

Rolling Stone

The New Economics of the Music Industry

How artists really make money in the cloud – or don't

by: Steve Knopper



Adele onstage at the MTV Video Music Awards.

Kevin Mazur/WireImage

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."

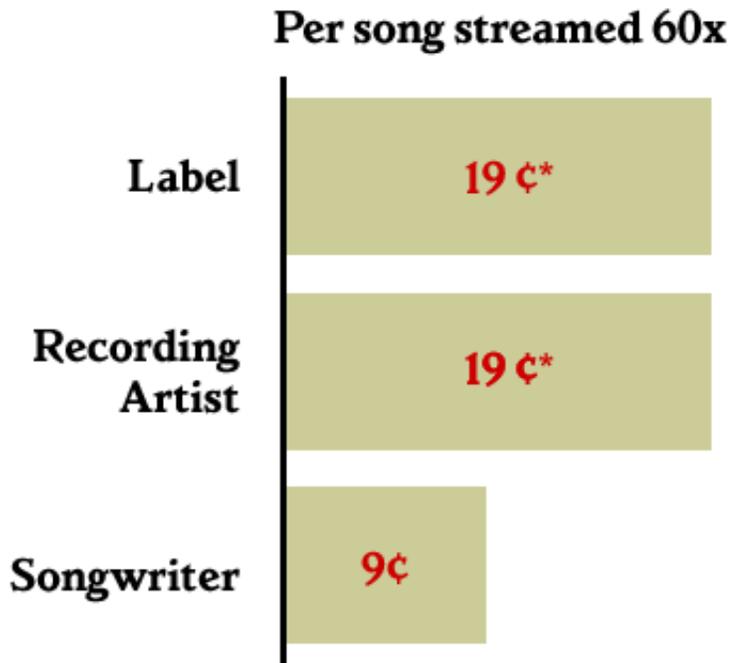
So you're Adele, the year's biggest pop star. Your songs stream on Spotify – or MOG, Rdio, Pandora or

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

SUBSCRIPTION SERVICES (Spotify, MOG, Rdio)



***Recording artist gets 38¢ and splits that money half and half with record label, depending on their contract**

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 Guerinet, manager of Nine Inch Nails and No Doubt.

NEXT: iTunes

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.

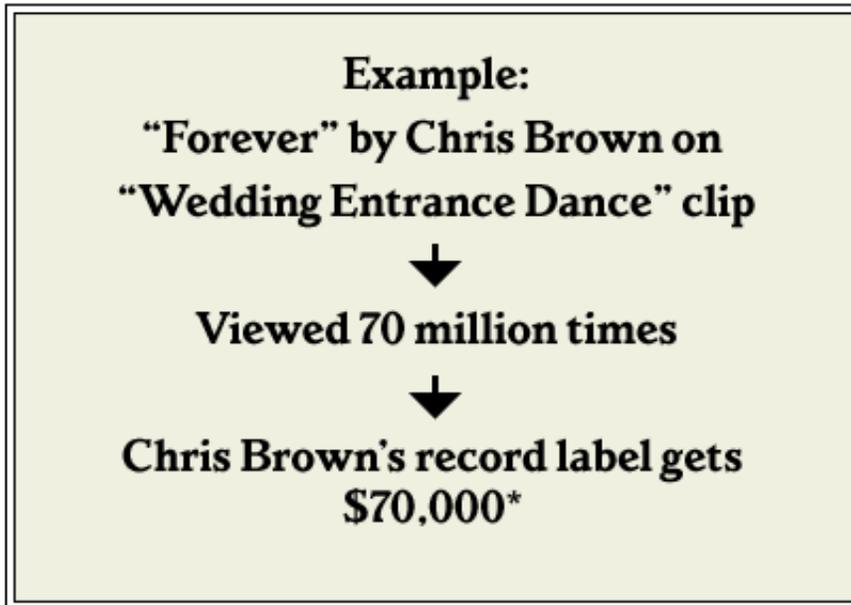
"When we released the first Puscifer record, we went to a major distributor," says Maynard James Keenan, frontman for Tool, A Perfect Circle and indie band Puscifer, which put out *Conditions of My Parole* on its own earlier this week. "There was still this groaning dinosaur, grasping at straws, trying 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."

NEXT: YouTube and Vevo

YOUTUBE AND VEVO

YOUTUBE AND VEVO

\$1 per 1,000 video plays



***Rough estimate**

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.

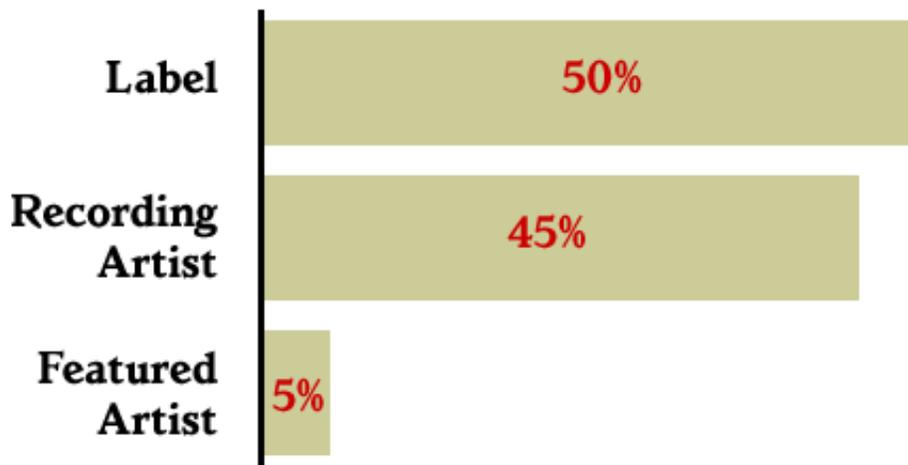
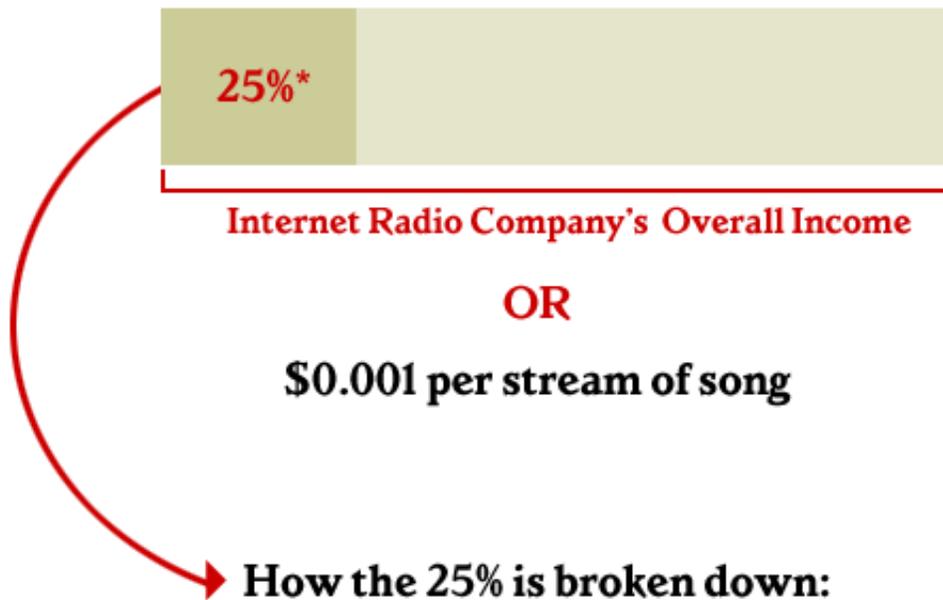
After the video was becoming a huge hit, YouTube's content identification people and employees of Brown's record label, Sony, had a conversation. The label had two options: Because YouTube isn't a piracy service, like Kazaa or LimeWire, it could take down the video immediately – or it could sell ads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

NEXT: Internet Radio

INTERNET RADIO
(Pandora and Slacker)

SoundExchange gets paid whichever is greater:



***Smaller internet radio companies pay 12-14%**

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.

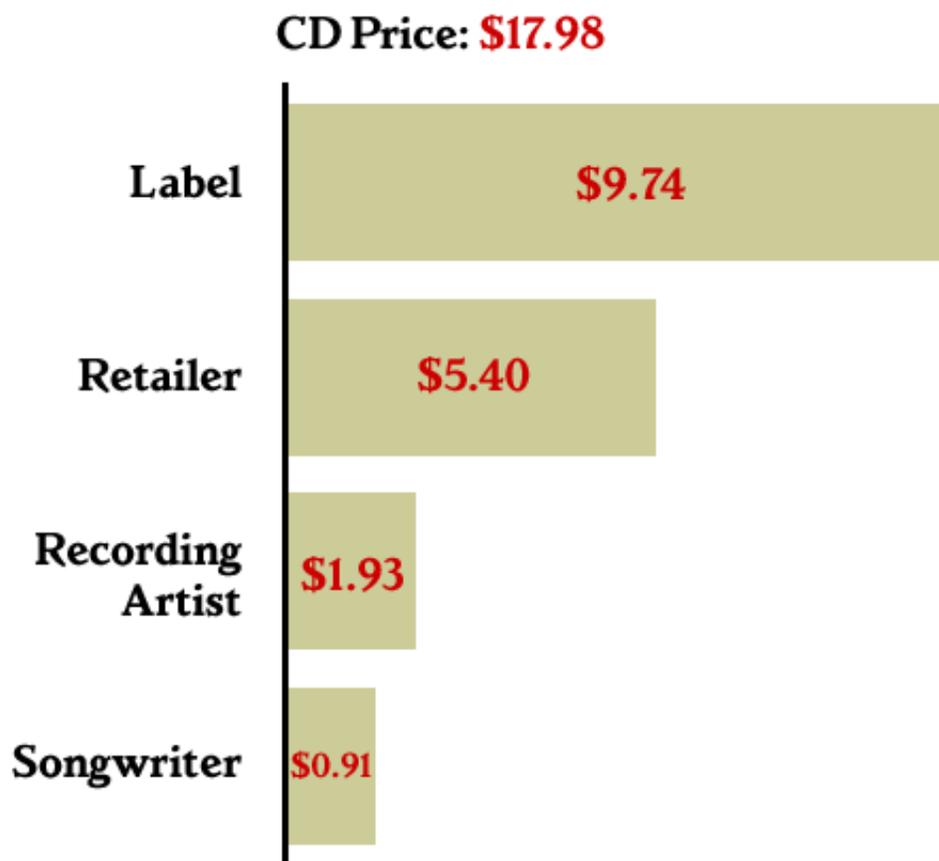
Anu Kirk, product lead for MOG, said at the recent Digital Music Forum in Los Angeles that Pandora winds up paying out much less than that – about a tenth of a penny per play. "It sucks that right now that artists are getting paid so little money by subscription services, but it sucks that artists are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

NEXT: CDs

CDs

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? *Pfjpfjpfjft*. We just want to play the songs.'"

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