

Is it worth it to bring in a business management service?

Business Management for Creatives

A&R's **Peter Petro** spoke with KSA Management's **Karie and Shane Purcell** on "left brain" insights for music professionals and the implications of California's AB5 Bill.

You provide business management solutions for the music industry. What are the most common areas you deal with?

We handle the financial side for music professionals — we produce and monitor financial statements, file tax returns, put money in investments, pay bills when you're on the road. But we go much further than that. For newly signed artists, we can help guide their financial decisions and help structure some of those initial relationships for them, like tour managers and attorneys. A lot of new artists can be overwhelmed by that. We review and advise on the financial terms of contracts, and have relationships with attorneys, so we can get a legal point of view without hiring an outside attorney. If an artist is still shopping for a label, chances are it may take longer to sell their story, in which case we'd only be taking money out of their pockets when they need it most. So it's generally in their best interest to wait until they're signed to work with us. That said, we're always open to working with an artist if we feel we can help them and it makes sense. They can always contact us to see what we could do for them.

With established artists, they may already have a label, manager, tour manager and CPA. They're not necessarily looking to make changes; they may need someone to monitor and optimize what's currently happening in their careers. We also can help recording studios, publishers...anyone who wants to optimize their profits, costs and time.

What's the single most powerful way to improve a business?

Budgets. Even a simple budget can provide very powerful insights. For example, a tour budget isn't just a projection tool; it's a goal-setting tool. An annual budget helps you see where you've been and can really help you plan for the next year and the next five years.

What is your thought process when advising a client to greenlight a project or not?

We have an actor client who asked us to help set up a music tour. We reviewed what he proposed and actually advised him not to do it; we didn't think it would

come out net positive. He thought he'd get a lot from the door but we weren't certain he would make money overall. It's easy to forget about insurance costs, workers comp and special appearance insurance. It's easy to think, "if I make this from the door, play the song and get outta there I'll make money." We try to provide a bigger picture.

We begged him not to do it, but he did it anyway. We told him we could cut costs using a van instead of a bus. But because he's a successful actor, he felt that he needed to go first class like everybody else. At the end of the day, our clients always have the final say. So we found him a tour manager, made sure the bus driver was always paid and took care of his bills while he was on the road.

He came back at a deficit — not as



much as we thought, though, because he did make a few extra bucks from the door we didn't count on. When he got back we said, "OK, you didn't make as much as we wanted. Here's what we can do to take care of that."

How do you advise clients regarding establishing rates or fees for their work?

A cartoonist we work with sent us a contract he was offered from a large studio. He said he thought it was a good number and asked us what we thought. When we looked at his monthly expenses, we told him that if that was his only project it would cover him for only three months. He was shocked. He didn't see how all the people he hired to help finish the project drained that money away.

Creative people often gravitate towards the big picture; they think, "if I do this

project, chances are I'll get another job and things will move ahead from there." But you also need to ask, "Where does this leave me when I'm done?" A lot of times they don't think that through. They see a dollar amount on a contract and don't realize the people trying to get them to sign it don't care what additional expenses they incur. They just want to get it done at the cheapest rate. I like being able to tell my clients "you're worth this — and that's what you need to charge."

What's more critical: maximizing income or minimizing expenses?

We always say that for every Katy Perry or Taylor Swift there's at least a hundred people out there making a quarter of a million a year doing what they love. Not every entertainment professional is (or wants to be) a superstar. We try to be cognizant of that going into meetings — not everyone is necessarily trying to break into the next level. It's quite possible they're happy where they are. Often, what we really provide is time and freedom from worry. We're able to take off your plate all of the things that are consuming your time so you can focus that time on what is most important to you.

It sounds like you often make recommendations to clients. How do you know what's right for them?

We had a client who wanted to invest in bitcoin. We didn't know anything about it, so we spent a whole week investigating it, invested some of our own money and found out how it worked. That way, we were able to give more comprehensive suggestions to the client. She's now making millions with bitcoin because she invested quite early. We try things before we recommend it. We know not every banker is right for everyone so we bank with multiple companies so we can know which bank fits a certain type of client best.

Many music professionals in California are contractors — and the new AB5 bill changes the distinction between a contractor and an employee in California.

An independent contractor, according to the IRS, controls when they will be available for work. They're also responsible for their own insurance, including liability insurance and they pay their own taxes. They're responsible for making

estimated quarterly tax payments — and if you're not diligent about withholding during the year you can have heavy penalties and interest come tax time.

Employees, on the other hand, follow the schedule of the employer. Employers handle the employee's taxes, cover workers comp and are also responsible for an employer tax. If you have a certain amount of employees you need to cover their health insurance. There's definitely a higher cost with employees.

California's AB5 bill defines an employee differently than the IRS — for example, based on whether someone's work is central to a company's overall operations or whether the person works over 20 hours per week for that company. Uber drivers are being viewed as central to the company's operation, so they're now considered employees.

Small businesses using primarily contract employees who would now be defined as employees will be the most affected. For those companies this whole thing is going to be brand new. They're going to have to hire more employees for the first time and set up payroll checks

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instead of issuing blanket checks to contractors. For employees, they won't have as much they can write off for taxes compared to contractors, and will have taxes withheld automatically.

As an example, we have a client who owns a tattoo parlor, which is an industry bound by the same rules as the music industry regarding AB5, since they're also not listed as an exempt industry. We're going to present to their 15 contractors the pros and cons of their options. They could start their own business (in the form of an LLC or shell corp) and pay their own payroll taxes, or they can get on board as employees, get paid an hourly or commission wage and have their taxes withheld. The well-known artists doing guest spots and traveling frequently will probably see the benefits of setting up their own corporation. For those working mostly at one shop, it's foolish to deal with paying their own taxes and setting things up when the tattoo shop can do that for them and simply give them a weekly paycheck.



KARIE PURCELL

What are your favorite type of clients to work with?

Touring acts are my favorite because first and foremost, I'm a music fan and music is something I really enjoy in my life. We're lucky we get to work in an industry we enjoy. A tour can get complex — you have the touring entity, the accounting challenges that came up before the tour starts, session recordings during the tour, and budgeting and bookkeeping during the tour. A tour crew might include a mix of local contractors and permanent tour employees. With AB5, local employees in California who were formerly treated as contractors could be seen as employees. We also make sure artists have the right non-appearance insurance, workers comp insurance and liability insurance. And we can help determine whether they should even be going on the tour — what the return might be and what the cost might be.

Any end-of-year hacks to prepare for tax season?

Organization is number one, so whatever it takes to do that. I'm a huge fan of the digital space. Some people are apprehensive about security, but there are tools to mitigate those risks. Amazon Web Services, Box, Dropbox, Google Drive — any of those are beneficial, as is a good folder system to keep things separated and organized.

We recommend online bill pay to clients. Most checking accounts offer that feature. Having online bill pay avoids checks being stolen from the mail, which is a big thing right now, and fraud on your bank account, which is also a big thing right now. With checks, all your record keeping has to be done by hand — you have to write it by hand, record it and then you have to store it somehow.

With online bill pay you have immediate access to everything you paid the last day, week, month, year. You can sort or organize it, and export it to your business manager or anyone else. It allows you to keep track of financial activities in a tightly organized way. It also allows you to see the bigger picture. You see where you're making money, where you're losing money and what you can use for the future. And we can then put it in a format that's comprehensible to your CPA and to you.

Bands, DJs, songwriters and producers travel a lot. Google maps is useful to track where you've been and how many miles you went so you can easily deduct it at tax time.

How does one know if it's worth it to bring in a business management service?

There aren't really clients that are too small, but we want to do what's in their best interest. We will always try to help where we can, but if we feel that there's nothing we can do we will tell you that. You can always come back once certain targets have been hit.

Regardless, we can still offer help even if someone isn't a client yet. If they need an agent or manager or tour manager we try to point them in the right direction and explain, “most of the time this is what's going to happen until you get to this point; when you reach that, I'd be more than happy to help you.” Once that happens we can help you build a team and move forward. If someone thinks we can help them, they're welcome to call and we can review their situation to see if we can help. ■

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