

## **Income Streams - Generally**

**Mechanical Royalties:** Mechanical Royalties are licensing fees that are typically paid to a songwriter or music publisher for the right to manufacture a sound recording of their song – whether in physical form or digitally. The statutory royalty rate for songs that are five minutes and under is 9.1¢ each and for songs over five minutes it is 1.75¢ per minute or fraction of a minute. Mechanical Royalties are also paid for limited digital downloads and interactive streams. These rates are not a statutory rate based on the distribution of a song. Instead they are based on a percentage of the site's revenue so they are more difficult to tabulate.

**Ring Tones:** The Copyright Royalty Board recently established a rate of \$.25 per ring tone delivery. This rate is typically paid to a songwriter or music publisher and will be in effect through the end of 2012.

**Performance Royalties (song)** Performing Rights Organizations (ASCAP, BMI, or SESAC) collect a songwriter's/publisher's public performance royalties. Each organization has its own method of audits, surveys, etc. to determine what fees are owed to which songwriter/publisher. The royalties are generated when a song is publicly performed on the radio, television, in a live concert, in a place that is open to the public like a restaurant or a grocery store, or in a non-public place where a substantial number of people are gathered (not counting a normal circle of friends and family members) or on a non-interactive stream (like cable all music stations, satellite radio, Internet radio, etc.).

**Performance Royalties (sound recording):** These Performance Royalties are licensing fees paid to publicly perform the sound recording. In some parts of the world, the artist who performs a song receives a performance royalty for public performances. In the U.S., this royalty is only paid for certain digital services like satellite & Internet radio or audio only digital cable television stations (non-interactive streams). SoundExchange and Royaltylogic collect these royalties and under the law, the split is 50% to the label, 45% to the featured performers and 2.5% to non-featured musicians 2.5% to non-featured vocalists (this 5% goes to music unions to distribute).

**Synchronization Royalties:** Synchronization royalties are paid to “synch” a song with other media. Examples include using a song in TV, film, or video games. The amount of the synchronization fee is typically negotiated between the person who owns or manages the rights in the song and the person who wants to use the music.

**Master Use Licensing Fees:** Master Use licensing fees are paid when someone wants to use a recorded version of a song (the sound recording). This could be for synchronization purposes or if an artist wanted to use a sample or portion of a recorded work in their own work. The amount of a master use license is typically negotiated between the owner of the masters and the person who wants to use the recording. The income stream division is decided in the recording contract but typically is split 50/50 between the label and the artist. Sometimes the label takes a deduction before calculating the 50/50 split for it's efforts to get the song placed.

**Derivative Works:** If someone wants to use an original composition in a new way that changes the original version it is called a derivative work and a license must be negotiated with the rights owner. Examples of derivative works include using the chorus of song in the middle of an unrelated new song, using the melody of a song but changing all of the lyrics, etc.

**Print Royalties:** Print Royalties are derived from licensing the right to print and distribute copies of songs either as paper sheet music or digitally. Print royalties were very big a few decades ago. The amount of the print royalties paid is typically negotiated with the publisher or in the absence of one with the songwriter.

**Record Royalties:** This is the income stream derived from the sale of the album or singles. Under most contracts, record royalties are not paid until the costs from the creation of the album (and possibly other costs too) have been recouped. After they have, here are some of the typical streams:

**CDs:** The percentage rate that a record label has negotiated to pay the artist in their recording contract for each physical unit sold (typically 12-16%). Labels often take a deduction for free goods (CDs given to radio stations, music reviewers, etc.) meaning royalties are not paid on those units and the artist may be obligated to give up part of their percentage rate to pay a producer their royalty share.

**Digital Downloads:** Digital stores charge a small fee for selling the song. This fee is deducted from the cost the consumer paid before figuring out the royalty. Some labels will then deduct the mechanical royalty while others do a wholesale markup of 130% before determining the record royalty (the 12-16% that is on the artist's contract) on digital downloads. For smaller labels, what you typically see is a 50/50 split of the income after the store deducts its fee.