

Record sales: Where does the money go?

Posted by Keif on Jun 09, 2006:

I remember when new CDs used to cost at least \$19.95. Since the whole MP3 and file sharing phenomenon, the prices of CDs has dropped significantly in order to make buyers go out to record stores and buy CDs instead of downloading them for free.

After all, isn't that what the consumer wanted? Did they not ever say "If the prices of CDs went down, then I'd buy my music instead of getting it for free and having to deal with the hassle of finding the songs online?" So why did some of the biggest bands in the industry get all riled up over file sharing? Well, to many, the thought was they were pissed off because they would not make as much money as they could.

But the truth is, many major label artists don't make a lot of money from record sales. Sure, if you sell 11 million records in the end you'll have a full wallet, but for many who sell only 500,000 copies (a big achievement in its own right) the money they make isn't even enough to buy a Honda Civic. This is what many music lovers fail to see. And who can blame them? Unless you know about the music business (which 95% of bands in the world don't) you won't realize how little money an artist actually gets even if they are the songwriters of the material found on the record.

Let's break it down for you. In the making of a CD here are the key players and the percentage of sales that they get - Artist (6.6%) Producer (2.2%) Songwriters (4.5%) Distributor (22%) Manufacturing (5%) Retailer (30%) Record label (30%).

While these figures are an approximation, they come pretty damn close to the real thing. Now let's put this to work. Again these are all approximated numbers, but you'll get the idea.

Let's say your CD is for sale for in stores at \$16.00 and that you are a band of 4 that also writes their own material. Your deal is to receive a royalty rate of 11%, but your producer takes 3% of that. So in the end you make 8% net royalty. $\$16.00 - \8.32 (30% for retailers, 22% for distributors) = \$7.68.

Let's round this off to \$8.00 (a very optimistic round up by the way) $\$8.00 - \2.00 (25% for packaging deducted by the label) = $\$6.00 \times 8\% = \0.48 . So you make \$0.50 per CD sold.

Now let's say you sell 500,000 copies. So that means you have \$250,000 coming to you, right? Nope. Let's see what else is taken off. In many cases the record label will take another 15% is deducted for promotional and review copies for radio and magazines. $\$250,000 - \$37,500$ (15% for promo copies) = \$212,500 In addition to that the record label has to take their royalties. That's another 30% of \$212,500. $\$212,500 - \$63,750$ (30% for record label royalties) = \$148,750.

Not as common anymore, but still in practice is the deduction of freebies and returns. What usually happens is that a retail store will X amount of copies, but what happens

when they don't sell? They get returned. And who ends up paying for this? Yup, you guessed it, the artist. $\$148,750 - \$14,875$ (10% for returns) = $\$133,875$.

Then there are recording studio costs that include the engineer, equipment rentals, and studio costs. With the advancements in the digital recording world studio costs have decreased, but let's just say you spent $\$75,000$. $\$133,875 - \$75,000 = \$58,875$.

And who got you the deal? If a manager was involved you can guarantee he will take 20% commission. If you are a multi platinum selling artist then maybe the rate drops to 15%. $\$58,875 - \$11,775$ (20% to manager) = $\$47,100$.

And now let's say you split the band's earning evenly. Since there are four members in the band, you'll split the amount earned 4 ways. $\$47,100 / 4 = \$11,775$.

So if you ever asked yourself "what's the big deal with getting music for free instead of buying?" let the example above shed some light on the answer. The above calculations are for a CD sold today. Keep in mind that back in the day before MP3s, bands could sell their CD for almost $\$20$ giving the band approximately $\$1.00$ for every CD sold instead of $\$0.50$. Pretty dramatic difference if you ask me.

Of course record deals and artist royalties differ from contract to contract. The hotter you are prior to signing the better your deal and royalty rate. Also note that retailers benefit less nowadays as the price to make a CD has not changed all that much, yet album prices in stores are getting lower. Do not take the calculations above at face value. They are merely there to give you an idea of how little artists used to make and much less they do today.

Article Source:

<https://bandzoogle.com/blog/record-sales-where-does-the-money-go>

Who Really Profits from iTunes Downloads? [November 11, 2011 - By lipbgy 96]

Pete Townshend, The Who's legendary guitarist, made headlines recently when he called iTunes a "digital vampire" that profits from artists without providing them much support.

Townsend wants Apple to do more to support musicians, who are the backbone of their music sales.

It could be easy to brush off Townshend as a cranky old timer, but does he have a point? Truth is, not every artist spends their free time lounging next to a pool and ordering drinks from girls in bikinis.

If you look past the musician stereotypes you'll see that most musicians receive only a fraction of a song's purchase price.

There's no doubt that making music can still pay off big-time, but you might be surprised to see whose really making the most money out of each track.

Online CD Sales -- Who Wins?

Thanks to the Internet, anyone can have an audience for their music. Justin Bieber was first discovered by a talent manager that happened to look at the young artist's YouTube videos – Bieber has since blown up to super stardom.

In the music industry's basic form, an artist simply records his/her own music, reproduces it and sells it to others.

If they want to go the more old-fashioned route, an artist can burn their recorded tracks on compact discs and sell the CDs themselves at performances or on the band's own website. Or they can put it on an online retail site like CDBaby, which doesn't require musicians to have a record company to sell music.

If they sell the physical CD themselves for \$9.99, they keep 100% of the profits, which is obviously the most profit-per-album a musician can hope for. But it's also not the best way to reach the widest audience. Selling that same full \$9.99 album online through CDBaby means the website gets a cut to the tune of \$2.49, while artists get to keep the other \$7.50 for a cool 75% profit. Unfortunately for new musicians, expensive record labels are often the key to getting an artist's brand out.

The Record Label's Slice of the Pie

Record companies get a cut of absolutely everything a musician produces.

That's not too surprising, considering artists are a risky investment the record company is taking a chance on. They pay advances to the artists for recording costs and other expenses, but they expect a return on that investment.

So just how much of a cut does the artist get for an album sale under a record label?

Every contract is different, but the average high-end royalty deal with a record company will pay musicians \$1 for every \$10 retail album sale.

And it can be a lot worse than that; a low-end royalty deal only pays 30 cents per album sale -- amazingly small for a CD purchase, especially considering that bands may have to divide that among several members.

iTunes and Napster

In the popular digital realm, a \$9.99 download on a program like iTunes nets artists a modest 94 cents -- less than a 10% cut. The record company takes \$5.35 and Apple keeps the remaining \$3.70.

Artists get nine cents for each individual song downloaded on Napster and iTunes. To put that into perspective, musicians need to sell 12,399 songs a month to earn a salary equal to a McDonald's employee.

Perhaps that is why many popular artists have yet to cave to Apple and Napster, preferring to sell through other venues instead.

Streaming

Enjoy listening to streaming music online? Online streaming services like Last.fm, Rhapsody and Spotify pay each time users click play, but the numbers are a pittance.

Listeners have to stream an artist's songs 849,817 times on Rhapsody, 1,546,667 times on last.fm and 4,053,110 times on Spotify respectively to earn a monthly salary equal to minimum wage.

The Investing Answer: So how do artists survive in this industry? While music sales are part of the equation, they aren't the only ways these artists are paid for their songs.

The real money for musicians lies in touring. Many musicians put up with the exhausting pace of life on the road because touring can be much more profitable than music sales.

Publishing royalties are also one of the most fruitful moneymakers for artists who are songwriters, but not every performer is a songwriter.

After becoming famous and obtaining a loyal following, it often makes the most sense for artists to dump their record company and go at it alone. The most successful, entrepreneurial artists often start their own record companies, going on to find their own up-and-coming artists to profit from. Thus the cycle continues...

Article Source:

<http://www.investinganswers.com/personal-finance/rich-famous/who-really-profits-your-itunes-downloads-3818>

The New Economics of the Music Industry: How artists really make money in the cloud – or don't [BY STEVE KNOPPER October 25, 2011]

In the old days, it was much easier for pop stars to keep up with how much they were getting paid. Somebody would buy a CD at a Tower Records for \$15 and a few dollars would appear months later on the star's royalty sheet. Then iTunes took over the record business, and it was even easier (if not more profitable) – every time somebody bought a 99-cent track, a few pennies went into the artist's bank account.

Those were such simple times. Today, music fans play free music videos on YouTube, stream songs for free on Spotify, MOG or Rdio, customize Internet radio stations on Pandora or Slacker and consume music a zillion different ways. The fractions of

pennies artists make for each of these services are nearly impossible to track – at least for now. "People like to simplify this and say, 'There's no money in it,'" says Jeff Price, founder of TuneCore, which charges artists to place songs directly into iTunes, Spotify and others. "But it's complex, it's complicated and it's still being worked out."

So you're Adele, the year's biggest pop star. Your songs stream on Spotify – or MOG, Rdio, Pandora or YouTube. You still sell downloads through iTunes and Amazon, and you still sell old-fashioned CDs in old-fashioned record stores. How much do you get paid?

Rolling Stone talked to several sources in the music business and got several different answers.

SUBSCRIPTION SERVICES

Spotify, MOG, Rdio and other subscription services are either free (with ads) or charge users monthly fees for unlimited streaming music. The quick calculation, according to one band manager: If a song gets streamed 60 times, the songwriter receives 9.1 cents in mechanical royalty payments. And the performing artist gets 38 cents (or splits that money, half and half, with a record label, per contract).

(UPDATE: A music-business source contacted us after this article appeared to clarify that these numbers were estimates based on one manager's royalty statements. They are not an actual formula Spotify and music publishers use to calculate their songwriting royalty payments. This manager's royalties could change as Spotify's subscriber numbers change, and they vary depending on the streaming popularity for each artist. This source explained to us, again, the actual formula used for determining artist royalties from streaming services – as Price says, it is too ridiculously complicated to reproduce here.)

Maybe you don't want to know the non-quick formula. "It is beyond complicated. It took me literally three months to understand this thing," says Jeff Price, founder of TuneCore, which charges artists \$10 (for a single) and \$50 (album) to place music in online stores such as iTunes and Amazon, as well as subscription services like Spotify and MOG.

Generally speaking, songwriters make about 10.5 percent of Spotify or MOG revenue. "However, each service has to run literally five formulas each month -- on calculation number one, they have Subsection Number One and Subsection Number Two," Price says. "They throw out the higher of those and then compare that one against the other three. After that, they have to run this formula five different times."

Because the formulae are so byzantine, and the royalty payments that show up on audit sheets are still so tiny, very few artist lawyers and managers truly understand how much they could make – one day – from Spotify, MOG, Rdio or the other relatively new streaming services.

But Price makes the point that Spotify and the others encourage music fans to explore, listening to songs they might not have purchased. Even if it's not a rock-star payday,

it's something. "Is it big money? I think it could be! I really do," says Jim Guerinot, manager of Nine Inch Nails and No Doubt.

ITUNES

Adele, who is signed to Sony Music, sells "Rolling in the Deep" for \$1.29. Apple, as the retailer, keeps 30 percent, or roughly 40 cents. The rest, 90 cents, goes to Sony. From that, the major record label must deduct 9.1 cents as a "mechanical royalty," paid to Adele and her co-writer, Paul Epworth (although they might split it with their respective publishing companies). That leaves about 81 cents.

Typical record contracts give artists 12 to 20 percent of sales, depending on the hugeness of the star, so let's split the difference and say Adele's percent is 16. That comes out of the original \$1.29 price – so the artist's cut for sale of the master recording is about 20 cents. (This is assuming Adele has made enough to "recoup" the expenses for her album – otherwise, it just contributes to paying off her debt to her record company.) And the remainder, a grand total of 60 cents, goes to Sony to pay for marketing, publicity, videos, executive salaries and obviously, profit.

Of course, many artists don't want to share nearly half of their revenues with a major label like Sony, which is essentially a middleman. Before the Internet, and stuff like ProTools, an artist had to sign with a label even to be heard. That's obviously no longer true. Today, an artist can pay a service like TuneCore to be included in the iTunes Store. At that point, after Apple takes its cut, the entire 90 cents goes to the artist.

"When we released the first Puscifer record, we went to a major distributor," says Maynard James Keenan, frontman for Tool, A Perfect Circle and indie band Puscifer, which put out *Conditions of My Parole* on its own earlier this week. "There was still this groaning dinosaur, grasping at straws, trying to get out of the tar pits. They were still doing things the old-school way, throwing my money at things that really didn't matter. And there are always these little extra fees when you try to go through channels – distribution fees, hidden costs. All these things really add up. It doesn't seem like you can really make a living off that. I pulled out of that this time. It just makes more sense."

YOUTUBE AND VEVO

Over the past couple of years, YouTube has grown into a lucrative machine for record labels. Popular videos – those that generate hits in the millions – can be festooned with ads, and YouTube shares that revenue with the copyright holders. And it can be just as lucrative for goofy, homemade videos that use popular songs as it is for stars' original videos. For the homemade stuff, the system works like this: JK Wedding Entrance Dance, in which Chris Brown's "Forever" is the soundtrack, has racked up more than 70 million views since its debut in July 2009.

After the video was becoming a huge hit, YouTube's content identification people and employees of Brown's record label, Sony, had a conversation. The label had two options: Because YouTube isn't a piracy service, like Kazaa or LimeWire, it could take

down the video immediately – or it could sell ads against it. According to music-business sources, a top artist might make \$1 per 1,000 video plays -- so Sony has received, by our rough estimates, \$70,000 for the JK Wedding Entrance Dance. (Vevo can draw five or 10 times that amount.) And artists get a fraction of that based on the percentages in their contracts. Which did Sony choose? Well, check out the multitude of ads, inside and outside the video box, throughout JK Wedding Dance.

Of course, truly independent artists – like video kings OK Go, who recently split with their longtime label EMI – are in a much better position in this scenario. "I know individual artists who make tens of thousands of dollars a month on YouTube," says Eric Garland, CEO of BigChampagne.com, which measures online metrics such as illegal file-sharing numbers and sells the data back to labels. "And I know of individual artists who make more money on an individual basis from YouTube than they do from iTunes."

INTERNET RADIO

After years of fighting over pennies, Internet radio services reached an agreement with artists, music publishers and record labels a few years ago on royalty payments. The rates go up every year, but the broad formula is that big "pure play" companies, such as Pandora and Slacker, pay either 25 percent of their total revenue per year, or a little more than \$.001 per song -- whichever is greater. These payments go to a music-business collection agency known as SoundExchange, which then pays 50 percent of it to the copyright owner (usually a record label like Warner or Sony), 45 percent to the artist and 5 percent to non-featured performers. Smaller Internet radio companies pay slightly lower rates.

Anu Kirk, product lead for MOG, said at the recent Digital Music Forum in Los Angeles that Pandora winds up paying out much less than that – about a tenth of a penny per play. "It sucks that right now that artists are getting paid so little money by subscription services, but it sucks that artists are getting paid so little money by everyone," Kirk said.

David Hyman, CEO of MOG, won't divulge his subscriber numbers, but he offers broad royalty estimates that apply to both Pandora-style radio and MOG-style subscriptions. "Let's say MOG has 1 million subscribers and everyone's paying \$10 per month. And let's say the labels got 60 percent of that. Now, each label gets their piece of 60 percent based on frequency of plays. So if Warner [Music, a major label] was 30 percent of all plays in a given month, then Warner gets 30 percent of that 60 percent," he says. "Then they get a wad of money. Once they get that wad of money, how do they distribute it internally? I have no idea."

CDs

Speaking of wads of money, CDs were intensely profitable for artists and (especially) record labels for more than two decades, until the Internet, MP3s, piracy, Napster, iTunes, YouTube and Spotify kicked in over the past 10 years. The formula for artist payment is roughly the same as the iTunes model – only labels have traditionally removed hefty percentages for mysterious deductions.

Josh Grier, veteran music-business attorney for Wilco, Ryan Adams and others, walks us through the math. The retailer takes out about 30 percent of the suggested \$17.98 price, or \$5.40. From what's left, the songwriter and publishing company remove another 9.1 cents per song – or say, 91 cents for 10 songs. That leaves \$11.67. (Often, producers take a cut as well.) From that, the artist receives 12 to 20 percent – let's use 16 to split the difference.

But Grier points out that labels have been cutting into artist royalties for years with deductions marked "free goods" (usually 10 percent of the artist's royalty) and "packaging" (usually 25 percent) -- dropping the royalty rate from roughly 16 to 11. (These old-school deductions for physical CDs and LPs don't apply to digital sales.)

In the end, in very broad terms, that leaves about \$1.93 per sale in profit for the artist and \$9.74 for the label. (We're assuming, once again, that the artist in question has recouped expenses, meaning he or she no longer has to pay back a record label for videos, tour support and so forth.) Of course, both need to remove their own expenses from that.

A decade ago, this disparity in payments was a huge point of contention between artists and the labels they worked for. That's still true today, but artists are far more likely to throw up their hands and say, "Who gives a crap? Let's just make a pile from touring." Says Grier: "The questions you're having are not all that relevant to the band. 'How many records are we going to sell? Pfpfpft. We just want to play the songs.'"

Article Source:

<http://www.rollingstone.com/music/news/the-new-economics-of-the-music-industry-20111025>