

Who Really Profits from Your iTunes Downloads?

By Brian Reed November 11, 2011

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. Townshend 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...

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