

EXPLAINING INCOME STREAMS IN THE MUSIC INDUSTRY

This is a series of extracts from expert articles about the different income streams of relevance to a musician. You are also encouraged to read the three companion articles - *Why is it so tough to make a decent living as a musician?* and *Music industry contracts* and *What do I need to do to get signed?*

To kick off this summary, here is the briefest of outlines of the main income streams and how they work. Read the rest of this document - and all the other material in the "KEY INFORMATION" section of www.songwritingessentials.com - to inform yourself in detail. [For a specific guide to where the income from CD, download and streaming sales goes, see the final paragraph on page 9 of this document.]

THE PRINCIPAL INCOME STREAMS

Performing rights royalties including radio/tv airplay (income under this heading which is payable to the songwriter is collected by IMRO; income under this heading which is payable to the performer is collected by RAAP from PPI).

CD/download sale royalties / "mechanicals" (income under this heading which is payable to the songwriter is collected by MCPSI and is paid to the publisher who then pays the songwriter; income under this heading which is payable to the performer is subject to whatever deal the performer made with the record label and is paid by the record label). Streaming income operates on the same basis but has marginal influence on songwriter/performer income since the rates per play are so desperately low.

Sync fees (income under this heading which is payable to the songwriter is collected by the publisher; income under this heading which is payable to the performer is subject to whatever deal the performer made with the record label and is paid by the record label).

Merchandise income (no income under this heading is payable to the songwriter; income under this heading which is payable to the performer is subject to whatever deal the performer made with the record label and is paid by the record label OR less commonly the performer excluded merchandising from the label deal and handles all merchandising himself).

Tour income including all live performances (no income under this heading is payable to the songwriter, apart from performing rights royalties already mentioned above; income under this heading which is payable to the performer is subject to whatever deal the performer made with the record label which may have a contractual share in such income .. This income is typically collected from venues by a tour manager/booking manager).

SONGWRITING ROYALTIES SUMMARY

In trying to understand why the topic of royalties is so complex, it is helpful to grasp that there are always two elements to song licensing - there is the original master or sound recording itself (usually owned by the record company); and there is the individual song itself (usually owned by the music publishing company). The complexity of royalties is in part attributable to this dual "ownership".

Mechanical royalties - These are royalties payable to the songwriter in respect of CD/download sales. The royalties are amounts payable by the record company to the composer for each recording sold that includes the composer's compositions. In **Ireland/UK** the amount is 8.5% of the published wholesale price (8% for downloads) and is collected by MCPSI (Mechanical Copyright Protection Society of Ireland) from record companies. MCPSI passes on this income to the composer's Publishing Company which in turn pays the composer. The Publishing Company agrees a commission rate with the composer for collecting these royalties.

Each publisher is a member of the Music Publishers Association of Ireland/MPAI (which in turn owns MCPSI). So to receive mechanical royalties, the songwriter either has a publishing deal or he runs his/her own publishing company which is a member of MPAI.

The US mechanical royalty rate is lower than in many other countries (currently 9.1 cent per album track or per download) but the huge market there makes it lucrative if a songwriter hits the jackpot.

The mechanical royalty in most European countries is currently 8% or about 15 cent per song. A songwriter who writes 100% of an album's worth of 10 songs will therefore make €1.50 per album sold. It is thus very profitable for artists to write the music they record.

One unusual aspect of mechanicals is that record labels pay signed artists (who write their own songs) only 75% of the statutory rate, which means the labels effectively withhold 25% of the copyright income. This is standard practice.

Performing Rights - This is money from radio and television plays collected by the national royalty organisation (which pays the songwriter direct). An Irish songwriter should join IMRO (Irish Music Rights Organisation) as a means of getting all performing rights income due to him/her paid. Note: The record company also collects a parallel performing rights royalty but does so from P.P.I. (Phonographic Performance Ireland).

Performing rights also includes income due to songwriters from live performances and the use of copyright music by businesses. Music venues and music users such as hotels, restaurants and pubs must pay for their use of copyright music. They do so by way of a blanket licence fee. IMRO collects these fees/monies and distributes them to the songwriters, composers and music publishers who created the songs. IMRO continually surveys venues throughout Ireland to determine which works are being performed live. Artists should supply detailed information to IMRO about their own gigs (especially set lists) as some paperwork is essential in order to monitor playlists.

In the USA, radio stations pay royalties only for those performance rights carried by the musical work (the lyrics/composition). They do not pay for performing rights to the stakeholders of the sound recording. In other words, songwriters and publishers get paid but artists and record companies do not get paid.

Synchronisation Fees - These are amounts due to a composer in respect of his work used in films, games and advertisements. These fees are charged by the publishing company to the filmmakers. Other Fees can arise from sales of sheet music, ringtones and any other reproduction of the work.

"Artist" recording royalties - These are royalties due to an artist for each recording sold. Usually an artist can be offered anywhere between 10 to 20 royalty points depending on status/credibility. These royalties have nothing to do with songwriting per se but will apply to composers who are also recording artists.

The amount receivable is agreed at the time that the recording contract is being negotiated between the artist and the record company and is usually based on a percentage of the wholesale price of the recording (payable by the record company direct to the artist). The percentage usually increases as the level of sales increases.

"Artist" performance royalties - These are royalties payable to every artist credited with performing on a record. ALL Irish artists and performers are entitled to a payment when a sound recording that they have contributed to is publicly broadcast in Ireland. This "Performer's Right" has existed in other countries for quite some time. R.A.A.P. (Recorded Artists Actors Performers) was set up to administer this new right and collects worldwide on behalf of its members.

Phonographic Performance Ireland (P.P.I.) collects the income re broadcasts and public performances from the different users (radio, tv, nightclubs, hotels, restaurants and everywhere music is publicly broadcast). This income is then shared with performers through an agreement entered into between R.A.A.P. and P.P.I. It is up to individual members to register their performances with R.A.A.P.

A note about PPI: Phonographic Performance Ireland (P.P.I.) is owned by its members, Irish and multinational record companies. Record companies have the right to be paid whenever their recordings (CDs, digital files, etc.) are played in public or are broadcast. In addition, performers have a right to be paid when sound recordings to which they have contributed are played in public or are broadcast. All of PPI's income (less administration costs) is distributed every year to its members and to performers.

Some handy addresses:

Irish Music Rights Organisation (IMRO), Copyright House, Pembroke Row, Lower Baggot Street, Dublin 2. Phone: 01-6614844 - IMRO collects Performance Royalties due to the Composer.

Mechanical Copyright Protection Society (Ireland) Ltd (MCPSI), Pembroke Row, Lower Baggot Street, Dublin 2. Phone 01-6766940 - MCPSI collects Mechanical Royalties due to the Composer.

Recorded Artists Actors Performers (RAAP), RAAP House, 15 Carysfort Avenue, Blackrock, Co. Dublin. Phone: 01-2788724 - RAAP collects Performance Royalties due to the Artist.

Music Publishers' Association of Ireland (MPAI), Copyright House, Pembroke Row, Lower Baggot Street, Dublin 2. Phone: 01-6766940.

Phonographic Performance Ireland (PPI), PPI House, 1 Corrig Avenue, Dun Laoghaire, Co. Dublin, Ireland. Phone 01-2805977.

SOME ADDITIONAL INFORMATION ABOUT ROYALTIES

Performing Rights - IMRO carries out four major distributions of domestic income each year in April, July, October and December. The distributions cover broadcasting revenue received from Irish radio and TV stations for music performances. In addition, many firms use Radio and Television as a source of background music. Revenue for this background music is distributed, along with the revenue from the broadcasters themselves. RTE pays €3 a minute (or about €10 a song). BBC Radio pays €30 a minute or about €100 a song.

Each station's revenue is distributed as a separate pool on the basis of logs submitted by the broadcasters. Within each pool, all performances other than advertising music are treated on the same basis. For most stations, each play has the same value. However, if the station provides duration information, performances are paid by the minute. Payments do not depend on any other

considerations, such as time of day, 'featured' versus background music, writer's society affiliation, or original composition versus arrangement. The revenue is shared between all performances logged and matched.

An Irish songwriter should join IMRO (Irish Music Rights Organisation) as a means of getting all performing rights income due to him/her paid. IMRO have international links (e.g. in the USA with BMI and ASCAP, the U.S. performance rights organizations) and in this way all music-playing outlets are monitored - radio and television stations, nightclubs, websites and other entities that play music. IMRO/BMI/ASCAP collects royalties from all outlets and pays these to the music publishers and songwriters. Their payments are often the most reliable, consistent source of income from songs. So, make sure you register with one of these organizations and that your address and other information are current.

Performing rights income is holding up very well in the industry, despite the decline in CD sales. Income from radio and tv is excellent. ASCAP took in \$900 million last year and BMI grossed a similar figure.

Some information from Sentric Music (publishers): Pretty much any gig you play generates income. The smallest gig can be worth around £5 and then it increases from there, depending on several different things including attendance, ticket price, number of bands on the bill, etc. Some UK sample figures (for 2011):

- ⤴ Small Venues - around £5 per gig
- ⤴ Barfly - upwards of £19 per gig.
- ⤴ O2 Academy's - upwards of £100 per gig.
- ⤴ Shepherd's Bush Empire - (as an example of a mid-scale venue) - upwards of £392 per gig.
- ⤴ Leeds/Reading Festival - (as an example of a festival venue) - upwards of £1,500 per gig.
- ⤴ Sheffield Arena - (as an example of a large venue) - upwards of £1,600 per gig.

When your song is played on the radio, it generates performing income. Various factors affect the amount of money you receive (e.g. length of the song, audience share of the station, audience share of the show, time of day, etc.). Some BBC Radio sample figures are given here (December 2011, based on an average 3min 30sec song):

BBC Radio 1 - up to £52; BBC Radio 2 - up to £76.

BBC 6 Music - up to £13; BBC 1Xtra - up to £11.

BBC Regional Stations - up to £4; BBC Asian Network - up to £16.

If you had your song played on BBC Radio 1 by Huw Stephens and also supported someone at your local O2 Academy in the same week, you might be looking at £150

in your back pocket. To make the same amount of money from iTunes sales, you'd need to sell just over 300 tracks.

When your song is on television, performance royalties are generated. Again, the amount of money you receive will depend on the channel, time of day, length of the track, etc. Some sample figures here (per minute as of December 2011):

BBC 1 - £91.91 primetime / £49.36 non-primetime

BBC 2 - £23.24 primetime / £12.48 non-primetime

Channel 4 - £22.66 primetime / £12.16 non-primetime

Channel 5 - £9.82 primetime / £5.27 non-primetime

These figures are for everytime the broadcast is shown. If you manage to get your music onto something that is shown often, then you're going to earn decent cash. Sentric Music has a good relationship with Channel 5 and in the past they have had artists on a station ident who've earned thousands in royalties due to the amount of times it was shown.

Synchronisation Fees - You generally get paid twice for any song that is used in a television broadcast. There is typically a one off up front licensing payment that the show pays to the writer in order to use the song. Then, once the song airs, the writer receives the performance royalty. The amount of the licensing fee varies but for television shows is usually in the range of \$500 to \$3,000. The amount of the performance royalty varies greatly depending on a number of different factors. These factors include the length of the segment in which your song is used, how prominently your song is used, whether your song is aired during prime time or during the day and a variety of other factors.

For example, a songwriter had a song used in a U.S. daytime TV drama for 55 seconds. The royalty he received for this placement was \$800 and in addition to this he received a \$500 licensing payment. So he made a total of \$1,300 for 55 seconds of air time. For films on theatrical release in the USA, you don't receive performance royalties while the film is showing in theatres, but the licensing fee is larger. For films on theatrical release in Europe, 1% of total box office takings for each release is held for the songwriters and distributed to them. Licensing fees for feature films are generally in the range of \$2,000 to as much as \$25,000, or even larger for more established artists. The licensing payment amount varies depending on the film's budget and how badly they want a particular song. More established artists generally command larger licensing fees.

Downloads - Songwriters and publishers get 8% of an online music sale. Record companies get 38.5% of the sale of a CD, but they take 64% of an online sale.

For a downloaded track costing 79p, writers and publishers get 6p, 11p goes to the service provider, 7p to the credit card company, 5p goes on tax, and the record company takes 50p - some of which goes to the performers.

Scores for video games - Payment is made per minute of scored music (rather like in writing music for movies). A rate for a finished product might be \$1,000 per minute (or it could be far less - everything is negotiable).

Songs for video games - There can be a one-time fee (more likely for a new song) or a royalty arrangement.

Scores for movies - Payment is made per minute of scored music. A rate for a finished product might be \$1,000 per minute. There are further royalties when the film is exhibited. The fee in a small independent film festival might be €2,000 upfront. But if the movie broke out of the festival circuit, the fee could rise to €35,000.

Greeting cards - the royalty rate is 9% of the net price with a minimum rate of 15 cent per card.

Samples - Where the use of the original track is unauthorised, then all royalties accrue to the songwriter of the sampled track. Where the use of the track is authorised, then a 50% royalty applies in favour of the writer of the sampled track.

Ring Tones - The average royalty is 10-12% of the sale price with a minimum rate of 10%. Every time someone downloads a ringtone, the songwriter gets a royalty from MCPSI, who control the mechanical right.

Theatre - The royalty rate is 4.5% to the lyricist/composer/librettist until the show recovers its costs. Thereafter, 6% of the box office gross accrues to the lyricist/ composer/librettist.

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HOW MUSIC WORKS by David Byrne [Canongate Books, 2012]

Chapter 7 of "How music works" by David Byrne is entitled "Business and Finances (distribution and survival options for music artists)" and is absolutely essential reading for any songwriter or musician.

David Byrne of legendary rock group Talking Heads explains the detailed financial ins and outs of one of his album releases. He outlines the various costs involved and who gets the various percentages. He uses colour-coded diagrams to convey how the money pie is shared. At the same time, he describes the complex financial mechanisms of the modern music business.

On an important side issue, David Byrne notes how recording technology is now incredibly accessible and cheap so there is no need for albums to be costly to record (pages 180-181). The books (from Amazon) costs around UK£20 in hardback but only UK£5 as a Kindle e-book.

MAKING MONEY FROM CONCERTS AND TOURS

Many bands supplement their income from selling merchandise. Now, though, greedy venues want their share of the proceeds. Venues are currently seeking a 25% + VAT commission for allowing a band to sell their merchandise (T-shirts, posters, CDs, etc) at their own shows.

What many people fail to understand is that unless you're already really successful, touring costs. This explains why, traditionally, the record labels have provided tour support for up-and-coming acts. But even that source of support is now drying up, as labels scramble to compensate for lost CD revenue.

For a band playing small to medium (2000+ capacity) type venues rather than arenas, selling merchandise on tour can make the difference between an overall loss and an overall profit. However, venue commission is spreading like a disease across the globe - an estimated 80% of British venues, 40-60% of European ones and almost 100% of American ones follow it - and most artists aren't even aware of it unless they do their own bookings.

To read the full article from which these extracts are taken (written by Helienne Lindvall on June 11, 2008), please see:

<http://www.guardian.co.uk/music/musicblog/2008/jun/11/costoftouring>

To read a detailed and down-to-earth article on the income and outgoings of a modest tour (written by Fish, the singer and songwriter), please see -

<http://fishheadsclub.com/2013/01/29/touring/>

The article is somewhat hard to read on the official website; you may prefer to read it in a handy PDF document at <http://www.songwritingessentials.com/wp-content/uploads/2013/03/Touring-DepressingFinances.pdf>

Another famous article explaining where all the money goes is Steve Albini's exposé, "The problem with music". This legendary analysis looks in detail at the finances of a typical record deal and, despite respectable album sales, shows how little the "successful" band really makes. You can read the article at http://www.negativland.com/news/?page_id=17. Again, for ease of reading, you may prefer to consult the handy PDF at <http://www.songwritingessentials.com/wp-content/uploads/2013/03/SteveAlbiniArticle.pdf>

On the issue of merchandising income, see Ben McLane's article on merchandising contract basics at <http://benmclane.blogspot.com/2011/04/music-businesslaw-tips-merchandising.html>

Looking specifically at where the income from CD, download and streaming sales goes, here is a super-brief guide (figures suggested by David Byrne's book):

Take the retail price.

Subtract the VAT.

Divide the remaining retail income as follows:

Record label (56%)

Retailer - online or in store (30%)

Artist (6.5%)

Songwriters (4.5%)

Producer (3%)

The record label's percentage includes marketing, promotion, manufacture (CDs) and distribution.