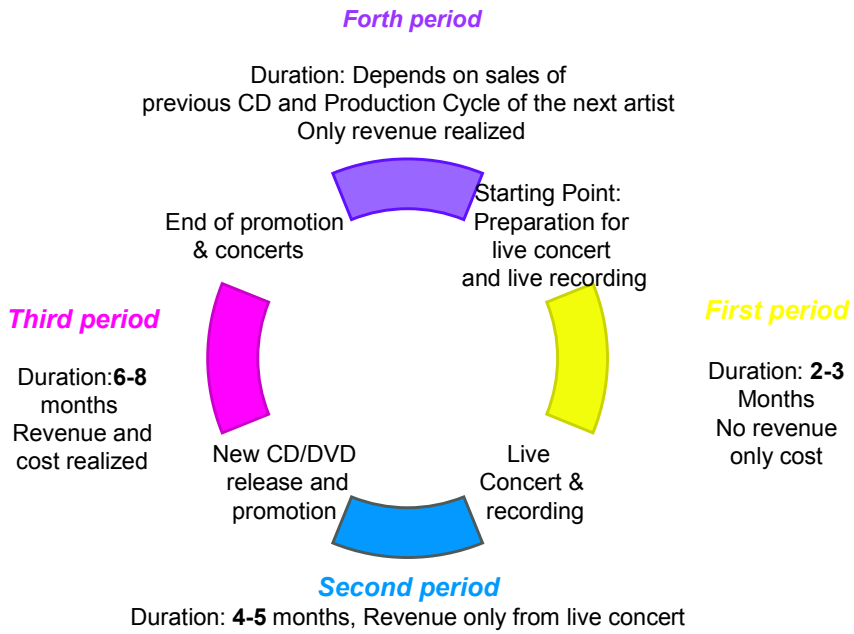


Figure 4. Production cycle for live CD/DVD.

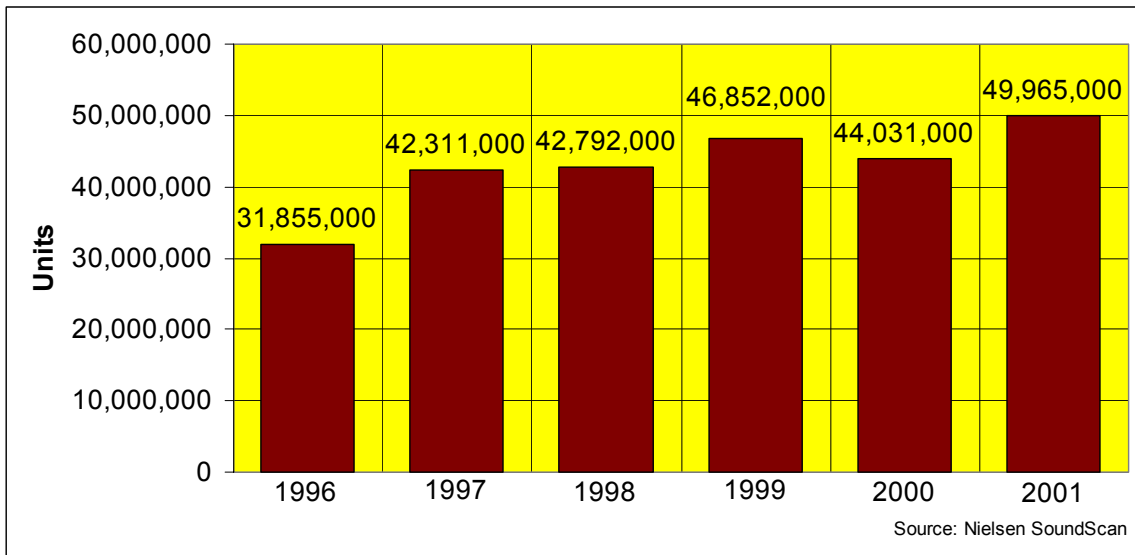


Figure 5. Total Christian/Gospel albums sales (CD & cassette) 1996-2001
 (From MRI Spring 2002, Contemporary Christian/Gospel music industry overview 2001-2002)

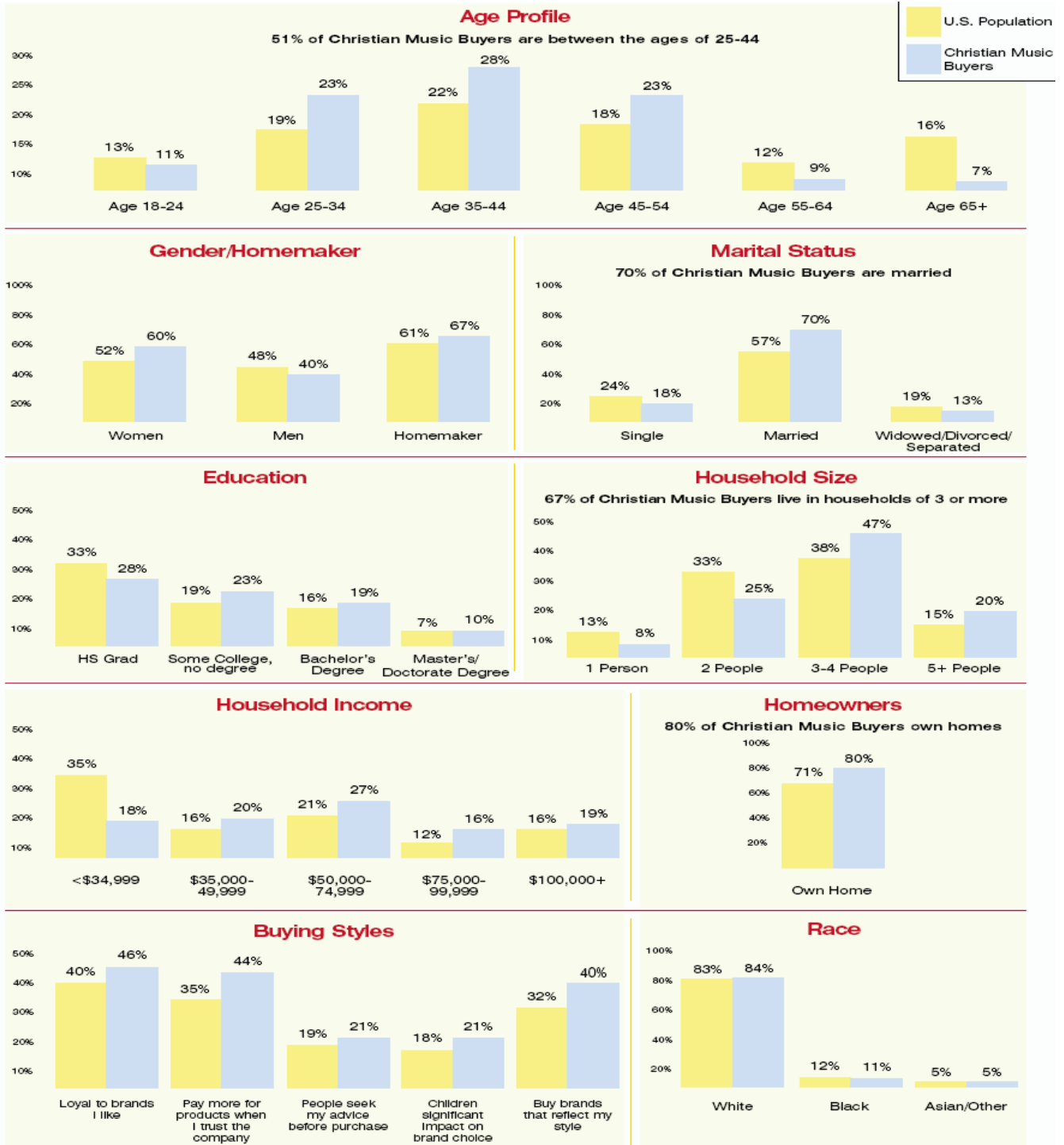


Figure 6. Consumer demographics for Christian music buyers
(From MRI Spring 2002, Contemporary Christian/Gospel music industry overview 2001-2002)

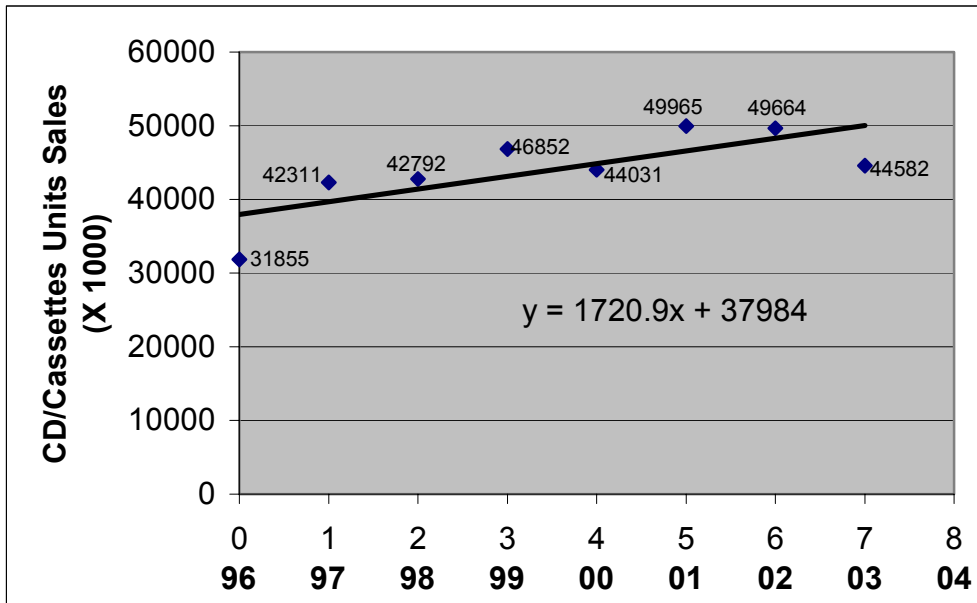


Figure 7. Regression chart for historical CD unit sales 1996-2003 (first half year).

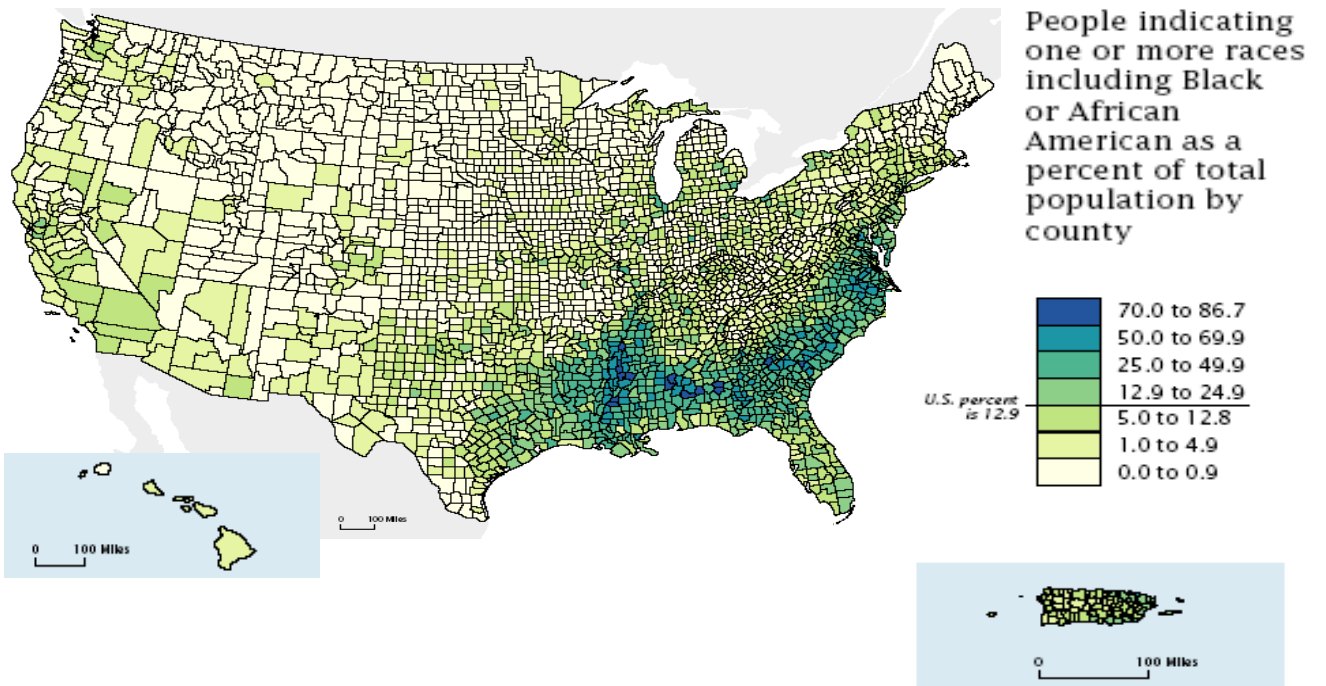


Figure 8. Percent population 2000, one or more races including Black or African American
(From Harvard Business School Case Study, BMG Entertainment (9-701-003))

TABLES

Member / Group	Primary Job	Secondary Job(s)	Monthly Salary
Morris: Owns 50% of company	Chief Executive Officer	Executive Producer, Liaison Officer, Graphics Designer	1.0 % of JABEZ Records' Net income
Cole: Owns 20% of company	Director of Music Department	Singing Artist, Paraphernalia designs	0.4 % of JABEZ Records' Net income 80% of net profit from paraphernalia
Author Johnson: Owns 30% of company	Chairman	Project Senior Advisor	0.6 % of JABEZ Records' Net income

Table 1. Organization chart of JABEZ partnership

Gospel	19%
Adult Contemporary	18%
Praise & Worship*	13%
Rock	13%
Country	7%
Children's	7%
Inspirational	4%
Instrumental	4%
Southern	3%
* Some artist albums which contain P&W content are counted in the AC And Rock genres and not in the P&W genre percentage	

Table 2. 2002 Contemporary Christian and Gospel music genre sales percentages
(From Harvard Business School Case Study, BMG Entertainment (9-701-003))

Suggested Retail List Price	16.98	
Wholesale price of a CD	10.75	Percentage of wholesale price
Manufacturing of CD	0.6	5.6%
Manufacturing of CD booklet	0.15	1.4%
Distribution and sales	1.4	13.0%
Marketing and promotion	3.01	28.0%
Artist and repertoire	1.08	10.0%
Royalty payment to performing artist	1.29	12.0%
Royalty payment to composer and lyricist	0.7	6.5%
Overhead and mailing	1.94	18.0%
Operating profit	\$0.58	

Source: "Is Biz Poised for Renewed Price Wars?" *Billboard*, January 8, 2000

Table 3. Record company economics.

2004	\$ 51,751,200
2005	\$ 53,472,100
2006	\$ 55,193,000
2007	\$ 56,913,900
2008	\$ 58,634,800
2009	\$ 60,355,700
2010	\$ 62,076,600
2011	\$ 63,797,500
2012	\$ 65,518,400
2013	\$ 67,239,300

Table 4. Projections using regression equation from historical sales data 1996-2003 (first half year)

STATE	Estimated Black Population 7/1/1999	Rank of Percentage Black Population 7/1/1999	Top 10 sales markets for Christian/Gospel music 2001
1 NEW YORK	3,222,461	11	New York # 3
2 CALIFORNIA	2,487,006	26	Los Angeles # 1
3 TEXAS	2,470,194	18	Dallas-Ft.Worth # 5 & Houston # 8
4 FLORIDA	2,333,424	14	
5 GEORGIA	2,235,897	5	Atlanta # 4
6 ILLINOIS	1,854,173	15	Chicago # 2
7 NORTH CAROLINA	1,686,143	8	
8 MARYLAND	1,454,381	6	
9 MICHIGAN	1,415,201	17	
10 LOUISIANA	1,415,195	3	
11 VIRGINIA	1,384,651	9	
12 OHIO	1,304,126	19	Colombus # 10
13 NEW JERSEY	1,197,430	16	Philadelphia # 7
14 PENNSYLVANIA	1,170,095	21	
15 SOUTH CAROLINA	1,156,946	4	
16 ALABAMA	1,138,726	7	
17 MISSISSIPPI	1,010,216	2	
18 TENNESSEE	912,577	12	
19 MISSOURI	617,148	20	
20 INDIANA	497,976	23	
21 ARKANSAS	410,821	13	
22 MASSACHUSETTS	405,159	28	
23 DISTR. OF COLUMBIA	318,657	1	Washington DC # 6
24 CONNECTICUT	308,772	22	
25 WISCONSIN	293,367	30	
26 KENTUCKY	288,336	27	
27 OKLAHOMA	262,136	24	
28 WASHINGTON	203,853	36	Seattle-Tacoma # 9

Table 5. Black population and top 10 sales markets for Christian/Gospel music

2001 Top Sales Markets

(in top down order)

1. Los Angeles
2. Chicago
3. New York
4. Atlanta
5. Dallas-Ft. Worth
6. Washington D.C.
7. Philadelphia
8. Houston
9. Seattle-Tacoma
10. Columbus

Source: Nielsen SoundScan®

Table 6. 2001 Top Gospel CD Sales Markets
(From MRI Spring 2002, Contemporary Christian/Gospel music industry overview 2001-2002)

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INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center
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