Making Dollars: Clearing Up Spotify Payment Confusion

By David Macias, president of Nashville based label services company Thirty Tigers.

Much of the recent discourse about the music business reminds me of listening to partisan political commentators talk about America. There are a lot of conspiracy theories and misguided notions that perpetuate the worst stereotypes about a group of people. I am writing to defend the honor of Spotify and the music business, or at least some of it, by looking at the facts about what Spotify pays the owners of recordings.

First of all, let me tell you that I run a company that distributes and markets albums, mostly for artists that have not signed deals with record companies, but own their own masters. We collect money for them and distribute it out to them (in addition to providing other services). So I actually know what artists get paid. I'm the one that writes their checks.

I know that it is ponderous work keeping up with all of the disparate income streams and keeping them all straight. But one of the things that I get frustrated about, one of the things that led me to pen this piece, is the thought that artists are just giving up, assuming that the system is rigged against them and trying to earn a living is futile. That is simply not the case. If you are an artist, and you want to make a living at this, resolve to learn the economics of the business. "The Man" is only "The Man" if we remain ignorant of the rights due us, and give over our power.

The on-demand part of Spotify, the one that most people use and love, is where the half a cent per stream is paid out to the owners of the recording. So let's take this half a cent per stream figure and compare that to buying a download. Owners of masters receive 70 cents from iTunes for a download. Once that sale takes place, the transaction between artist and consumer is complete. But if you are a fan of an artist or a song, and you choose to listen on Spotify, then EVERY LISTEN earns an additional half a cent. Just as a point of information, I sorted my iTunes playlist by plays, and the artist that I had listened to the most (Anais Mitchell, in case you were wondering) was over 1400 plays each on a handful of songs. Had I listened to her on Spotify, she would have actually earned 10 times the money for those particular songs. It's the difference between buying a car and renting one. After a purchase, the transactional relationship is over. But if I'm renting (streaming), then the transactional relationship begins anew with every listen.

How Spotify splits income

It's also important that you understand how Spotify splits out the money that they bring in. Of the $10 that I spend monthly for Spotify, $6 goes to the owner of the recordings, $1 goes to the owner of the publishing copyright, and Spotify keeps $3. That is exactly the same proportion by which revenues are shared in the iTunes model, and that 70% which is shared by the owners of the recording and publishing copyrights is a higher percentage than they share for goods sold at physical music retailers. That's about 60%, but when you consider that an actual CD or LP had to be shipped, retail staff paid, etc., that's fair value. My point in bringing this up is that the economics of Spotify conform to the economics that have existed in the music business for some time. It's just a perceptual shift in the transactional relationship. It would be the same as if you stopped paying $20 for your water bill at the end of the month, and started paying 50 cents for every shower and 10 cents for every glass of water. You would be paying roughly the same amount. It just would feel weird until you adjusted to the new norm.

You want an example? Let's look at the Matisyahu "Sunshine" single. Over the last quarter, that song has been streamed 291,391 times on Spotify, generating a total of $1569.11. When you consider that Spotify is still so new in the United States and will likely grow much larger, the potential scale of the revenues are truly exciting. And I'm excited that Matisyahu will retain the vast majority of that. That is an artist getting paid a decent amount for one song over just a three-month period. He has lots of other songs too. And that's just Spotify. He makes more money through iTunes, retail and other outlets.

My defence of the music business stops (maybe) at the financial relationship between artists and traditional record labels. I have no clue what the financial relationship between Grizzly Bear and their label is, but the reason the amount of money on their royalty statement, as it pertains to Spotify, might look so small could have to do with the split of money between their label and the band. Even that can be defended, given that labels often provide all of the risk capital, but just because an act isn't getting paid by their label, doesn't mean that Spotify isn't paying the owner of the recording a just amount. Many acts that own their recordings are, in fact, making money.

The music business is a harder slog than it used to be. Media is fragmented into a million pieces and it's very hard to achieve the ubiquity that acts used to be able to achieve, and thus sell what they used to sell. Piracy is still rampant. But there are acts that are doing very well, because they are paying attention to where the money goes, and not bellyaching, sans facts, about the music business. If Spotify is so bad for the music business, why are revenues for the recorded music business in Sweden up 30% (first half of the 2011 vs. the same time period in 2012), when in most other countries, it's down or flat? Spotify is responsible for roughly half of the music business revenues in Sweden.

"The music industry stuck their heads in the sand about the pros and cons related to the digitization of music in the 1990s, conducted their affairs in an atmosphere of fear and lack of understanding..." I wasn't trying to be overtly provocative when I compared the discourse about this subject to the level of discourse on Fox News, but it is a comparison that I stand behind. Saying incendiary things that aren't based in fact is damaging. The music industry stuck their heads in the sand about the pros and cons related to the digitization of music in the 1990s, conducted their affairs in an atmosphere of fear and lack of understanding, and many bad decisions resulted. The power in the music industry is now shifting from labels to artists and managers. Now that we have more control, let's be careful not to make similar mistakes because we're approaching the discussion from that same vantage point of misinformation and fear.

Companies like Spotify and Rdio are going to be an important part of how we all make our money in the future, and we should be very careful about sowing the seeds of mistrust when they aren't warranted. I can understand people being uncomfortable with Spotify's penchant for privacy, and they could certainly help themselves by being a little more transparent and public about things. But if you're on a label, you should be asking your label how the accounting works when it comes to Spotify. Labels are often a lot less transparent than other participants on the value chain. Misinformation leads to artists keeping their music off of the service and fans canceling their subscriptions. The Spotify experience is a win for consumers and a win for the owners of the recordings. When the artist is the owner of their works, this business can absolutely be financially rewarding for them.

Critics sometimes argue wrongly that Spotify and Pandora exist simply to attract capital: technology companies often need capital to scale and grow, to pay for research and development, marketing costs that need to be spent before they ever attract a paying customer. The history of Sirius radio is a perfect example. How does one sell a satellite radio service before the investments are made in buying a satellite, hiring technicians to make them operate properly, spending money on lawyers to negotiate with music companies to retain the rights and ensuring that those compensatory relationships pass muster with federal regulators? Sirius was founded in 1990. They launched their service in 2002. They became profitable last year, and should remain so for some time, because they offer a great service. And aren't we all happy with those Sound Exchange checks we get?

Pandora is in exactly the same place as Sirius was. How in the world do they play song after song that I like, even when most of the time, I have never heard of the artist? They did it by spending an inordinate amount of time creating an algorithm that breaks down music into 400 categories in order to find other music that their customers might like. It took a lot of time and money to come up with that. Their business has not completely scaled yet. They are not yet making enough money to pay for the costs of running that business. If they never do, they will run out of options for capital procurement, I promise you. A presumption that capital investors are dupes, and that the companies receiving that capital don't care about making money and are somehow just into this for short term gain, is cynical in the extreme, impugning the intelligence and motives of all involved. I understand the inclination toward cynicism, given what this country has recently experienced vis-a-vis Wall Street, but I would remind readers that all the cool devices that you are enjoying, and all of the services and apps that you use, are the result of capital investment and (ultimately) successful product launches. Daniel Ek was 23 when he started Spotify. I'll forgive him if he didn't have enough spare change in his couch cushions and had to lean on investment capital while trying to make his compelling dream come true.

One more thing that I take exception to: the conflation of Spotify and Pandora. They are two distinctly different services (Spotify's less popular Pandora-like service notwithstanding). They are similar in that two that bring you music through the same delivery systems (computers, your phone), but Spotify plays what you want, when you want it. As such, it's like having the ultimate, portable record collection at your disposal, so the appropriate compensation scheme for artists should be, and is, akin to a more traditional retail outlet. Pandora does not play exactly what you want, when you want it. The experience is akin to, and is attempting to replace your relationship with, traditional radio. Their compensation model to artists should be, and is, like that of SiriusXM.

To compare the two in terms of what they're paying out is a completely fallacious construct. When an artist complains about the amount that he got paid on his BMI statement for his song, what he should be comparing it to is how much he got paid for an equivalent number of spins at terrestrial radio on that same BMI statement. My guess is that he did not get 7900 spins on terrestrial radio; one of the great gifts of Pandora and other tech-based companies like them is that they give an opportunity for music to be heard that terrestrial radio has neither the bandwidth nor interest to play. Technology has been a boon to independent musicians. I would also like to ask what his compensation from Sound Exchange was, both as an artist and what his label made from those spins. Whatever it was, it was more than what was paid out by terrestrial radio, who pays no compensation to owners of recordings. If you want to protest THAT, I'll grab my pitchfork and meet you in the town square.

This is a slightly shortened version of the article which appeared on
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The editing was necessary to simplify a highly technical presentation.