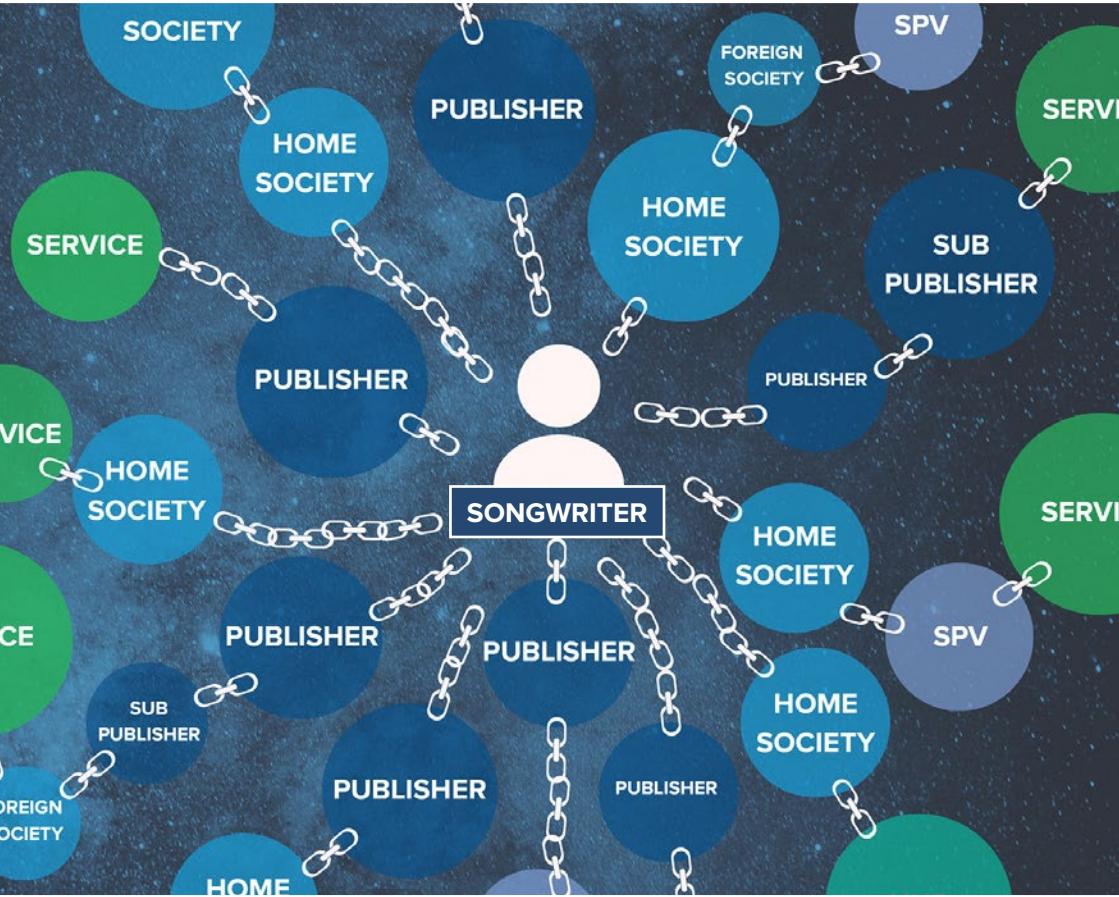


THE \$ONG ROYALTIES GUIDE



**DISSECTING THE
DIGITAL DOLLAR**

themmf.net/digitaldollar



Introduction & Executive Summary

The MMF has spent the last few years exploring how money flows from streaming services through to artists via our ‘Dissecting The Digital Dollar’ series of reports and guides produced with CMU Insights. This has included reviewing the debate around how the ‘digital pie’ is sliced, ie the ongoing discussions over how streaming income is shared out between the different stakeholders, including artists, songwriters, labels, publishers and the streaming services themselves.

A key part of that debate is how money paid into the music industry by the streaming services is respectively allocated to the recording copyright – which is ultimately shared with the artist – and the separate song copyright – which is ultimately shared with the songwriter. In the main considerably more is allocated to the former. As streaming has become the fastest growing recorded music revenue stream there has been much debate about the fairness of these splits.

That debate continues. However, while there is still an argument that the digital pie should be further resliced to the benefit of the songwriter, it is also true that more money is already being allocated to the song on streams compared to what was passed to the publisher and the writer from the sale of a CD. In fact in some cases, with the more recent streaming deals, the song allocation on a stream is **more than double that on a CD.**

Meanwhile, streaming income now

generates nearly half of recorded music income overall and continues to rise month on month.

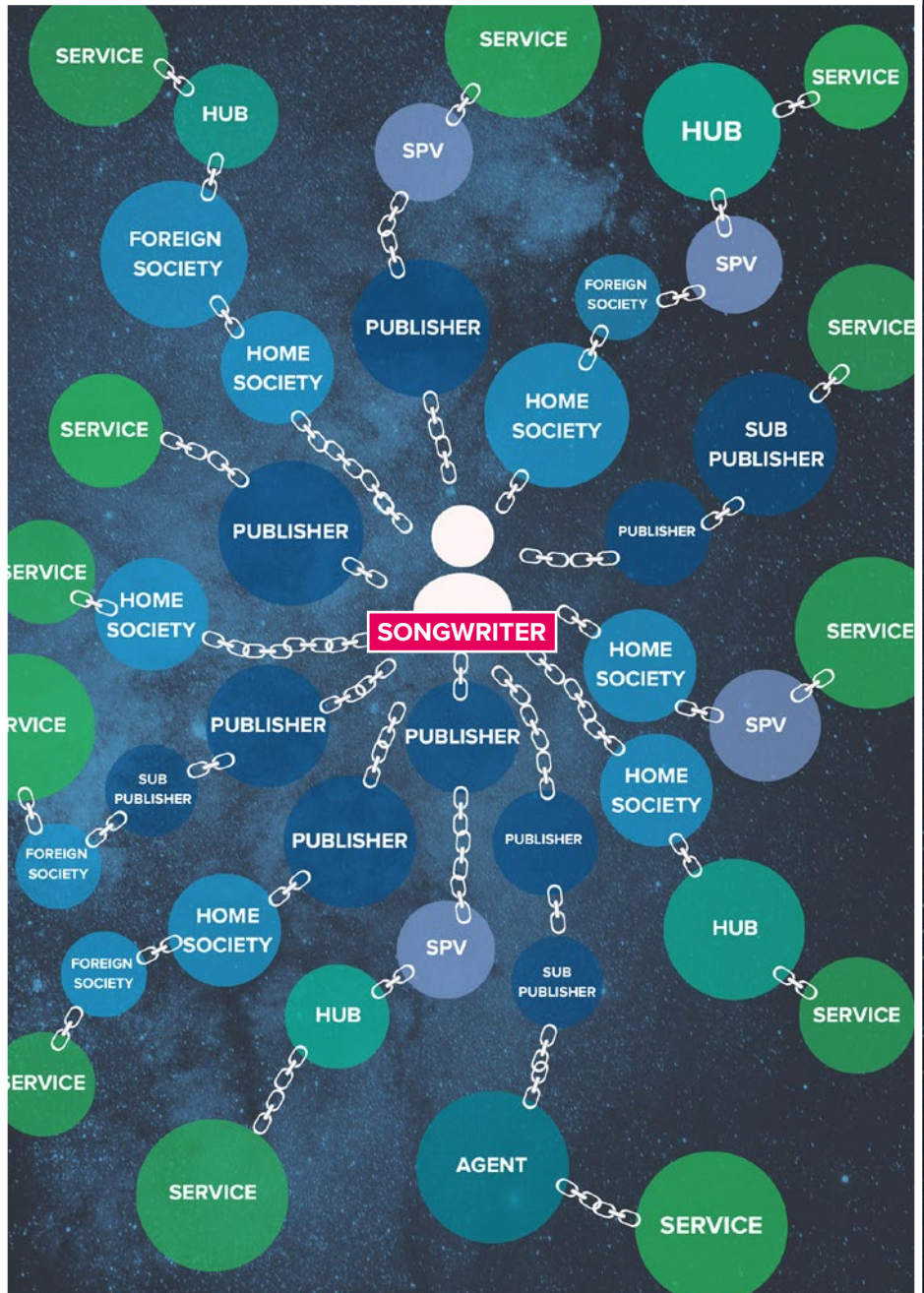
This creates a conundrum. As streaming becomes the biggest recorded music revenue stream – and with the song share on that income being double that on a CD – songwriters should be slowly starting to see a benefit. But songwriters and their managers insist that is not happening.

There are a number of factors that in part explain this conundrum, including the increasing number of co-writers on songs in some genres and the way monies are shared out between the different works on an album in the streaming domain. However, perhaps the biggest factor is the inefficient process via which song royalties from streams are processed and paid.

In most cases, sitting between a streaming service and the artists and songwriters whose music they stream will be a number of music industry institutions. These are the entities with which the streaming services negotiate licensing deals.

Once the deals are done, each month the services pass data and money over to each licensing partner. These licensing partners then pass money along to the artists and songwriters, sometimes directly, sometimes via other companies or organisations. This therefore creates a royalty chain – a number of entities through which data and money must pass as it goes from streaming service to artist or writer.

THE COMPLEXITIES OF THE ROYALTY CHAIN



For various reasons outlined in this guide, these royalty chains are much more complicated on the songs side of the music rights industry. There are more royalty chains in play. Longer royalty chains are more common. Significant delays can occur at each link in the chain. What monies are being deducted along the way often isn't clear. And the songwriter – compared to the artist – is much more reliant on the capabilities of the first link in the chain – with which they will often have no direct contact – to get paid at all.

Through this latest phase of the Digital Dollar research with CMU, we've discovered that fixing all of these inefficiencies is like solving a Chinese Puzzle. Even if you can identify the numerous and interlocking problems, how to best tackle each issue so to ensure that royalties flow and creators are paid remains an almighty challenge. Co-ownership of songs, the way copyrights are split, territorial licensing and poor data all contribute to an overly complex system, and cause the disputes, delays and deductions that stop songwriters getting properly paid when their music is streamed.

Clearly, there are no silver bullets. A plethora of reforms are needed, some of which are already under way in some territories with some repertoire. But to ensure every songwriter is treated fairly, there is an urgent need for a wide-ranging plan of action – led by writers and their managers and other professional advisors (lawyers and accountants), alongside music publishers, collecting societies and streaming services. Laying down

the gauntlet, MMF would suggest the following areas as an immediate priority...

1. Shine a light on global royalty chains

Given the complexities of the global digital licensing landscape, it has become too onerous and expensive for all but the most successful songwriters to track and trace their royalties. This needs to change. Collecting societies and music publishers must embrace transparency and move towards making crucial data freely available as standard practice – and especially information relating to the ownership of rights, the royalty chains being employed, and any deductions and delays that occur as money moves along those chains.

2. Reveal the disputes

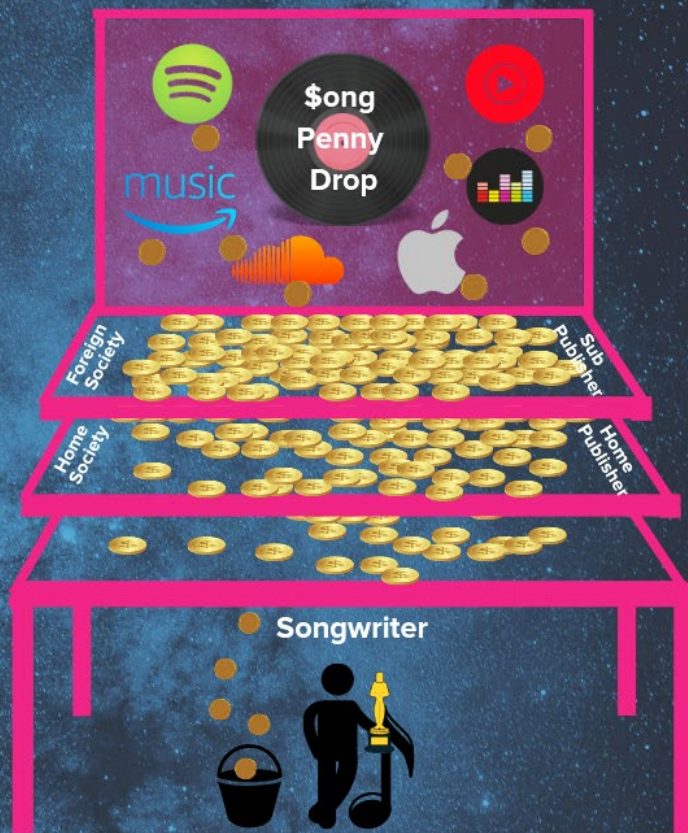
Music publishers, collecting societies and their royalty processing hubs currently control the flow of songs data between the music industry and the streaming services, and are therefore the first to see the common data clashes that can delay or stop payments. It is unacceptable that they sit on these issues and we need them to proactively alert songwriters whenever data clashes occur so they know to resolve them and remove any blockages that are stopping royalties getting through.

3. Shorten the chains by embracing global licensing

If you were starting from scratch, no one would invent the current song licensing framework for streaming services. The current territorial

THE SONG ROYALTIES GAME

As each songwriter's streaming income passes along the many different royalty chains in play, money can be delayed and deducted at each stage.



The big questions: How much is actually getting through?
And how long does it take for the money to reach the writer?

What royalty chains are in play will depend on a writer's publisher and society. Often writers are not aware of what chains are being employed, let alone what deductions and delays occur. So it's hard for writers to know just how much money is getting lost along the way.

approach and the employment of multiple royalty chains for single streams of single songs is the byproduct of systems, institutions and reciprocal partnerships that were created for an analogue era.

As well as efforts to better understand and disentangle current practices, there must also be a shift towards global licensing of the songs repertoire. Any new services and new markets should not be licensed locally – putting more links into the chain – and when deals are renewed with existing services, efforts should be made to shift ever closer to a global licensing approach.

4. Speed up the flow of payments

While many artists are now receiving payments within weeks of their music being streamed, it frequently takes writers years to receive all their song royalties. This is completely unacceptable. Even in the current environment, we should be setting goals that writers should never have to wait more than nine months after a song is streamed to receive payment in full.

5. Reduce black box collections and distribute unattributed revenues fairly

In theory, in the streaming space there should be no unallocated royalties, ie monies that we know need to be paid, but where we don't know which songs or songwriters those revenues should be allocated to. There should be no black box for streaming.

However, due to the above mentioned inefficiencies, a streaming black box

does exist – and it is filled mostly with royalties owed to smaller writers and publishers towards the end of the long tail. If, as is common in the songs business, this unallocated income is distributed to writers and publishers based on market share, you have a reverse Robin Hood system, whereby those writers and publishers who need the money most are least likely to get paid.

This also means that those perhaps best positioned to address the issues outlined in this guide are the least incentivised to do so. This is clearly untenable. We need more transparency from all stakeholders as to how much income is currently unallocated, what is happening to that income, and what publishers, societies and data processing hubs are doing to bring the amount of money that cannot be accurately distributed to the absolute minimum.

If some revenues cannot be attributed, then it is morally indefensible to redistribute them on the basis of market share. We would like to see a rigorous consultation within the songwriting community – and for these monies to be used for grassroots projects and initiatives.

6. Campaign for change

Finally, we need songwriters – and their managers and other professional advisors – to push each of the publishers and collecting societies they work with to actively and urgently address the issues outlined in this guide. And to celebrate those who are making positive changes to ensure that ongoing growth of the music industry is equitably shared by all.

DEALS

- What royalty chains are your publisher and society currently employing?
- Would another publisher or society have more efficient royalty chains?
- How could your publisher or society change their licensing approach to ensure more efficient royalty chains?

DATA

- Are all of your songs correctly recorded in every society database?
- How can you easily check?
- Are any data clashes currently stopping you from getting paid?
- Why aren't you alerted to these data clashes?

DELAYS

- How long does it take for money to flow down your royalty chains?
- Why are there delays along the way?
- How can we cut the delays?

DEDUCTIONS

- How much money is deducted at each link in the royalty chain?
- What fees are the societies charging?
- What cuts are your publisher and their sub-publishers taking?
- How can we reduce the deductions?

DEBATE

- How can we reduce the number of databases?
- How can we reduce the number of royalty chains?
- How can we reduce the number of links in each chain?
- What is the most efficient approach to licensing streaming services?

The **\$ong Royalties Guide** explains the complexities and issues with the way streaming services pay songwriters. It has been produced by music consultancy **CMU Insights** for the **Music Managers Forum**.



ABOUT THE MUSIC MANAGERS FORUM | themmf.net

MMF is the world's largest professional community of music managers in the world. Since our inception in 1992 we have worked hard to educate, inform and represent our managers as well as offering a network through which managers can share experiences, opportunities and information.

We are a community of over 600 managers based in the UK with global businesses and a wider network of over 3000 managers globally. We engage, advise and lobby industry associates and provide a professional voice for wider industry issues relevant to managers.

The MMF runs training programmes, courses and events designed to educate and inform artist managers as well as regular seminars, open meetings, roundtables, discounts, workshops and the Artist & Manager Awards.



ABOUT CMU INSIGHTS | cmuinsights.com

CMU helps people navigate and understand the music business through media, training, consultancy and education. We keep people up to speed on all the key developments with the CMU Daily bulletin, Setlist podcast and CMU Trends library.

CMU Insights provides training and consultancy to music companies and companies working with music. We offer training and research services; seminars and masterclasses; and insight sessions at music conferences around the world.

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