

# **THE DEFINITIVE GUIDE TO SPOTIFY ROYALTIES**

**by Jeff Price**

# INTRODUCTION

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When I began to write this article, I thought it would be a quick one. Yes, I knew there was a lot of confusion and misinformation about Spotify royalties in the world, but I naively thought, no problem, I'll just lay it all out in a quick couple of pages.

I could not have been more wrong.

The complexity of Spotify royalties is, frankly, insane. So insane that it took me over a month and 40 pages (before including diagrams) to explain it all. No artist, label, songwriter, distributor or musician should be required to have a depth of knowledge of this complexity to understand a very simple question: "How much do I earn when my music streams on Spotify?"

There should be a simple, easy to understand answer.

But there's not.

And to be blunt, it's not really Spotify's fault, nor is it the music industry's fault, or the fault of U.S. Copyright laws. But when you put all three of these things together, you get a weird franken-monster royalty schema that has resulted from a new music business model built on consumers paying to have access to music, rather than paying to own it.

For each step described in the royalty calculation process, it took another step to explain the step preceding it, and the one preceding that one, and furthermore, the reasons why each step exists. Each step, in and of itself, makes sense, but together they are like peeling layer after layer of a never-ending onion.

So, over a month after starting to write the article, and over 40 pages later, this article explains how it all works in the United States for Spotify and all other interactive streaming music services like it (Apple Music, Google Play, Amazon Prime, Pandora Interactive and more). Outside of the United States, many of the same mechanisms apply, but there are differences. This article is specific to the U.S.

I did my best to break it all down into bite-sized chunks, and to provide examples and drawings to help it all make sense.

And when you make it to the end (and I really encourage you to do so), not only will you have an understanding of how Spotify calculates royalties, and how much is earned for each stream, but also great insight into how the entire back-end financial machinery works, and how royalty calculations are made in the new streaming music industry.

And that is a good thing.

## THE TWO SEPARATE LICENSES AND THE TWO SEPARATE ROYALTIES GENERATED FOR EACH STREAM ON SPOTIFY

In order for Spotify, and other services like it, to stream a recording, they need two distinct and separate licenses. Each of those licenses result in two distinct and separate royalties. (figure 1)

The first license earns royalties for the Sound Recording. These royalties are called “Sound Recording” royalties.

The second license earns royalties for the “Composition/Song” or “song” (the lyric and melody). These royalties are called “music publishing” or “publisher” royalties.

Each license has its own royalty rate and rules for to calculate the royalties earned. Payments for the royalties generated by the two separate licenses are funneled through two distinct and different pipelines to get to their rightful earners.

### Spotify Needs Two Separate Licenses

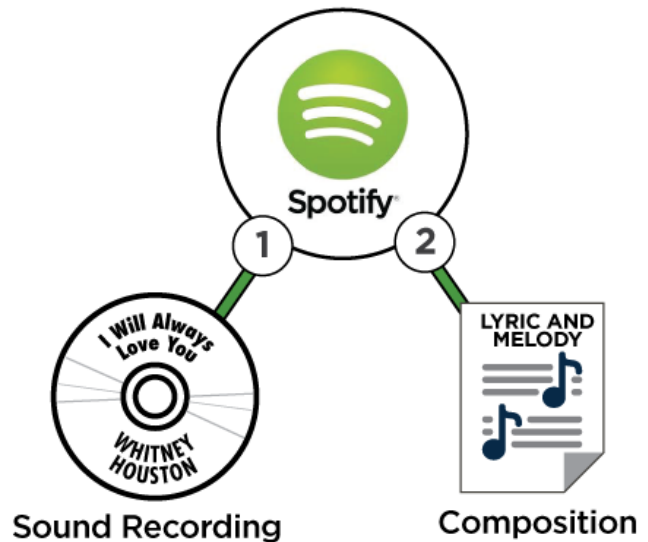


Figure 1

In addition, there are different types of Spotify services available to consumers. Each type has its own distinct and unique nuances that impact how to calculate royalties. For example, the Spotify “Premium” service costs \$9.99 a month to listen to music, on demand and ad-free, on any device (i.e. computer, tablet, smart phone). By contrast, Spotify’s “free” service is supported by advertisements, and allows listeners to pay nothing to listen on demand to music on any device (i.e. computer, tablet, smart phone). And Spotify offers other types of services beyond just these two. Each one of these services differs slightly from the other in regard to the formulas and rules to calculate royalties.

For simplicity’s sake, this article is going to use the Spotify Premium service in the U.S. as its example.

Now we will look at each of the two different types of royalties generated on Spotify when music streams. First, the Sound Recording royalty, and second, the Composition/Song royalty.

### THE RECORDING AND THE SOUND RECORDING LICENSE AND ROYALTY

First the Sound Recording (Figure 2).

To help understand what a “Sound Recording” is, let’s use Whitney Houston’s recording of the Composition/Song “I Will Always Love You.”



Figure 2

Whitney Houston was hired by the record label Sony Records to record the Composition/Song “I Will Always Love You.” Spotify must get a license from Sony Records in order to stream this Sound Recording. The license specifies the amount of royalties that will be generated each time there is a qualifying stream of this Sound Recording on Spotify (Figure 3).

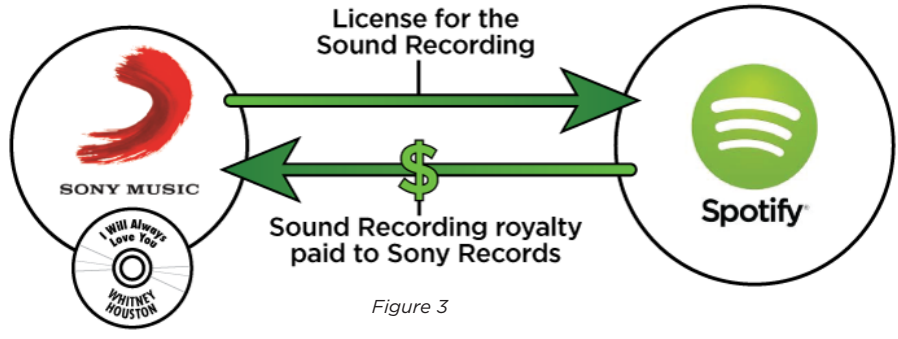


Figure 3

This royalty is called the “Sound Recording” royalty.

The same concept holds true for an artist who uses a DIY distribution services like DistroKid, CD Baby, TuneCore, etc. For Spotify to stream the recording of a DIY artist who uses one of these distributors, it still must get a license to stream the Sound Recording. But in this case, the artist controls their own Sound Recordings and acts as their own “record label”.

Because of this, a second layer of licensing is necessary to authorize Spotify to play the Sound Recording.

First, the artist grants the right to stream their Sound Recording on Spotify to their distributor. Next, the distributor licenses the right to stream the artist’s/record label’s Sound Recording to Spotify. And again, just like with Sony Records, the license the DIY distributor has with Spotify specifies the amount of royalties to be generated each time a qualifying stream of the Sound Recording occurs on Spotify. (Figure 4)

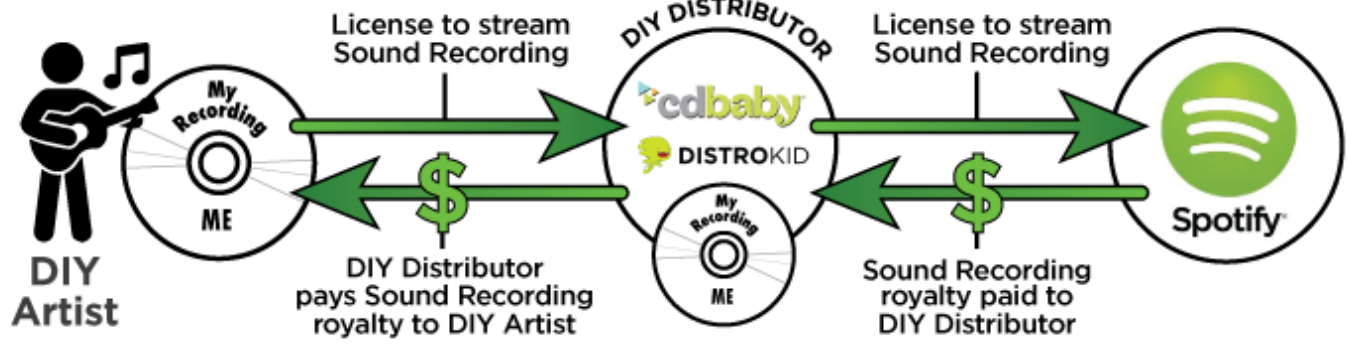


Figure 4

In some cases, record labels (that are not the artist) can use distributors to get their recordings into Spotify. When this happens, the record label grants the right to the distributor to let their Sound Recording stream on Spotify. The distributor then licenses the right to stream the record label's Sound Recordings to Spotify. And again, the license between the distributor and Spotify states the amount of royalties to be generated each time there is a qualifying stream of the Sound Recording on Spotify (Figure 5).

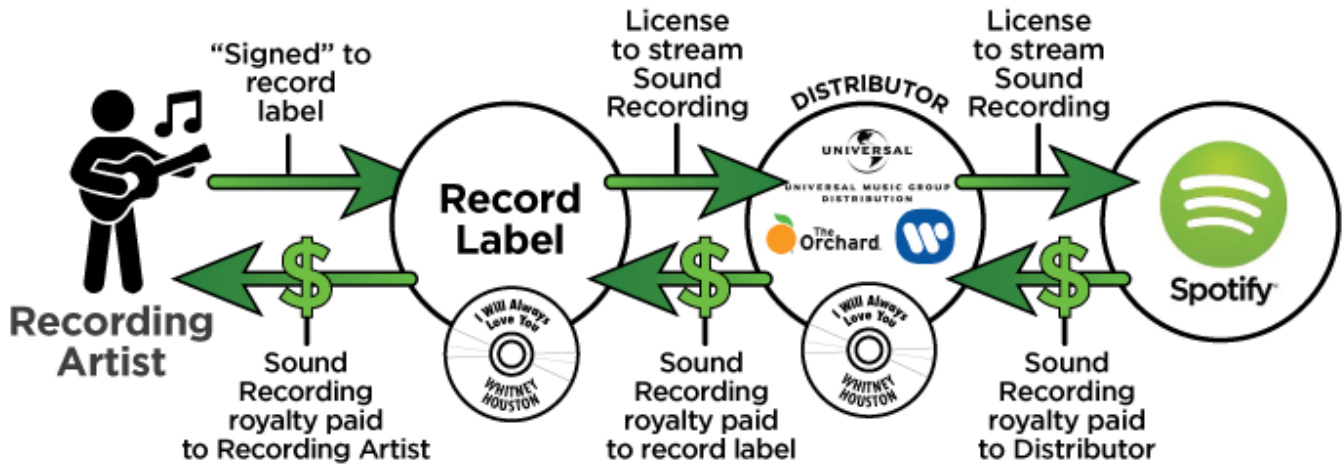


Figure 5

So how do the royalties make their way down from Spotify to the artist? When royalties are generated from a stream, Spotify pays the money to the entity it signed the contract with for the right to stream the Sound Recording. That entity may take a percentage of the Spotify money, as outlined in its distribution contract with the record label, called a "distribution fee." Some DIY distributors like DistroKid take none of the Spotify Sound Recording royalties and pass all of them on to the artists. Others, like CD Baby take a percentage of the Spotify money before they pay the artist. If the artist is signed to a record label, and that record label uses a distributor to get the Sound Recordings into Spotify, then Spotify pays the distributor. The distributor takes a cut of the Spotify money and then pays the record label. The record label then pays the artist under the legal terms that exist between the record label and the recording artist.

Depending on how the Sound Recordings were licensed to Spotify, the royalties earned for the Sound Recording are to be paid directly to either: (1) the record label (like Sony Records); (2) the entity that works for the DIY artist to distribute their recording into Spotify (like DistroKid, CD Baby, TuneCore etc); or (3) to the distributor that works for the record label which takes a cut of the money and then passes the rest back to the record label.

### THE COMPOSITION/SONG LICENSE/ROYALTY

In addition to the Sound Recording, there is also a second separate license Spotify must get to allow the Sound Recording to stream. This second license is for the "Composition/Song." The Composition/Song is the lyric and/or melody of the song. The Composition/Song license has a second separate royalty generated for each qualifying Sound Recording stream on Spotify (Figure 6). I will explain in detail how this license is obtained and how the money is paid later in this article.

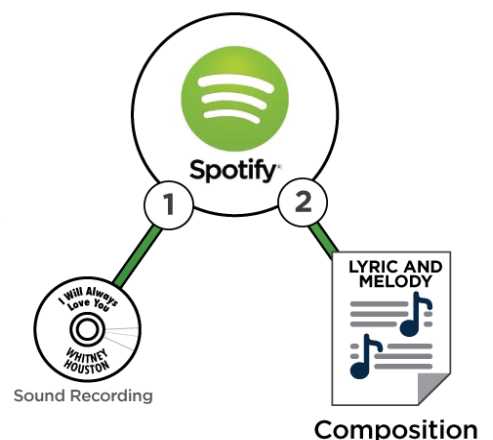


Figure 6

Now that we've covered the two separate licenses that Spotify needs to stream music, we can move on to the formulas Spotify uses to calculate the royalties generated for each of the two licenses.

## HOW THE TWO ROYALTIES ARE CALCULATED BY SPOTIFY: SOUND RECORDINGS AND COMPOSITIONS/SONGS

### ROYALTIES FOR THE SOUND RECORDING:

For the Sound Recording royalty, Spotify creates a "big pot" of money. The record label, distributor or DIY artist/record label earns an amount of money from the "big pot" of money for each licensed eligible stream of their Sound Recordings. The amount paid for each stream changes every month as it's typically based on a number of factors including how much revenue was made by Spotify in one month, how many monthly subscribers Spotify has and how many streams occurred in that same month (*Figure 7*).

Let's start with how the "big pot" of money is determined.

A "Big Pot" is calculated for each Sound Recording License Agreement.



Then a percentage of each Big Pot is paid out to each entity based on the Terms of a License Agreement.

Figure 7

### STEP 1: Determining The "Big Pot" Of Money

According to the licensing agreements, the "big pot" of money is typically the greater of:

- 1) A percentage of Spotify's monthly Revenue.  
OR
- 2) The number of subscribers Spotify has multiplied by a flat dollar amount called the "Subscriber Minimum". (*Figure 8*)

The "Big Pot" is the greater of...



or



Figure 8

As an example, if in November 2019, Spotify's monthly Revenue was \$100, and per the licensing agreement 50% of it was eligible to go into the "big pot", then 50% of \$100 is \$50 (*Figure 9*).

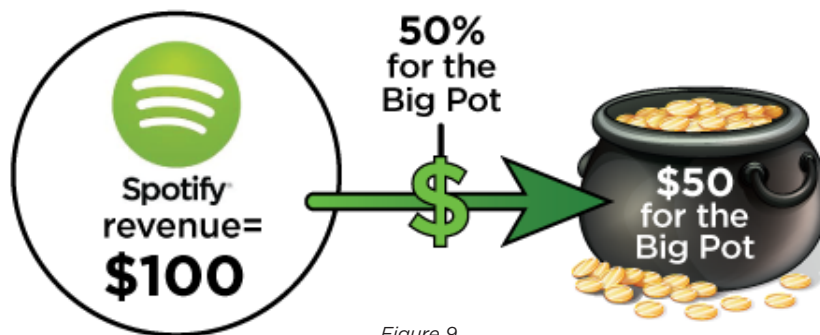


Figure 9

At the same time, if Spotify had 10 subscribers, and Spotify had to pay \$4.00 per subscriber, then  $10 * \$4.00 = \$40.00$  would be eligible to go into the big pot (Figure 10).

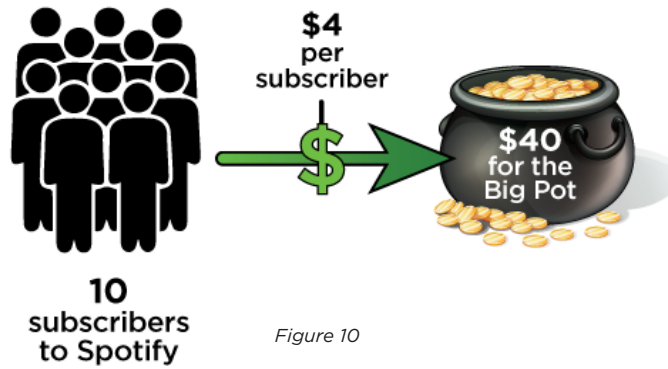


Figure 10

Spotify compares the \$50 to the \$40, picks the one that is higher, (in this case the \$50) and that is how much goes into the “big pot” for Sound Recording royalties (Figure 11).



Figure 11

One reason why the minimum amount per subscriber is in the agreement is so that the entity licensing the Sound Recording to Spotify has a minimum amount that will go into the “big pot” even if at some point in the future Spotify lowers its prices for a subscription.

For example, Spotify can decide it’s going to drop its per month subscription price from \$10 a month to \$5 a month. If it does this, and there is no minimum per subscriber amount as to how much goes into the “big pot,” it’s probable the amount going into the “big pot” goes down.

As an example, if in October 2019, Spotify’s monthly Gross Revenue was \$50, and per the licensing agreement, 50% of it was eligible to go into the “big pot”, then 50% of \$50 is \$25.

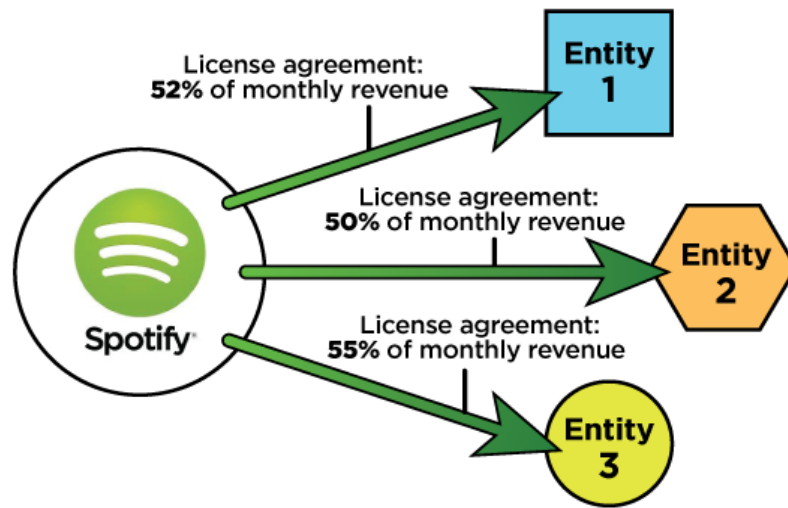
At the same time, if Spotify had 10 subscribers, and Spotify had to pay \$4.00 per subscriber, then  $10 * \$4.00 = \$40.00$  would be eligible to go into the big pot.

Spotify compares the \$25 to the \$40, picks the one that is higher, (in this case the \$40) and that is how much goes into the “big pot” for Sound Recording royalties.

By requiring the greater of the two to go into the “big pot”, the entity licensing the Sound Recordings has some form of protection if Spotify drops its prices in the future.

The percentage of Spotify’s monthly Revenue and the minimum amount per subscriber that is eligible to go into the “big pot” is determined by the license agreement between Spotify and the record labels (like Sony Records) or the distributors (like DistroKid, CD Baby, Ditto, TuneCore etc).

For the percentage of Revenue, it can be different in each license agreement but is typically between 50% - 60% for most of the streaming music services like Spotify. For example, in the Sony Records license agreement with Spotify it could say 52% of Spotify’s monthly Revenue must go into the “big pot” whereas in the CD Baby license agreement it could say 50% of the monthly Revenue must go into the “big pot.” (Figure 12)



**Each license agreement can have a different percentage of the monthly Revenue and/or the minimum owed for each subscriber.**

Figure 12

For the minimum per subscriber amount, as a general rule, the flat dollar amount may be determined by running a calculation right before the licensing agreement is signed that takes how much it costs a customer to pay for Spotify Premium (i.e. an amount of \$9.99 per month) and then multiplies it by the percentage of Spotify’s revenue that could go into the big pot (in the above example it’s 52%). In this case the total equals 52% of \$9.99 or an amount of \$5.20 per subscriber. However, note that this is just one way to determine the minimum per subscriber, and other ways could be negotiated between digital music services and record labels.

This means, in the licensing agreement it will say the amount of money going into the “big pot” will be the greater of 52% of Spotify’s Gross Revenue or the number of subscribers multiplied by \$5.20 per subscriber (the flat pre-determined dollar amount).

Next up, determining what percentage of the “big pot” goes to each label or distributor.

**STEP 2: Determining the percentage of the total monthly streams the label or distributor represents**

The next step is for Spotify to determine what percentage of the total “big pot” of money goes to each record label or distributor. This is determined by figuring out what percentage of all the monthly streams each record label or distributor represents. This is referred to as the “pro-rata share.”

For example, if there are 1,000 streams of recordings in Spotify in one month, and 200 of those streams are recordings licensed to Spotify by Sony Records, then Sony Record’s pro-rata share is 20% of the monthly streams (20% of 1,000 = 200) (Figure 13)

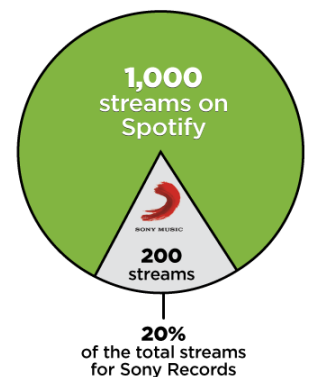


Figure 13



As another example, if 100 of the streams are recordings licensed to Spotify by DistroKid, then DistroKid's pro-rata share is 10% of the monthly streams (10% of 1,000 = 100) (Figure 14).

Next Spotify determines what percentage of the "big pot" of money goes to the record label or distributor.

Let's walk through a sample calculation:

**SAMPLE CALCULATION**

**Calculation of the Big Pot**

- In November 2019, Spotify's monthly Revenue is \$100
- There are 11 subscribers
- Sony gets the higher of 52% of Revenue or \$5.20 per subscriber
- Run the two formulas
  - o 52% of \$100 = \$52.00
  - o 11 subscribers at \$5.20 per subscriber = \$57.20
- \$57.20 goes into the "big pot." (Figure 15)



Figure 15

**Calculation Of The Percentage Of Total Streams:**

- In the same month there are 1,000 streams of all recordings on Spotify.
- 200 streams are of Sony Records' recordings.
- Sony Records then has a pro-rata share of 20% of the monthly streams (20% of 1,000 streams = 200 streams). (Figure 16)

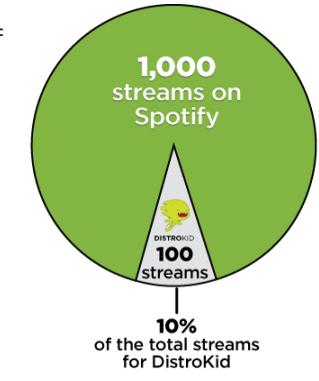


Figure 14

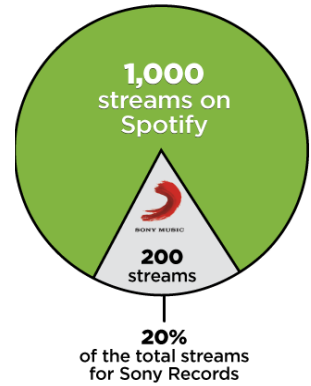


Figure 16



Figure 17

**Calculation Of The Percentage Of The "Big Pot" That Goes To The Record Label/Distributor:**

- The "big pot" for Sony Records has \$57.20 in it. (Figure 17)
- Sony Records Sound Recordings have a pro-rata share of 20% of the total streams in Spotify for the month.
- Sony gets 20% of the \$57.20 = **\$11.44** (Figure 18)

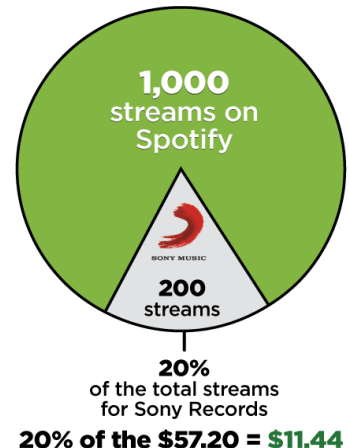


Figure 18

In other words, in this example, the total amount of money Sony Records earned in Spotify for all of its recordings in the month for its “Premium” service is \$11.44 (Figure 19).

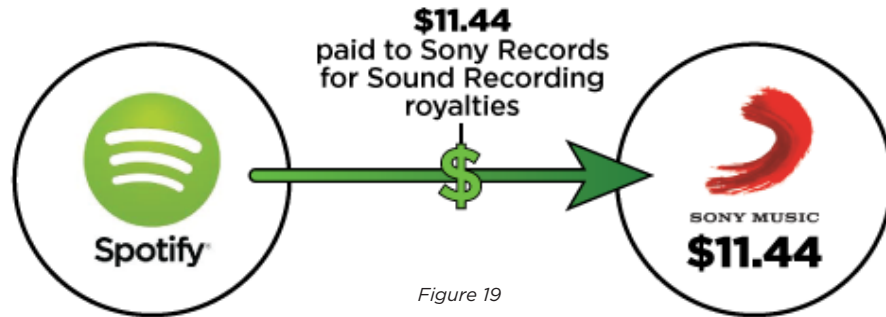


Figure 19

Next up, determining the amount paid for each stream.

**STEP 3: Determining the per stream rate**

Now that Spotify has determined the total amount to be paid to each label or distributor based on their pro-rata share, it next needs to provide the amount made for each stream.

This is done by dividing the total amount being paid to each label or distributor by the number of streams of their recordings.

Let’s stick with the Sony Records numbers from above as an example.

- Sony Records made a total of \$11.44 for streams of its recordings on Spotify in the one month.
- Sony Records had 200 streams of its recordings on Spotify in the same month.

In this example, to get the per stream rate Spotify divides \$11.44 by 200 streams = \$0.057 for each stream.

IMPORTANT NOTE: As a reference point, the average actual real per stream rate for Sound Recordings for Spotify’s Premium subscription service in November 2019, was \$0.0043 per stream. The \$0.057 above is much higher than the actual per stream number and is presented here only for sake of an example.

The same formula would apply to each label or distributor that licensed to Spotify. The amount paid per stream would change based on what percentage of Spotify’s Revenue went into the “big pot” and how many streams – the pro-rata share – the label or distributor had in that month.

Note that in the next month, all of the following will be different from the previous month:

- Spotify Revenue
- Total number of eligible streams on Spotify
- Percentage of the total streams each label or distributor represents
- Total number of subscribers

As they are all different, the per stream royalty rate for the Sound Recording will also be slightly different from month to month and vary across the different Spotify products.

Now, let’s move on to looking at how royalties for the Composition/ Song are calculated at Spotify (Figure 20).

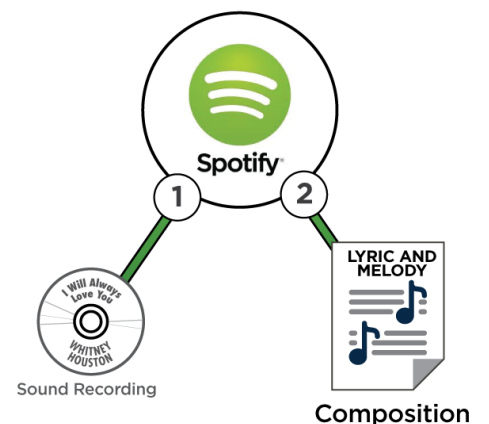


Figure 20

## THE “COMPOSITION/SONG” AND MUSIC PUBLISHING ROYALTIES

When a Composition/Song is written down or recorded (i.e. gets “fixed to a tangible medium) it instantly gets a copyright.

The person who wrote the Composition/Song has three distinct roles:

- 1) The “Songwriter” (because they wrote the song)
- 2) The “Music Publisher” (because they own the song)
- 3) The “Publishing Administrator” (because they license and collect the money for the Composition/Song)

There are six types of rights for a Composition/Song that may work in tandem, or individually, to generate royalties for the Composition/Song.

### The Six Types Of Legal Rights For A Musical Copyright

Recall that in the U.S., When a Composition/Song is written down or recorded (i.e. gets “fixed to a tangible medium”) it instantly gets a copyright. The copyright contains six types of legal rights. These are the rights of:

1. Public Performance
2. Reproduction
3. Public Display
4. Derivatives
5. Digital Transmission
6. Distribution

It is these six types that dictate how music can be used, when a license is needed, and in some cases what the pre-set royalty rates are. The money collected for the Composition/Song is sometimes called “Music Publishing” royalties.

### The Entity That Licenses And Collects Composition/Song Royalties: What A Publishing Administration Deal Is

The Composition/Song is controlled by a second separate entity that is not Sony Records, not the distributor and may, or may not be, the DIY artist. This entity is either:

1. A “Self-Published Songwriter”
  - This is a person that wrote a song, owns the song and also (whether they know it or not) is responsible for licensing and collecting the money earned for their song from the six types of rights listed above. (*Figure 21*)



*Figure 21*

2. A “Publishing Administrator,” an entity that works for the songwriter to license and collect their money.

- A person that is a songwriter may choose to enter into a deal with a Publishing Administrator. The Publishing Administrator now collects the money for the six types of rights listed above. When a Songwriter enters into a Publishing Administration deal, the person is still the Songwriter (as they wrote the song) and still the Publisher (as they own the copyright to the song) but the Publishing Administrator now licenses and collects the money for the song. The Publishing Administrator takes a cut of the money it collects, as a fee for its service, and then passes the rest back to the person that is both the Songwriter and Publisher. Publishing Administrators typically work for a large number of Songwriters at the same time. (Figure 22)

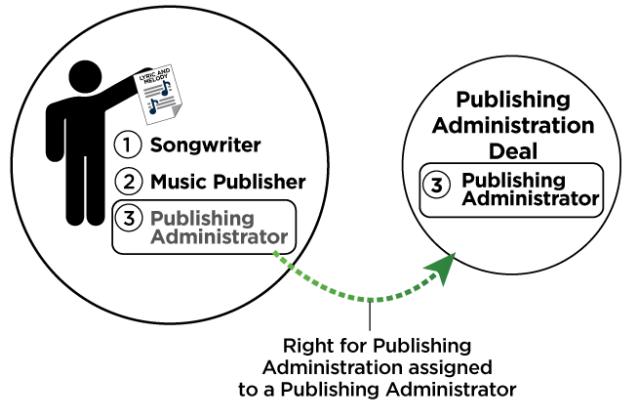


Figure 22

(I encourage you to take a moment and re-read numbers 1 and 2 above. It’s important to understand the difference between a Self-Published Songwriter and a Publishing Administrator.)

**The Entity That Gets Paid The Composition/Song Royalties**

In addition, the royalty generated for the Composition/Song from a stream on Spotify is not paid to the Record Label (like a Sony Records), the distributor or the entity that works for the DIY artist to distribute their recording into Spotify (like DistroKid, CD Baby, TuneCore etc). It is paid to one of the following different entities:

1. A “Self-Published Songwriter”
2. A “Publishing Administrator”

OR

3. A Reproduction Rights Collection Agency like Audiam, that is hired by either the Self-Published Songwriter or the Publishing Administrator to license and collect royalties for a sub-section of the right of Reproduction (more on this later).

In this example, Dolly Parton wrote the Composition/Song (i.e. the lyric and melody) to the song “I Will Always Love You.” Once Spotify has the second separate license to the Composition/Song, a second separate royalty is generated and owed to Dolly for each qualifying stream of a recording of her song. The Sound Recording that streamed can be one she recorded herself or recorded by another artist that covered her song (like Whitney Houston). Each time a recording of Dolly’s Composition/Song streams on Spotify, there are two distinct separate royalties generated: (1) one for the Sound Recording and (2) a second separate one for the Composition/Song.

This concept also holds true for a DIY artist that writes his/her own Composition/Song, records it and then uses DistroKid, CD Baby, TuneCore, etc. to distribute it into Spotify. Whether this is the DIY artist's own Sound Recording, or that of another artist who has recorded the DIY artist's Composition/Song, each time a Sound Recording of the DIY artist's song streams on Spotify there are two distinct and separate royalties earned. One is for the Sound Recording, and a second separate one is for the Composition/Song (*Figure 23*).

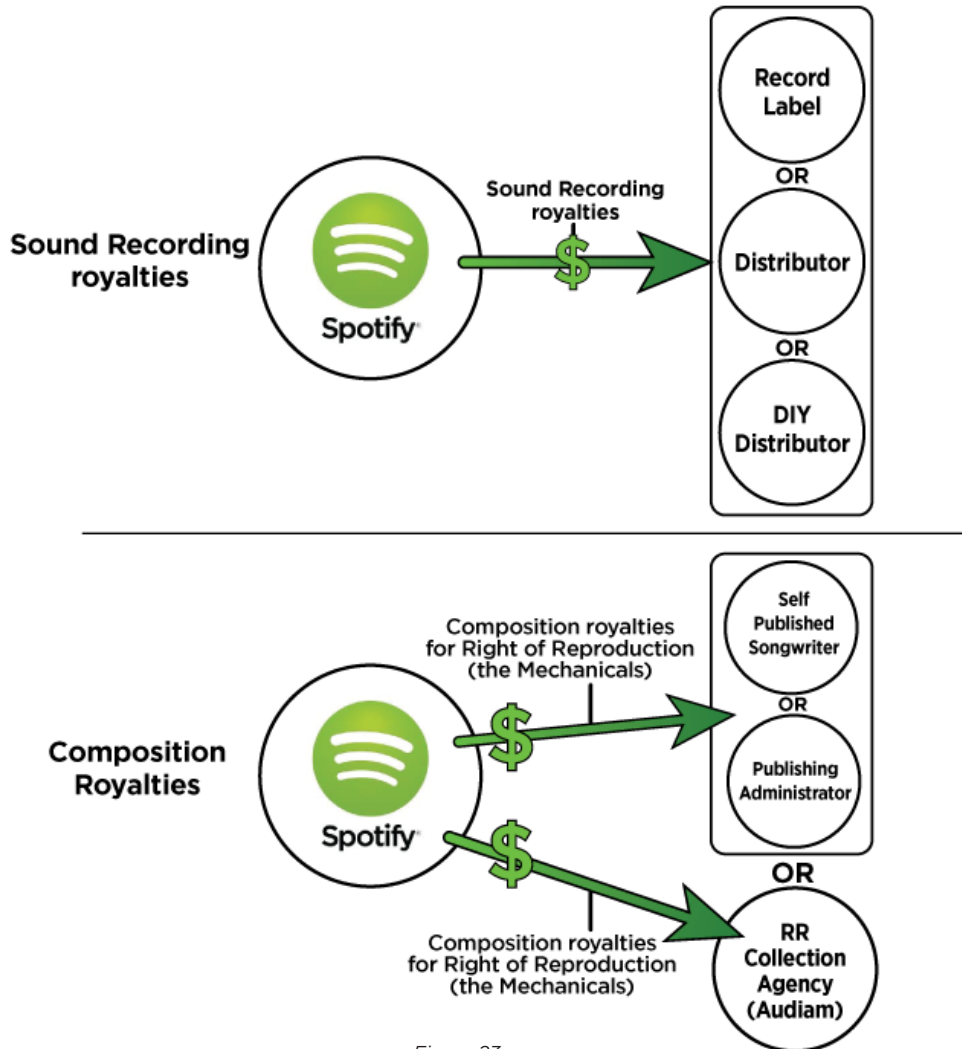


Figure 23

**Composition/Song Royalties Are Split Between Two Of The Six Types Of Legal Rights You Get With The Copyright Of A Composition/Song: These Are The Rights of Public Performance And Reproduction**

As described above, in the U.S., when a Composition/Song is written down or recorded it instantly gets a copyright. The copyright contains six types of legal rights. Publishing Administration is the licensing and collection of the money associated with these six types of legal rights. These six types of legal rights are the rights of:

1. Public Performance
2. Reproduction
3. Public Display
4. Derivatives
5. Digital Transmission
6. Distribution

The royalty money for the Right of Reproduction is called a “Mechanical” royalty (this is the music industry, so we have to make things confusing).

Although the use of the Composition/Song by Spotify requires a few of the six types of rights listed above, the royalties earned from a Composition/Song are split between just two of these rights: Reproduction and Public Performance. Again, the royalty money for the right of Reproduction is called a “Mechanical” royalty (Figure 24).

**Royalties for the Composition/Song are split between Public Performance and Reproduction (the Mechanical)**

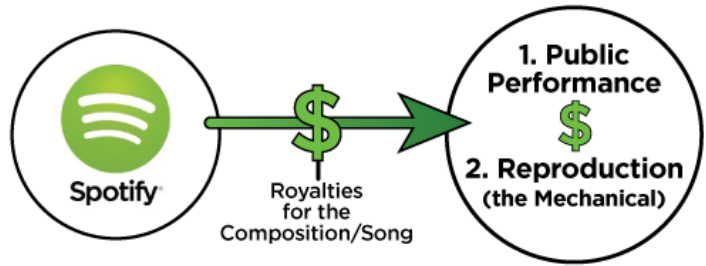


Figure 24

**Spotify Needs Both The Rights Of Public Performance And Reproduction To Stream A Recording.**

Spotify MUST have both the rights of Public Performance and Reproduction to legally stream a Sound Recording of a Composition/Song (Figure 25).



Figure 25

If Spotify only has “Public Performance” rights but not “Reproduction” rights to a Composition/Song, then it does not have all the required licenses and rights to allow it to stream a Sound Recording of that Composition/Song (Figure 26).

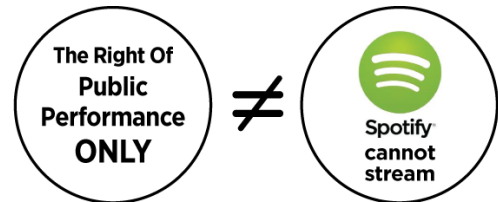


Figure 26

The same holds true if Spotify has the “Reproduction” right but lacks the “Public Performance” right. It must have a license to both in order to legally stream a Sound Recording on its service (Figure 27).

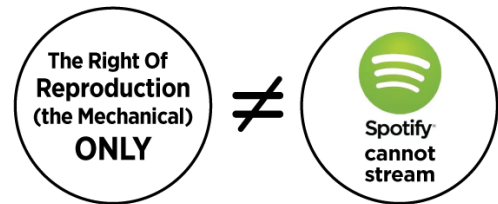


Figure 27

**A QUICK SIDE NOTE ON THE RIGHTS OF PUBLIC PERFORMANCE AND REPRODUCTION: WHAT THEY ARE AND WHERE/WHOM TO GET THE LICENSE FROM**

**The Right Of Public Performance:**

A simplified description of the right of Public Performance is anytime a songwriter’s Composition/Song is broadcast/played on TV, the radio, or the internet, or is performed in a live venue in a public setting. When these things occur, a Public Performance license is required. With a Public Performance license for the Composition/Song, a royalty is also usually generated for the Composition/Song.

Public Performance licenses are needed for:

- Music streaming as “audio only” without a video in an “interactive” music service like Spotify
- Music streaming as “audio only” without a video in a “non-interactive” music service like the original Pandora radio service
- TV shows
- AM/FM radio
- Digital Radio (like SiriusXM)
- Public venues at which bands or musicians play live (their own songs or other people’s)
- Dance clubs or other venues that play music
- Music in elevators
- Music in retail stores
- Music in gyms
- Music in YouTube videos
- Music in videos streaming on the Internet, such as Netflix and Hulu
- ..and more.

To accurately license and collect Public Performance money the Self-Published Songwriter or Publishing Administrator must be able to listen to all the music being publicly performed at all times everywhere in the world; from a noodle shop in Japan, to every radio station in the world, to every video on YouTube, to every TV station, to every streaming music service, to every restaurant and more.

Clearly this is an impossible task for the Self-Published Songwriter or the Publishing Administrator to do on their own. Therefore, they outsource this and hire a company that specializes in this one job. The company they hire is called a Performing Rights Organization (PRO). These companies are experts in licensing and collecting Public Performance royalties around the world for the Composition/Song. (Figure 28)

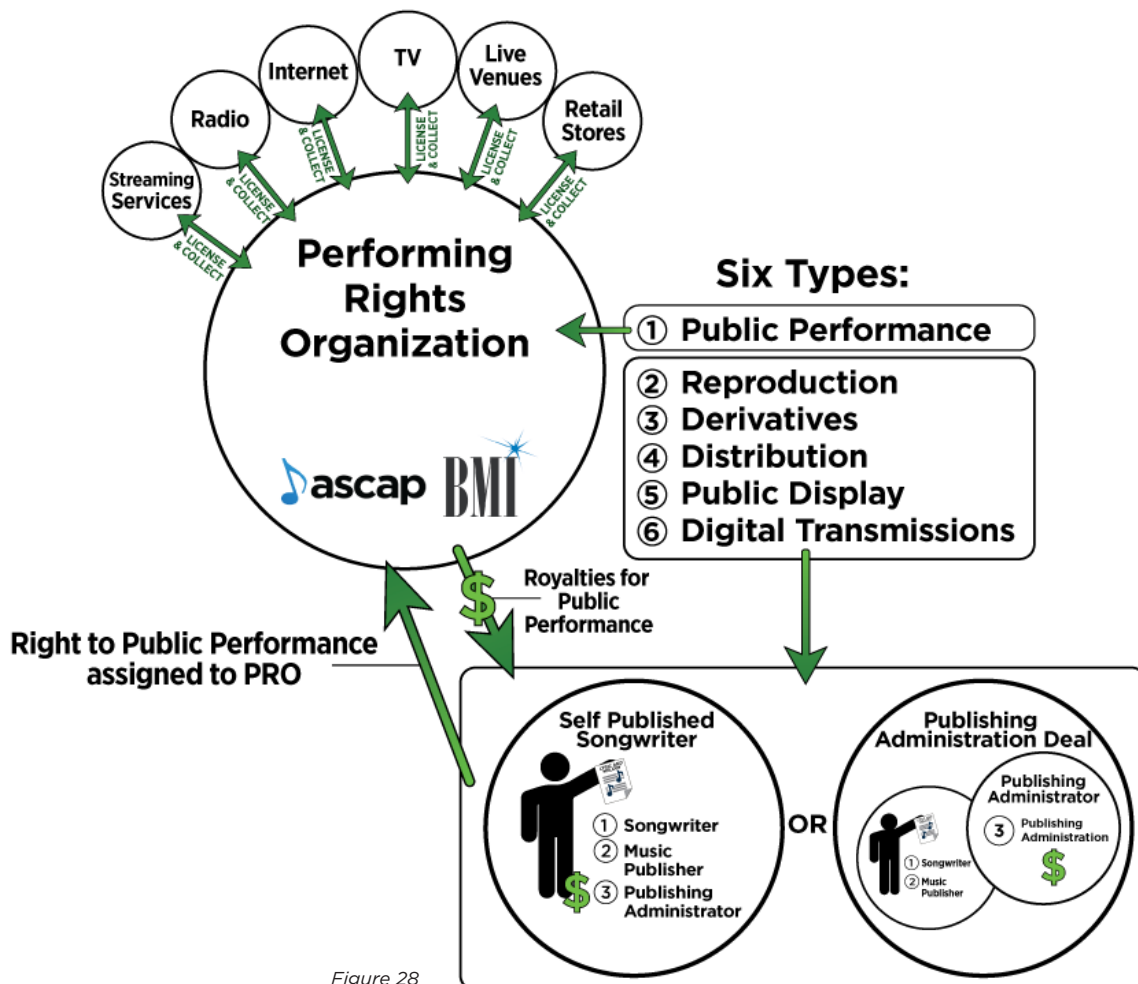


Figure 28

To hire the PRO, they must become a member. In becoming a member, they are granting the rights to the PRO to license and collect money for their Composition/Song for just one of the six right types, the right of Public Performance. They are still responsible for licensing and collecting the other remaining five rights types.

In the United States there are four main PROs. The two biggest are ASCAP and BMI. The other two are SESAC and GMR. ASCAP and BMI license on behalf of such a large number of Composition/Songs, Self-Published Songwriters, and Publishing Administrators, that they are regulated by the U.S. government. One of the ways the US government regulates ASCAP and BMI is by preventing them from having exclusive control over the right of Public Performance. This means that although the Self-Published Songwriter or the Publishing Administrator has become a member of ASCAP or BMI, they, just like ASCAP and BMI, also have the right to license their own Public Performance rights or assign the exact same rights of Public Performance to another entity. In other words, their relationship with ASCAP and BMI is non-exclusive.

Therefore, if you are an entity that needs a Public Performance license (like Spotify), you have a choice of whom to get the right of Public Performance from:

- The PRO
- The Self-Published Songwriter or the Publishing Administrator

That said, typically the entity that needs the Public Performance license will get it from ASCAP and BMI (in addition to SESAC and GMR). They do this for a whole host of reasons, but mainly for the economies of scale offered. From just two contracts (one with ASCAP and another from BMI), they can get the Public Performance rights to tens of millions of Compositions/Songs from around one million Songwriters, as opposed to having to enter into one million contracts with one million individual Self-Published Songwriters or Publishing Administrators. (Figure 29)

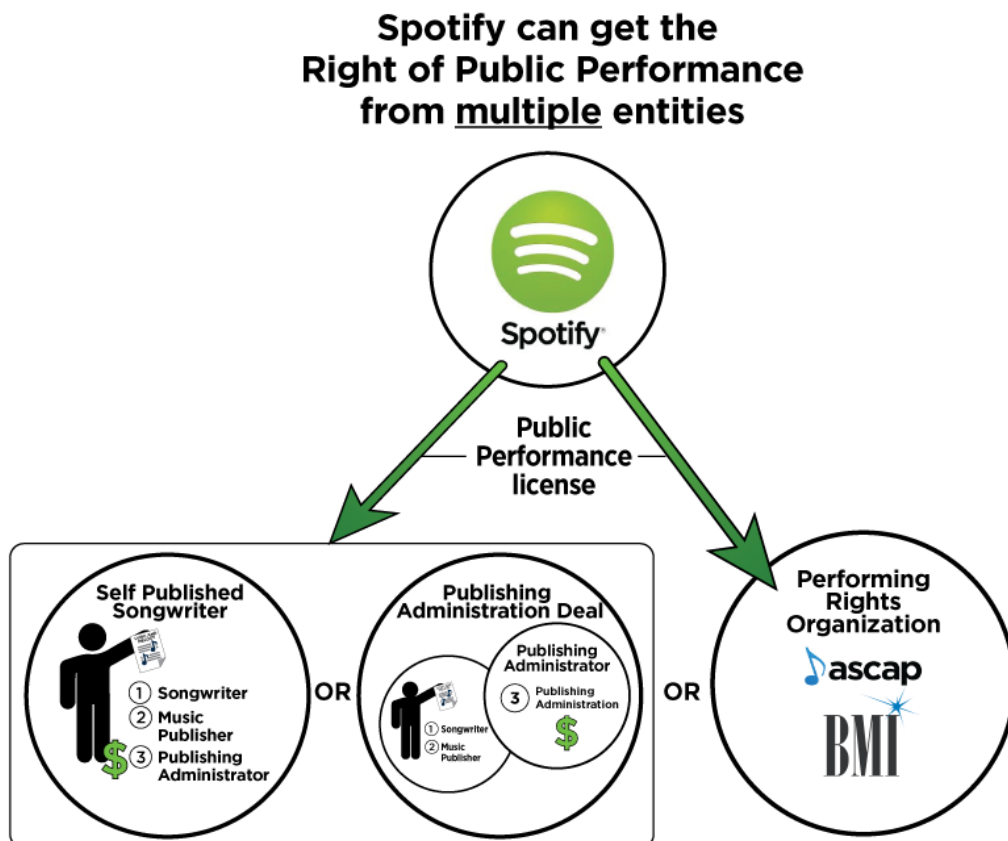


Figure 29



## The Right Of Reproduction Is Exclusive

The same concept does not apply for the right of Reproduction. The right of Reproduction is controlled exclusively by one of the following three entities:

1. The Self-Published Songwriter
2. The Publishing Administrator
3. A Reproduction rights collection agency like Audiam

Spotify can only get the right of Reproduction (the Mechanical) from one of these three entities, as that entity exclusively controls this right (*Figure 30*)

### Spotify gets the Right of Reproduction (the Mechanicals) exclusively from only one of three entities

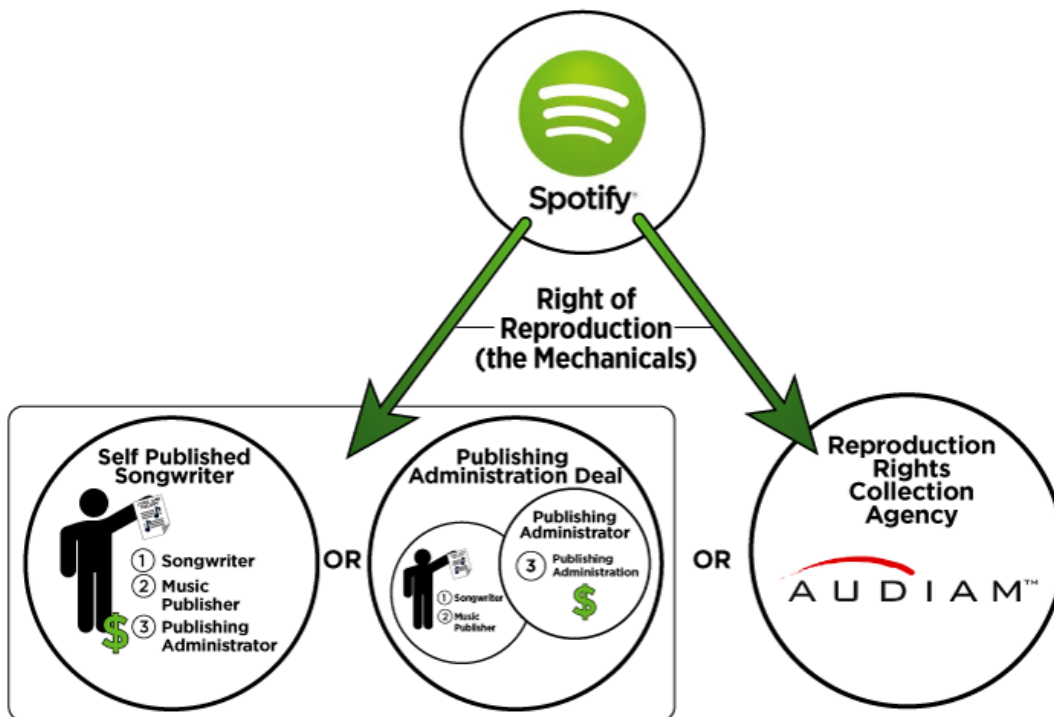


Figure 30

## The Right Of Reproduction and Mechanical Licenses

The right of Reproduction means every time a Composition/Song is “reproduced,” the entity making the reproduction must have a license from the Self-Published Songwriter, Publishing Administrator or Reproduction Rights collection agency, such as Audiam. This type of license is called a “Mechanical” license.

A “Reproduction” is when there is a recording of a Composition/Song replicated or duplicated. For example, Sony Records (the record label) must get a Mechanical license for the right of Reproduction to manufacture a CD, a piece of vinyl, a cassette, etc. on which is a recording of Dolly’s Composition/Song “*I Will Always Love You.*” If Sony Records manufactured 10,000 CDs with a recording of Whitney Houston singing Dolly’s Composition/Song “*I Will Always Love You,*” this counts as 10,000 “Reproductions” and, with a license, there is usually a royalty generated for each of the 10,000 individual Reproductions.

The same holds true for an interactive streaming music service like Spotify. For Spotify to stream a Sound Recording (like Whitney performing “*I Will Always Love You*”) of a Composition/Song (like Dolly’s Composition/Song “*I Will Always Love You*”), it must have a “Mechanical license” from the Self-Published Songwriter, Publishing Administrator or Reproduction Rights collection agency.

**ROYALTIES FOR THE “COMPOSITION/SONG”:**

**Another Big Pot Of Money Divided By The Number Of Streams, But With Very Important Differences From Sound Recording Royalties**

For the Composition/Song royalty, the Self-Published Songwriter, Publishing Administrator or Reproduction Rights Collection agency earns a part of the money from a separate “big pot” of money for each stream of Sound Recordings of their Compositions/Songs. Remember that the Sound Recording of the Composition/Song can be their own recording or someone else’s. (Figure 31)



Figure 31

**How It Works For A Songwriter Signed To A Record Label When They Record Their Own Song**

For example, Dolly Parton wrote the Composition/Song “*I Will Always Love You.*” Dolly was hired by a record label to record her own song (it appears on Dolly’s album “*Jolene*” released in 1974 on RCA Victor Records). Her record label then released the Sound Recording and made it available to stream on Spotify. Each time the Sound Recording streams on Spotify, it generates two separate royalties. As discussed above, one is the Sound Recording royalty which is paid by Spotify to the record label. The record label then pays the recording artist - in this case Dolly - a percentage of the money the record label received from Spotify, based on a contract between the record label and the recording artist. (Figure 32)

**Sound Recording royalty for a Recording Artist signed to a record label who records their own Composition/Song**

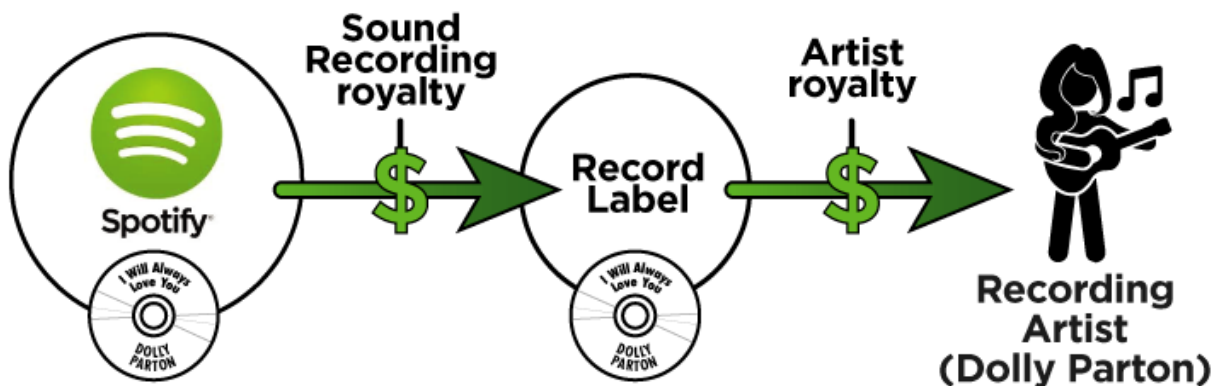


Figure 32

The second separate royalty is for the Composition/Song. Part of the second royalty is the Mechanical royalty for the Composition/Song. The Mechanical royalty is paid directly by Spotify to either the Self-Published Songwriter; the Publishing Administrator; or a Reproduction Rights Collection Agency like Audiam, hired to work for them. The Mechanical royalty is not paid to the record label or the distributor. (Figure 33)

**Mechanical royalty for the  
Composition/Song for a Recording Artist  
signed to a record label and they record  
their own Composition/Song**

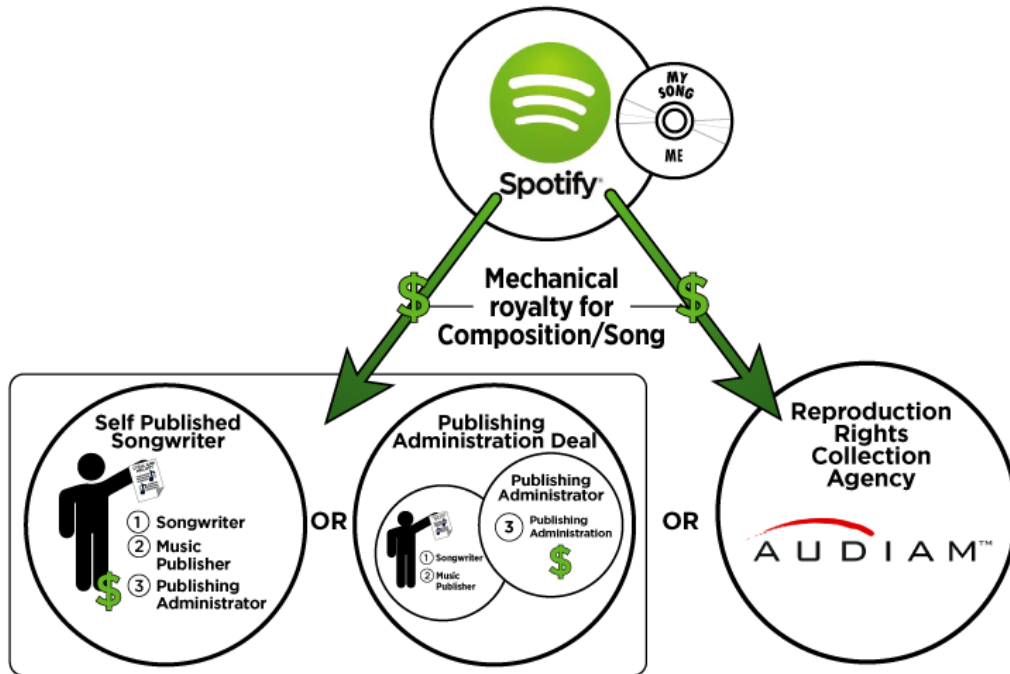


Figure 33

**How It Works For A Songwriter When Another Artist Signed To A Record Label Records The Songwriter’s Composition/Song**

The same holds true when Sony Records hires a recording artist (i.e. Whitney Houston) to sing the Songwriter’s Composition/Song (i.e. Dolly Parton’s song “I Will Always Love You”).

In this case, Sony Records releases the recording artist's (Whitney Houston) Sound Recording of the Composition/Song and makes it available to stream on Spotify. Each time the Sound Recording streams on Spotify it generates two separate royalties. The Sound Recording royalty is paid by Spotify to the record label (Sony Records). The record label then pays the recording artist (Whitney) a percentage of the Spotify money based on a contract between the recording artist (Whitney) and her label (Sony Records). (Figure 34)

### **Sound Recording Royalty for a Recording Artist signed to a record label that records another Songwriter's Composition/Song**

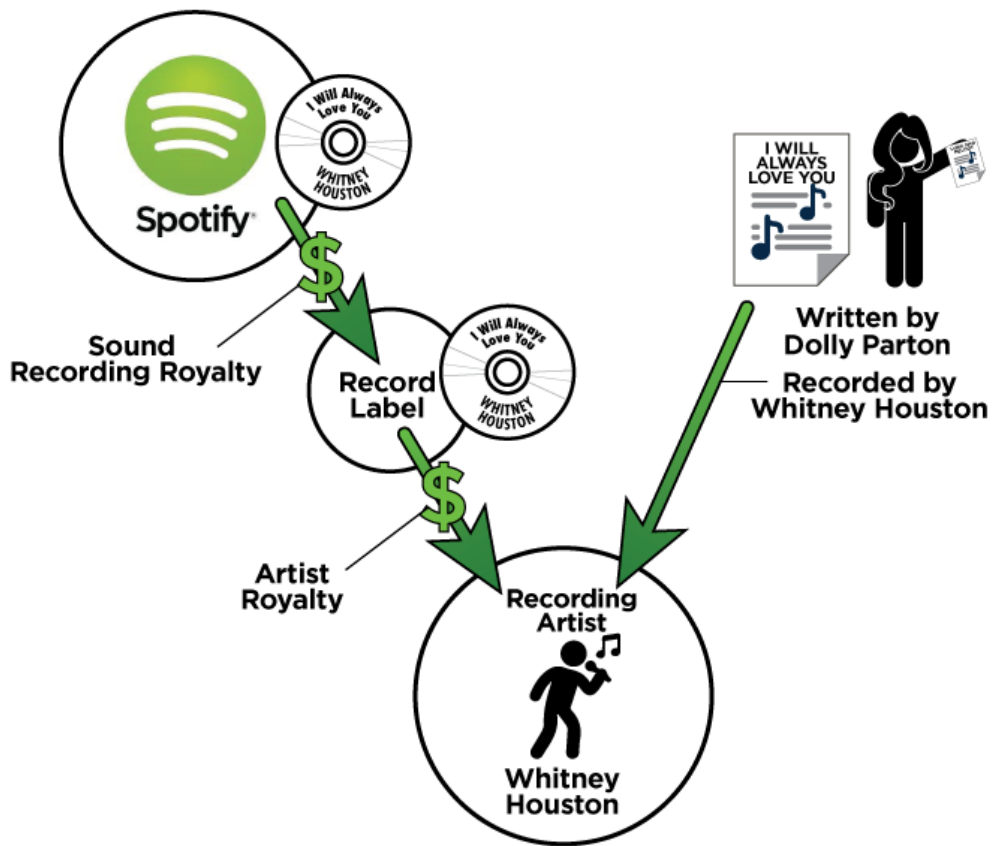


Figure 34

Part of the second royalty for the Composition/Song (called the Mechanical royalty) is paid directly by Spotify to either the Self-Published Songwriter; the Publishing Administrator she hired to work for her; or the Reproduction Rights Collection Agency like Audiam hired to work for them. The Mechanical royalty is not paid to the record label or the distributor (Figure 35).

**Composition/Song Royalty for a Songwriter when another artist signed to a record label records the Songwriter's Composition/Song**

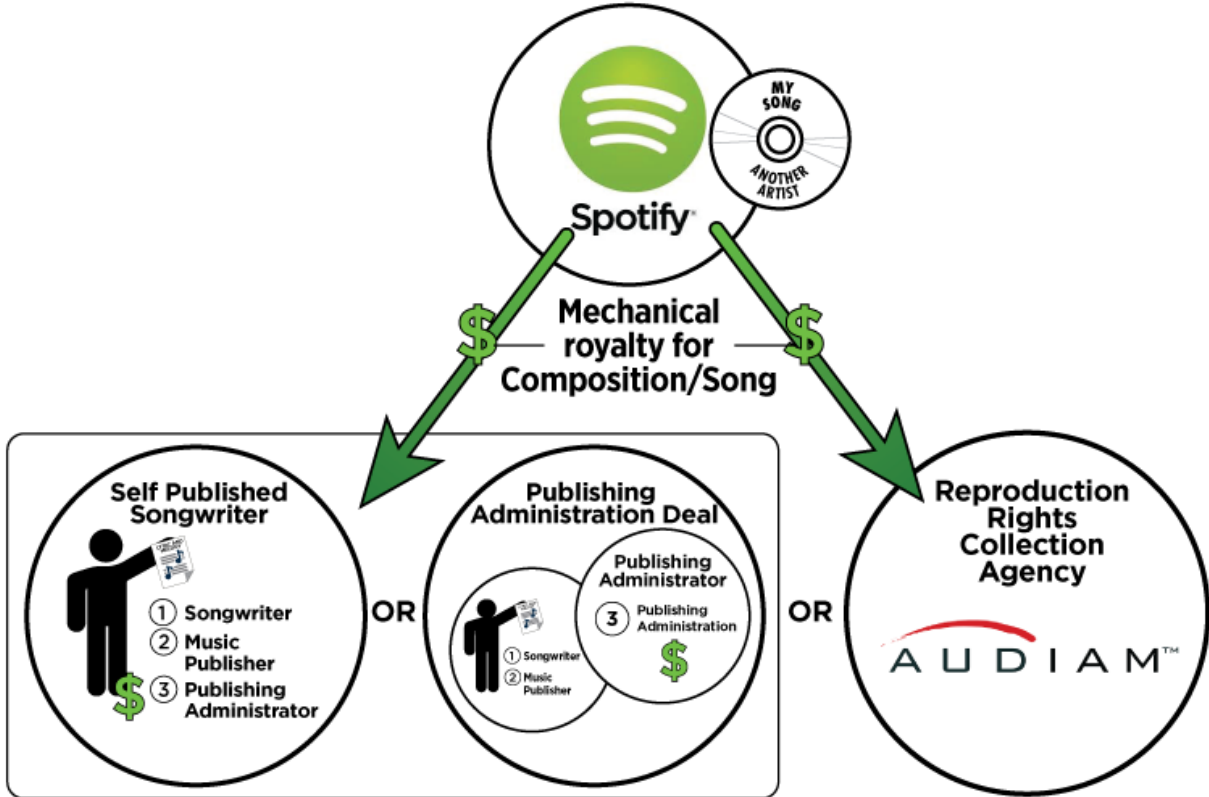


Figure 35

## How It Works For DIY Artists Using DistroKid, CD Baby, TuneCore Etc. When They Record Their Own Song

This same concept also applies to DIY artists who write and record their own Composition/Song, then make their Sound Recordings available to stream on Spotify by using a distributor like DistroKid, CD Baby, TuneCore etc.

In this case, the DIY artist/record label writes a Composition/Song and then records it. Next they assign the right to allow their Sound Recording of their own Composition/Song to stream on Spotify to DistroKid, CD Baby, TuneCore etc. Then, DistroKid, CD Baby, TuneCore etc. assign the right to Spotify. Each time the Sound Recording streams on Spotify it generates two separate royalties. The Sound Recording royalty is paid by Spotify to the distributor (DistroKid, CD Baby, TuneCore etc.). The distributor then pays some or all of the Sound Recording royalty back to the artist (in this case the DIY Artist/Record Label) based on the contract between the distributor (DistroKid, CD Baby, TuneCore etc.) and the artist (who is also the DIY Artist/ Record Label). (Figure 36)

### Sound Recording royalty for a DIY Artist using DistroKid, CD Baby, TuneCore, etc that records their own Composition/Song

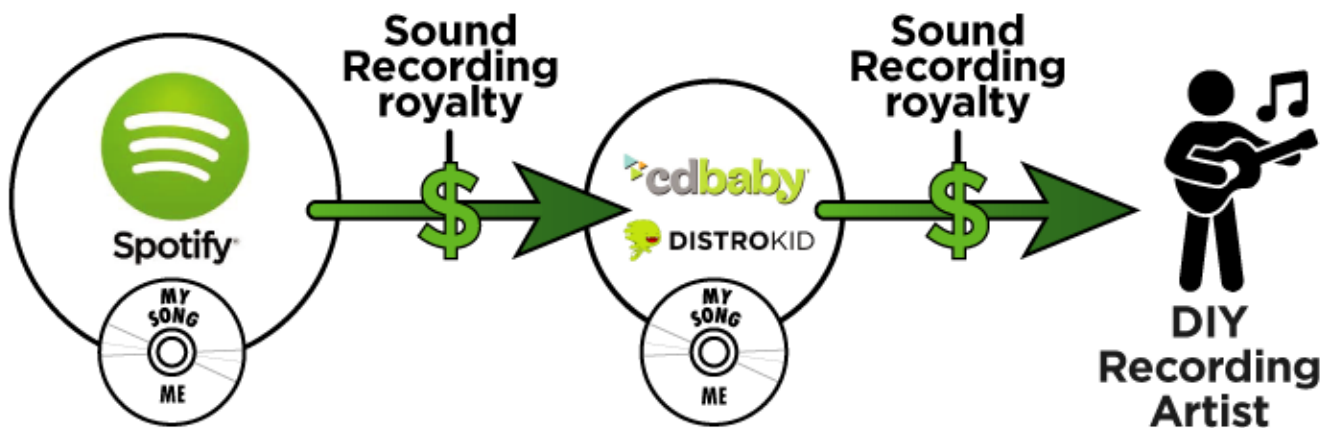


Figure 36

Part of the second royalty for the Composition/Song (called the Mechanical royalty) is paid directly by Spotify either to the Self-Published Songwriter (in this case the same DIY Artist/Songwriter that recorded it), the Publishing Administrator, or a Reproduction Rights Collection Agency they joined like Audiam. The Mechanical royalty is not paid to the distributor- DistroKid, CD Baby, TuneCore etc. (Figure 37)

### **Composition/Song Royalty for a DIY Artist using DistroKid, CD Baby, TuneCore, etc. that records their own Composition/Song**

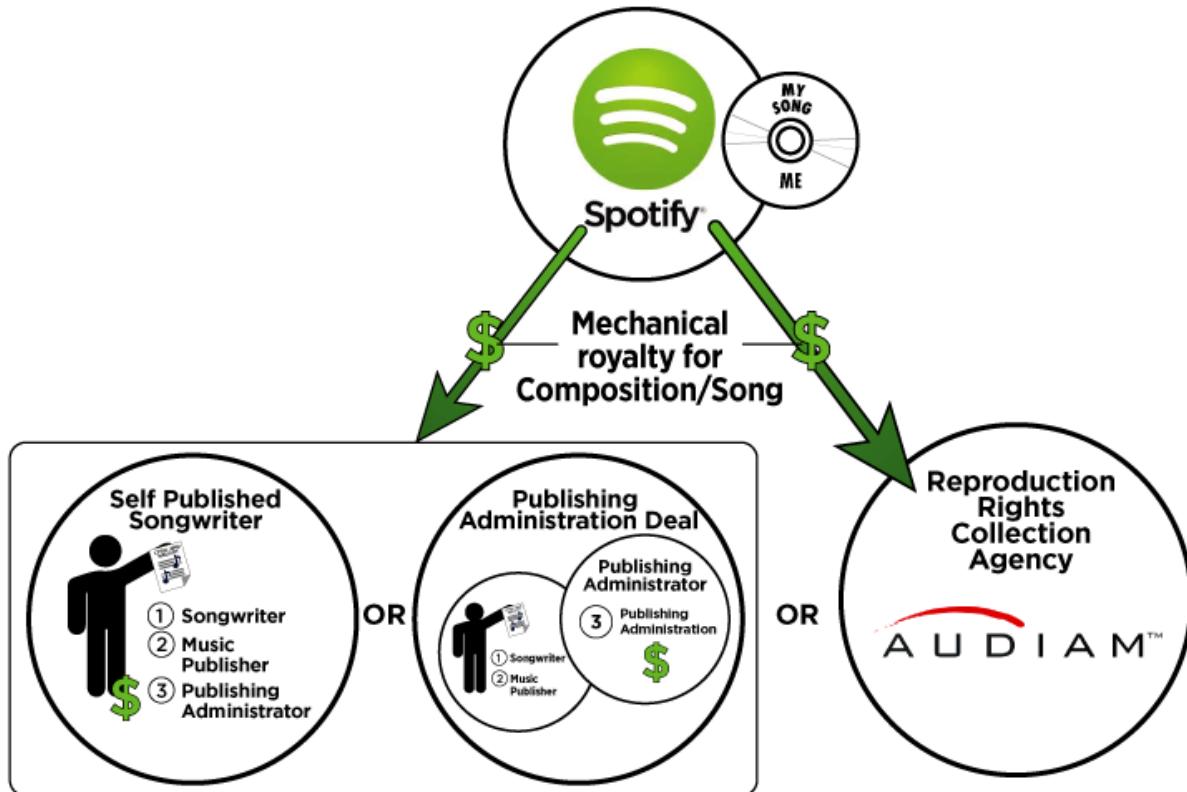


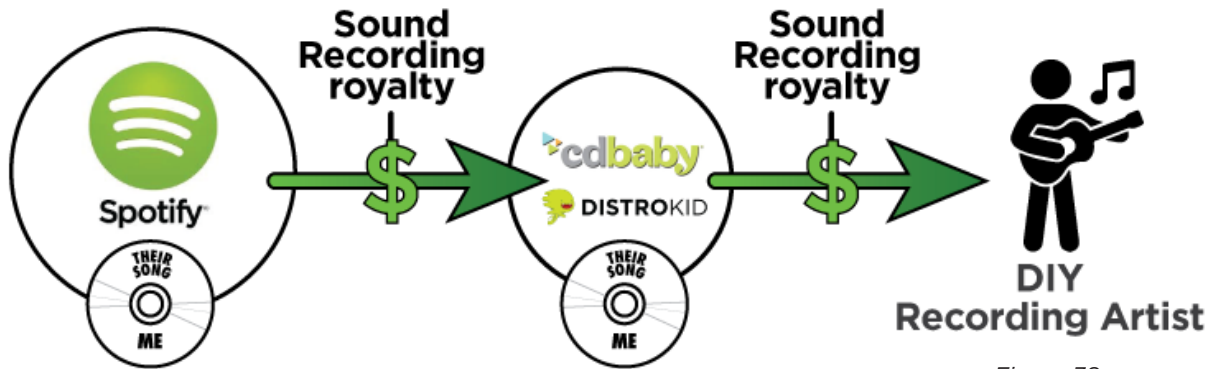
Figure 37

#### **How It Works For DIY Artists Using DistroKid, CD Baby, TuneCore, etc. When Another Artist Records Their Song**

These same concepts also apply to DIY artists/songwriters who write their own songs but another artist records their song—either another DIY Artist using a distributor like DistroKid, CD Baby, TuneCore, etc., or a recording artist signed to a record label.

In this case the rights to the stream the Sound Recording on Spotify are either granted by the distributor (DistroKid, CD Baby, TuneCore, etc.) or the record label (Sony Records). Each time the Sound Recording streams on Spotify it generates two separate royalties. The Sound Recording royalty is paid by Spotify to the distributor (DistroKid, CD Baby, TuneCore etc) or the record label (Sony Records) who in turn pay the DIY Artist or the signed recording artist (*Figure 38*).

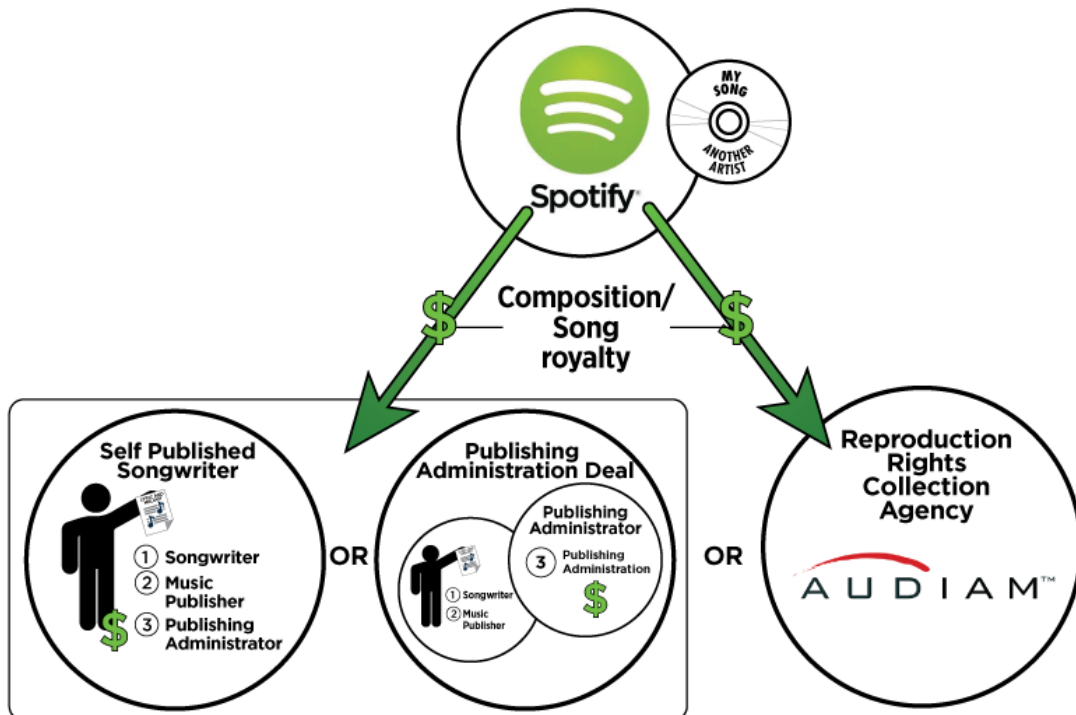
**Sound Recording royalty for a DIY Artist using DistroKid, CD Baby, TuneCore, etc that records another artist's Composition/Song**



*Figure 38*

Part of the second royalty for the “Composition/Song” (called the “Mechanical” royalty) is paid directly by Spotify either to the Self-Published Songwriter (DIY Artist/Songwriter), the Publishing Administrator hired to work for them, or a Reproduction Rights Collection Agency they joined like Audiam. The Mechanical royalty is not paid to the distributor. (*Figure 39*)

**Composition/Song royalty for a DIY Artist/Songwriter using DistroKid, CD Baby, TuneCore etc when another Artist records their Composition/Song**



*Figure 39*



Just like with the Sound Recording royalty, the amount paid for each stream of the Mechanical royalty changes every month as it's based on factors including how much Revenue was made by Spotify in one month, and how many streams occurred in that same month.

Before we get to how the “big pot” of money for the Composition/Song is determined we have to first note the differences between the Sound Recording and Composition/Song licenses and royalties.

## **IMPORTANT DIFFERENCES BETWEEN THE SOUND RECORDING LICENSE AND THE COMPOSITION/SONG LICENSE**

There are major and important differences between how licenses are obtained, and royalty rates determined for Sound Recordings as compared to Compositions/Songs.

### **Sound Recording License and Royalty Rates**

With Sound Recordings, there is no law that compels or forces the record label/distributor into giving Spotify (or other interactive streaming music services like it) a license to let their Sound Recordings stream on the Spotify service; each label and/or distributor can say “no.” If they do say “no,” then Spotify cannot legally stream their Sound Recordings and has no other way to get the rights to the Sound Recordings.

If the record label/distributor does want to license their Sound Recordings to Spotify to stream, then Spotify must negotiate a direct license agreement with each record label/distributor. In addition, the royalty rate and other terms of the Sound Recording license can differ from agreement to agreement.

This is very different than the way it works for the Composition/Song.

### **Composition License and Royalty Rates**

For the Composition/Song there IS a law that DOES compel and force the Composition/Songwriter to let Sound Recordings of their Composition/Song stream on Spotify (and other music services like it). The Self-Published Songwriter, Publishing Administrator or Reproduction Rights Collection agency cannot say “no” to giving Spotify a license, provided Spotify follows the rules the government has outlined in U.S. Copyright law.

The license for the necessary rights to the Composition/Song is called a “Compulsory” license. It is called a Compulsory license because the Self-Published Songwriter, Publishing Administrator, or Reproduction Rights Collection agency are compelled to give Spotify a license to the Composition/Song.

Because there is a “Compulsory” license, the royalty rates for all Self-Published Songwriters, Publishing Administrators or Reproduction Rights Collection agencies are the same. It does not matter if you are Bob Dylan, Kayne West, a kid in a bedroom, the largest music Publishing Administrator, a reproduction rights collection agency like Audiam, or any other entity. The exact same royalty rates apply for the right of Reproduction (the Mechanical) for the Composition/Song for all eligible streams of Sound Recordings of a Composition/Song.

The royalty rates for each stream of a recording of a Composition/Song dictated under the Compulsory license are called “Statutory Rates,” and they are set and regulated by the U.S. government and set by a statute ( a “statute” is a written law passed by a legislative body).

To say all this another way, under the Compulsory license, the Self-Published Songwriter, Publishing Administrator, or Reproduction Rights Collection Agency are forced by the U.S. government to grant a

license to their Compositions/Songs to services like Spotify. In addition, the U.S. government regulates and sets the royalty rate for the stream of each Sound Recording of a Composition/Song. You can't say no, and you don't really have the ability to negotiate a royalty rate that you think is best.

### How The Statutory Rates Are Determined

The Statutory Rate is the amount of money paid for each eligible stream of a Sound Recording of a Composition/Song on Spotify. Under U.S. law, the Statutory Rate is set by three US Copyright Board (CRB) judges in Washington, D.C. These judges meet once every five years to set royalty rates. At these royalty rate setting proceedings, they listen to arguments made by lawyers representing songwriters, Publishing Administrators, record labels, and music services like Spotify, to either raise, lower or keep the royalty rates the same.

For the past 15 years or so, the three CRB judges have ruled to keep the rates the same. It was only in January of 2018, that the CRB judges ruled to increase the royalty rates for the Composition/Song a little bit each year starting in 2018 and ending in 2022.

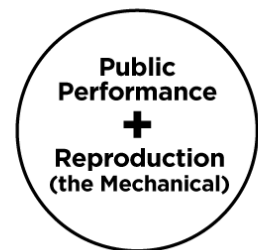
However, at the time this article was written, these new increased royalty rates are being appealed and challenged by Spotify, Google, Amazon, Pandora, and others. Apple is not challenging them. This means at some point a number of years from now, these new rates may stay as they are or be decreased. A proceeding to set the statutory rates for 2023-2027 is expected to commence in 2022.

### STREAMING STATUTORY ROYALTY RATES FOR THE COMPOSITION/SONG AS DETERMINED BY THE CRB

First, it's important to note that the royalties being generated for the Composition/Song are for both the rights of Public Performance and Reproduction (the "Mechanical"). We call this the "All In" royalty, as the royalty being generated is for both of these rights (*Figure 40*).

Said another way, if there is an "All In" royalty of \$1.00 generated for a Composition/Song, that \$1.00 is for both the rights of Public Performance and Reproduction (the "Mechanical").

#### "All-In" Composition/Song Royalty



*Figure 40*

Things get a bit more confusing when the \$1.00 gets split between the two types/rights. How much of the \$1.00 is for Public Performance and how much of the \$1.00 is for Reproduction? This split of the royalty is defined by a combination of the CRB and the rules on how to calculate the royalties earned when a Sound Recording of a Composition/Song streams on Spotify.

Let's start with the big pot of money for the "All In" royalty. The Statutory Royalty Rate requires two different calculations to be run, the higher of the two is how much money gets put into a "big pot" of money for the Composition/Song for the "All In" royalty.

### CALCULATION 1 FOR THE "ALL IN" ROYALTY: A Percentage of Spotify's Monthly Gross Revenue

The first calculation is based on a percentage of Spotify's monthly Revenue as set by the CRB judges. As an example, the percentage of Spotify's monthly Revenue as set by the CRB in 2020 is 13.3%.

If Spotify had \$100 in monthly Revenue in January 2020, then 13.3% of \$100 would be the amount of the first calculation, an amount of \$13.30. (Figure 41)

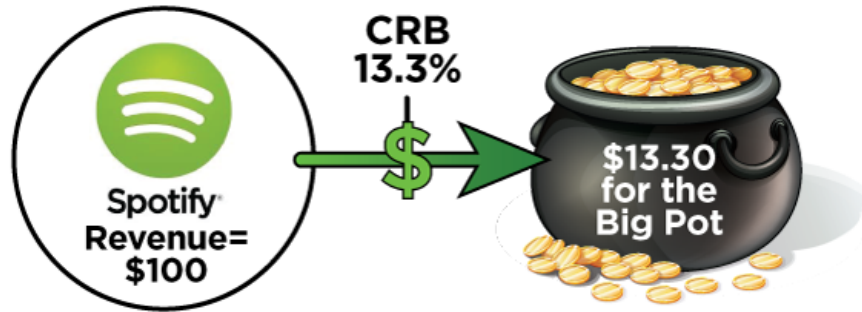


Figure 41

The rates set by the CRB for the first calculation, based on a percentage Spotify's monthly Revenue from 2017 - 2022 are as follows:

YEAR	% OF SPOTIFY'S GROSS REVENUE
2001-2017	10.5%
2018	11.1%
2019	12.3%
2020	13.3%
2021	14.2%
2022	15.1%

**CALCULATION 2 FOR THE "ALL IN" ROYALTY:**

**A Percentage Of The Combined Total Sound Recording Royalties Generated For All The Record Labels That Had Sound Recordings Stream On Spotify In A Month**

The second calculation is a percentage of the combined total Sound Recording royalties generated for all the record labels/distributors that had Sound Recordings stream on Spotify in a month (called the "Label Costs").

If you recall from earlier in this article, the amount in the "big pot" for sound recording royalties is the higher of (1) 50% to 60% of Spotify's monthly Revenue or (2) the per subscriber minimum.

Assume that after these calculations are run, the "big pot" of royalties earned for Sound Recordings in aggregate for the month was \$57.20 (the "Label Costs".)

The percentage of the "Label Costs" that must be calculated for the "all in" royalty for the Composition/Song is also set by the CRB. As an example, the percentage of the "Label Costs" the CRB set for 2020 is 24.1%.

So, if all the record labels and distributors earned a combined total of \$57.20 for Sound Recording royalties in a month in 2020, then 24.1% of \$57.20 would be the amount of the second calculation, an amount of \$13.79 (Figure 42).

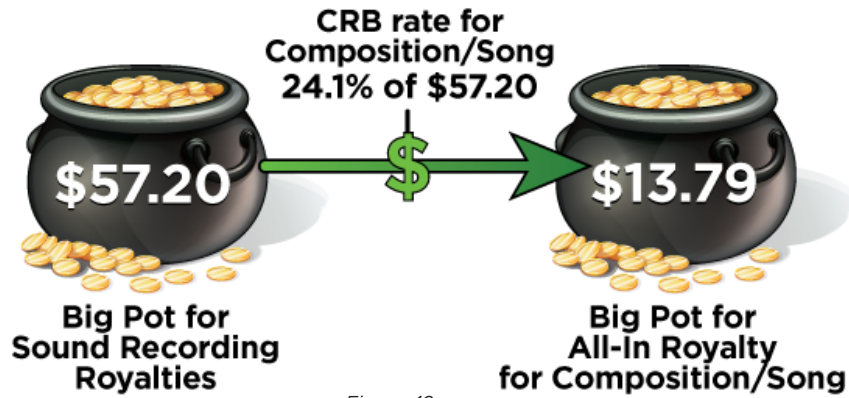


Figure 42

The rates set by the CRB for the second calculation based on a percentage of the “Label Costs” are as follows:

YEAR	% OF THE COMBINED TOTAL SOUND RECORDING ROYALTIES GENERATED FOR ALL THE RECORD LABELS THAT HAD SOUND RECORDINGS STREAM ON SPOTIFY IN A MONTH
2001-2017	21.0%
2018	22.0%
2019	23.1%
2020	24.1%
2021	25.2%
2022	26.2%

### COMPARE CALCULATION 1 TO CALCULATION 2 AND PICK THE HIGHER ONE

Now that the two formulas have been run based on the CRB rates, the higher of the two goes into the “big pot” for the “All In” royalty for the Compositions/Songs for the month.

In this example:

- \$13.30 is the percentage of Spotify’s Monthly Revenue
- \$13.26 is the percentage of the Label Costs

\$13.30 is higher, therefore the \$13.30 goes into the “big pot” for the “All In” royalties earned for all the Compositions/Songs. (Figure 43)

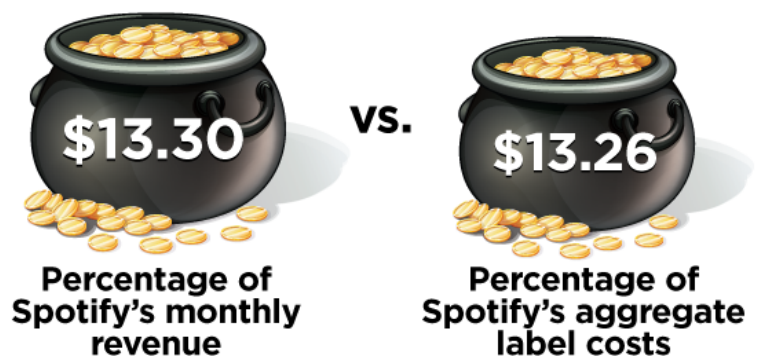


Figure 43

**SPLITTING THE “ALL IN” COMPOSITION/SONG ROYALTIES EARNED BETWEEN THE RIGHT OF PUBLIC PERFORMANCE AND THE RIGHT OF REPRODUCTION**

To recap, the \$13.30 in this example is an “All In” royalty for both the rights of Public Performance + Reproduction (the Mechanical) (Figure 44).

So now we need to determine what part of the \$13.30 is for Public Performance and what part of the \$13.30 is for Reproduction (the Mechanical).

**How Much Of The “All In” Royalty For The Composition/Song Goes To The Right Of Public Performance**

The royalty for Public Performance is effectively determined by the aggregate total of agreements between Spotify and the Performing Rights Organization (PRO).

If you recall from earlier in this article, a Self-Published Songwriter or the Publishing Administrator may hire a PRO to license and collect Public Performance royalties for the Compositions/Songs. The licenses Spotify negotiates with the PROs dictate what the royalty costs for the Public Performance of the Composition/Song will be.

(Quick side note, ASCAP and BMI - the two main PROs in the United States - are so big that the US government regulates them and makes them follow certain rules under something called a consent decree. One of the rules states that ASCAP and BMI effectively cannot say no to a license request. If Spotify disagrees with the royalty rate and terms being asked for by BMI and/or ASCAP, or vice versa, and they cannot come to an agreement as to how much it should be, either party may choose to apply for a rate court proceeding before a judge in the Southern District of New York and argue in front of the court to set rates and terms. Now back to the show.....)

The royalty rate that U.S. based PROs get from Spotify for the right of Public Performance of a Composition/Song is currently an aggregate total of about 6% of Spotify’s monthly revenue. You will see the actual amount displayed on Spotify’s own royalty statement, and run your own calculation if you like, later in this article.

As an example, if Spotify had \$100 in Revenue for the month, 6% of the \$100 would be earned by the PRO for the Public Performance of the Composition, an amount of \$6.

**How Much Of The “All In” Royalty For The Composition/Song Goes To The Right Of Reproduction (The Mechanical)**

This \$6 Public Performance royalty is part of the “All In” royalty. After it is deducted from the total in the “big pot,” the remainder is for the right of Reproduction (the Mechanical) (Figure 45).

Using the example above of \$13.30 for the “All In” royalty, \$6 of the \$13.30 would be for the right of Public Performance, leaving \$7.30 for the right of Reproduction (the Mechanical) (Figure 46).



Figure 44

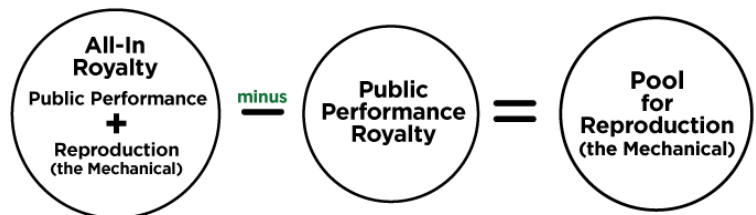


Figure 45



Figure 46

The same formula would apply, no matter whether the percentage of the Label Costs or percentage of Spotify's monthly Revenue number was higher. Whichever number is the highest gets the same \$6 deducted from the "big pot" with the rest of the money left for the right of Reproduction (the Mechanical).

BUT.... that's not all. No matter how much Spotify paid to the PRO for the right of Public Performance, the Self-Published Songwriters and Publishing Administrators wanted to make certain they generated a minimum amount of royalties for the right of Reproduction (the Mechanicals).

Thus, the next part of the formula.

**Why There Is A Minimum Amount That Must Be Paid Per Stream For The Right Of Reproduction (the Mechanical)**

Recall, the amount paid by Spotify for Public Performance is deducted from the "big pot" of money for the Composition/Song. If the amount paid by Spotify for public performance was a very high percentage of its revenue, it could leave very little in the "big pot" for the royalties for the right of Reproduction (the Mechanical). (Figure 47)

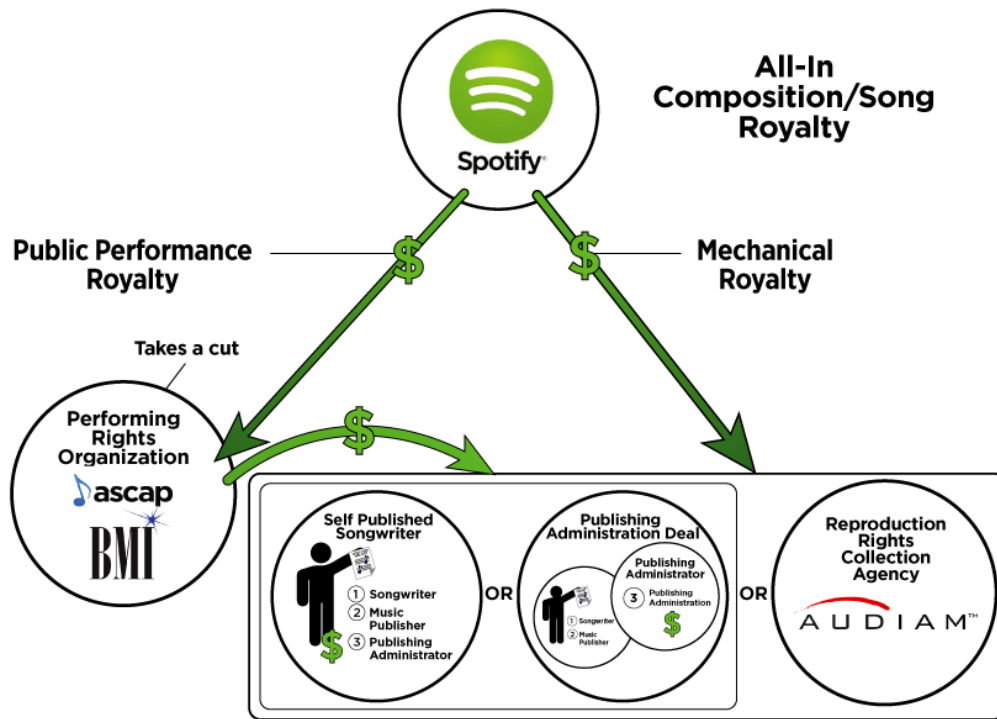


Figure 47

Also remember, the money for the right of Public Performance is not paid to the Self-Published Songwriter or Publishing Administrator. Instead, it is paid to the PRO, which then takes a percentage for its service fee (called an administration cost) and then pays out the remainder.

Therefore, any money paid to the Self-Published Songwriter or Publishing Administrator by Spotify directly would not have this second cut by the PRO taken out.

And there is one more important reason for requiring a minimum. For all five of the six types of legal rights listed above, all the royalties generated are to be paid only to the Self-Published Songwriter or the Publishing Administrator. (Figure 48)

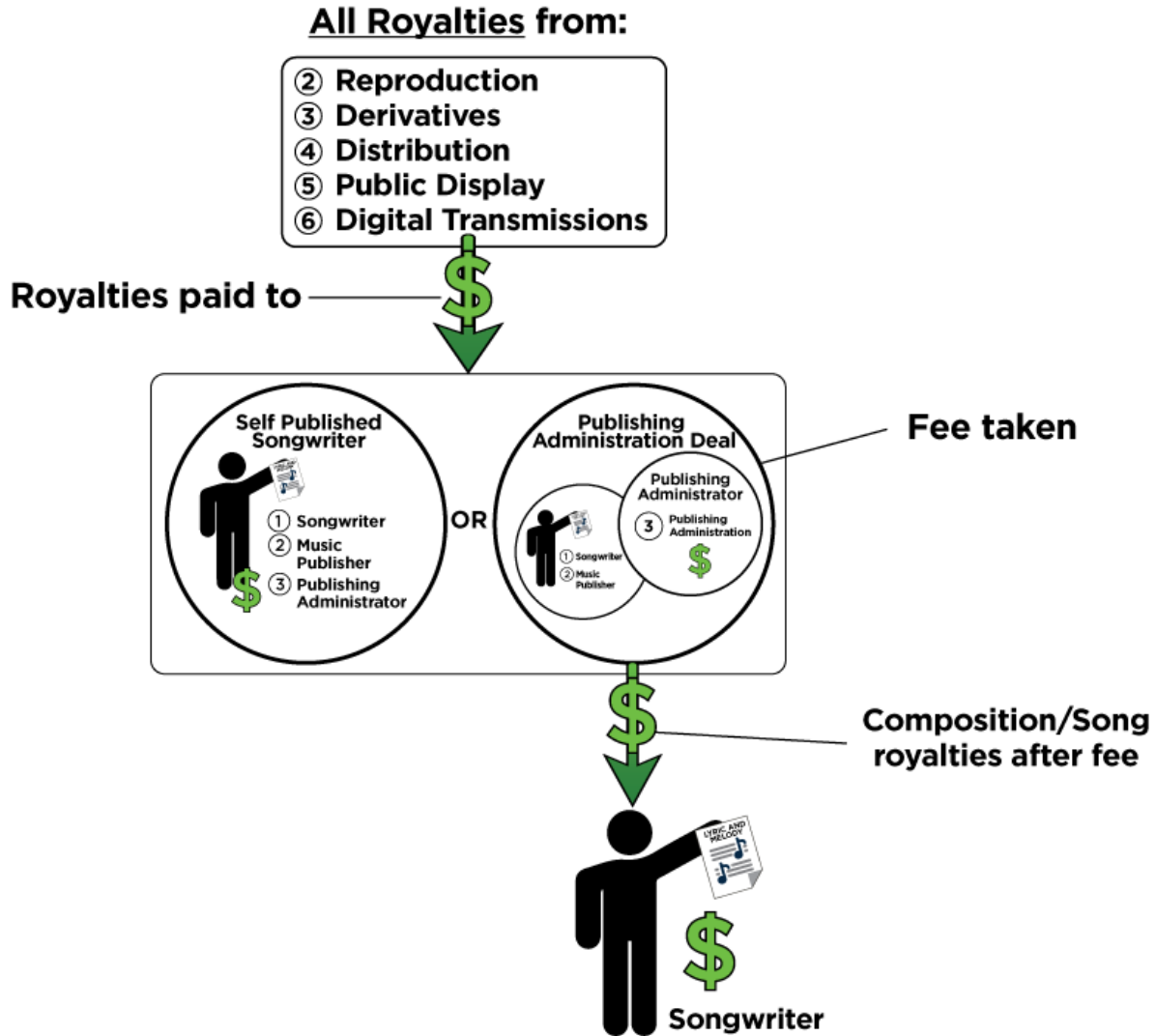


Figure 48

However, this is not the case for the money paid out by the PROs for the right of Public Performance.

The PROs split the Public Performance money they receive and pay half of it directly to the Self-Published Songwriter or Publishing Administrator and the other half directly to the Songwriter.

(Figure 49)

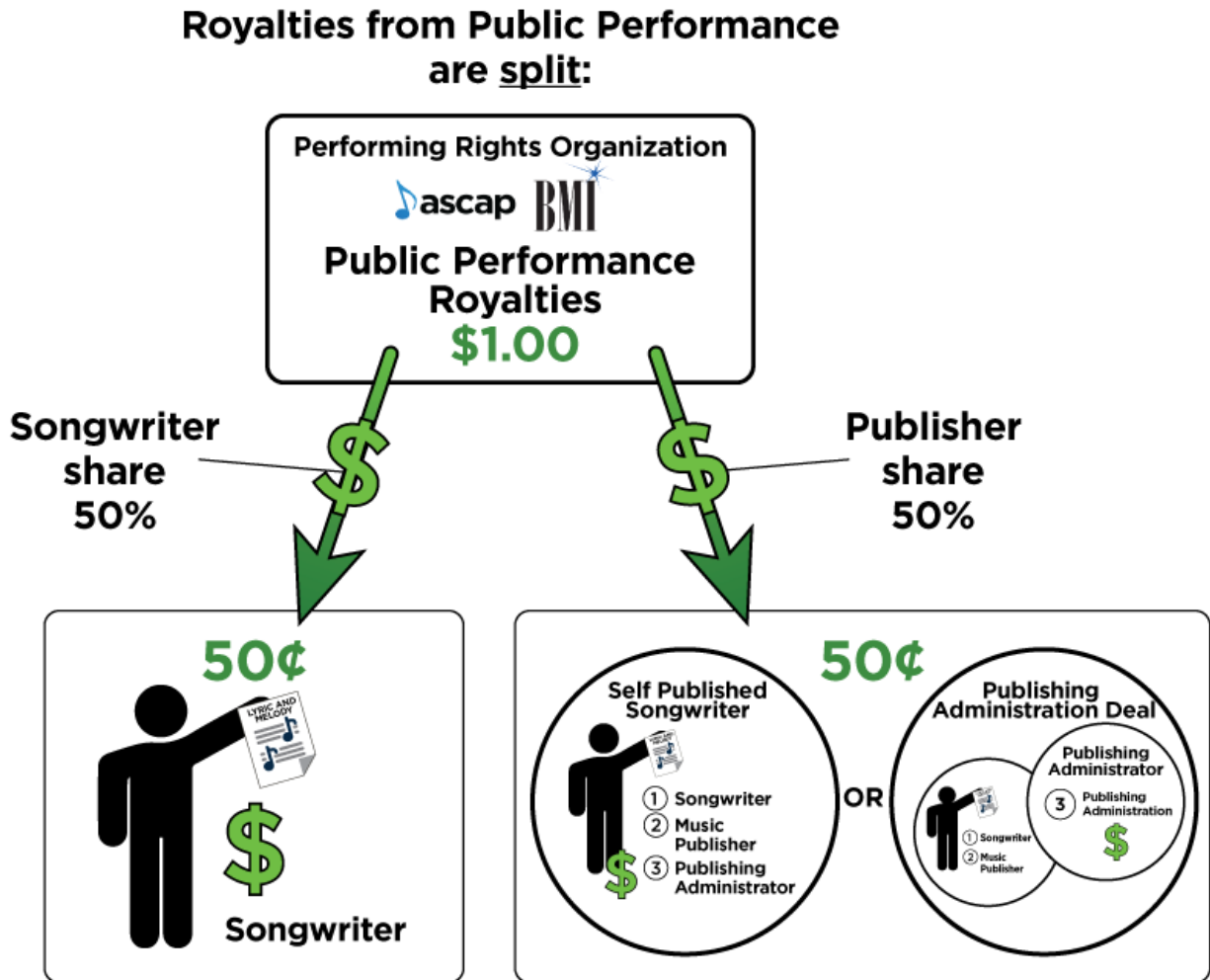


Figure 49

### Some Important Points About Publishing Administration Deals, Public Performance Royalties And How This Ties Into Spotify Royalties

As described earlier in this article, if a person is a Self-Published songwriter, they are the Songwriter, the Publisher and the Publishing Administrator. As such, they license and collect all the royalties earned by their Composition/Song.

The same is not true of a person that is a Songwriter in a Publishing Administration deal.



In a Publishing Administration deal, the money earned by the Composition/Song goes to the Publishing Administrator, not the Songwriter. The Publishing Administrator then takes a cut of the money and is supposed to pay the rest back to the Songwriter they are working for (Figure 50).

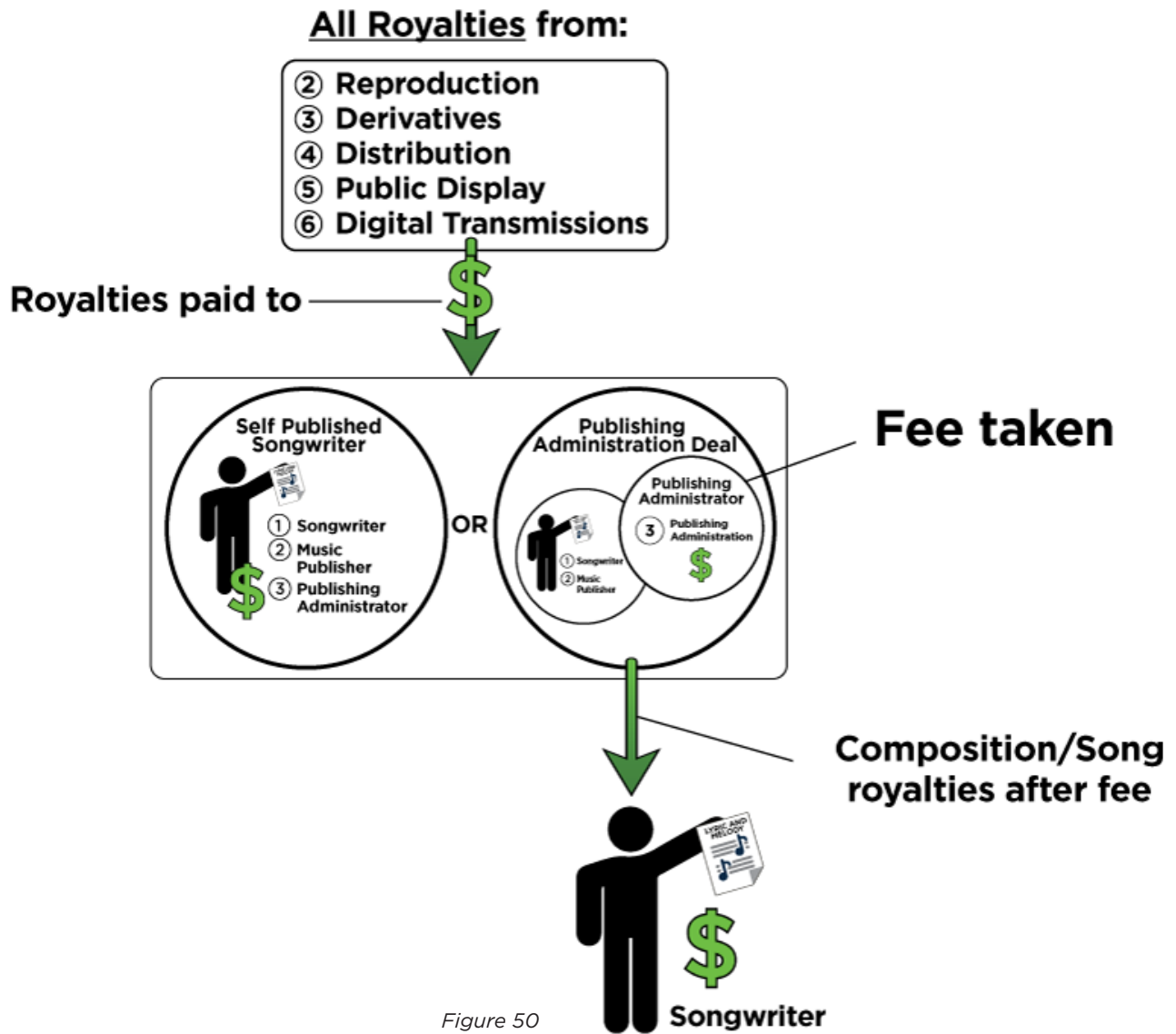


Figure 50

This point ties into why Publishing Administrators want a minimum amount guaranteed for royalties earned for the right of Reproduction (the Mechanical). If the money does not come to the Publishing Administrator, they cannot take a cut of it.

## How the Money Flows For Payments From A PRO And Why It Matters

When a PRO collects money for the right of Public Performance, it takes a percentage of the money for its work for itself, and then splits what's leftover equally between two entities: (1) The Songwriter and (2) the Publishing Administrator. (Figure 51)

As an example, if there is a total of \$1.00 paid out by the PRO after the PRO takes its cut, \$0.50 of the dollar is paid directly to the Songwriter and the other \$0.50 is paid directly to the Publishing Administrator.

The money paid directly to the Songwriter is called the "Songwriter Share."

The money paid directly to the Publishing Administrator is called the "Publisher Share."

### Royalties from Public Performance paid by a PRO are split between Songwriter and Publisher share

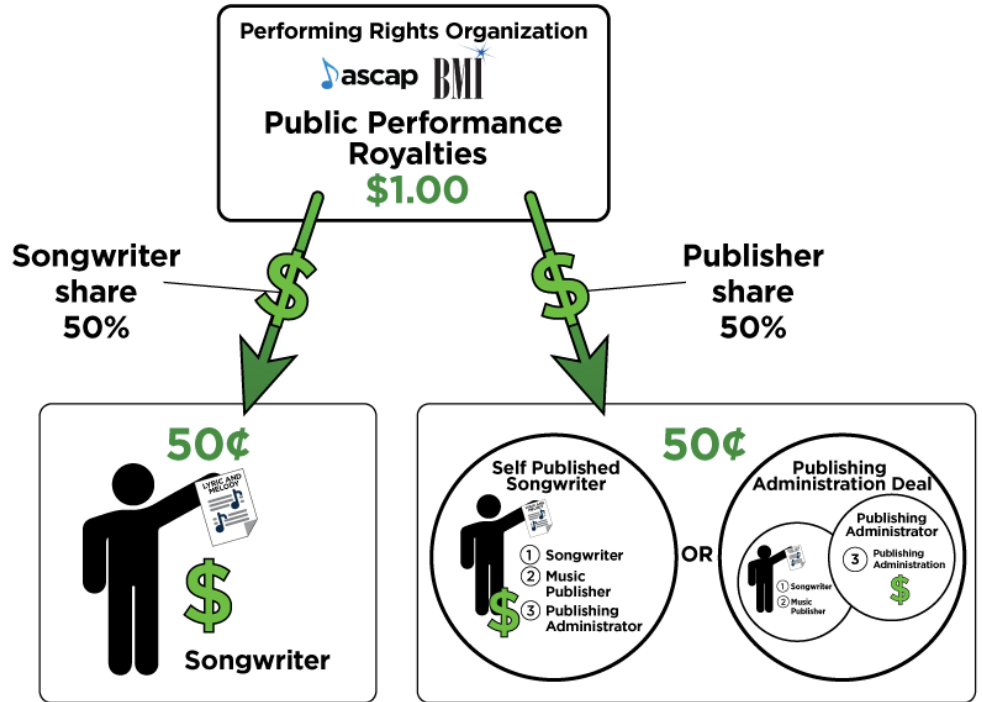


Figure 51

### Royalties from Public Performance paid by a PRO are split between Songwriter and Publisher share

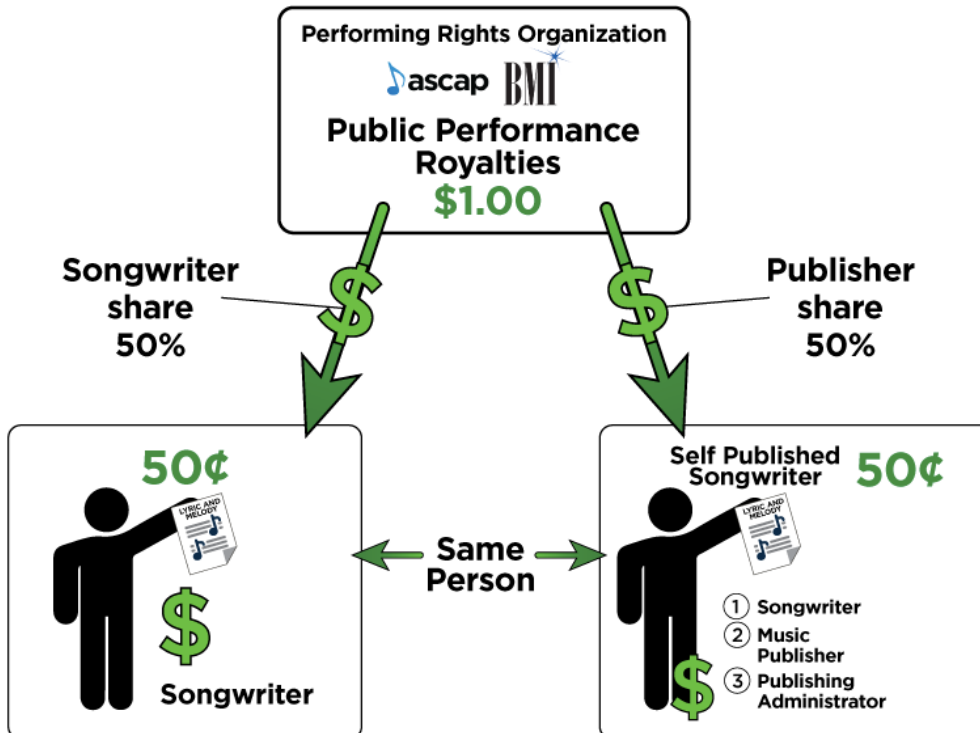


Figure 52

If a person is a "Self-Published Songwriter," then they are both the Songwriter and the Publishing Administrator. As such, the PRO pays the entire \$1.00 directly to that person. There is no middleman getting any of their money, taking a cut of it and then passing the rest back to the Songwriter. This person gets paid both the Songwriter Share and the Publisher Share. (Figure 52).

However, if a person is in a Publishing Administration deal, then the person is still (1) the Songwriter, but a different entity is (2) the Publishing Administrator. In this case the PRO will pay \$0.50 (half) of the \$1.00 directly to (1) the Songwriter for the Songwriter Share of the money and the other \$0.50 (the other half of the \$1.00) directly to (2) the Publishing Administrator for the Publisher Share of the money.

By paying the Songwriter Share directly to the Songwriter, it bypasses the other entity that is the Publishing Administrator. This stops the Publishing Administrator from taking a cut of the money being paid to the Songwriter. It also means the Songwriter is not reliant on the Publishing Administrator to get paid half of the Public Performance money, as it is being paid to them directly. Finally, it means the Publishing Administrator does not get to take a cut of half of the Public Performance money. (Figure 53)

### Royalties from Public Performance paid by a PRO are split between Songwriter and Publisher share

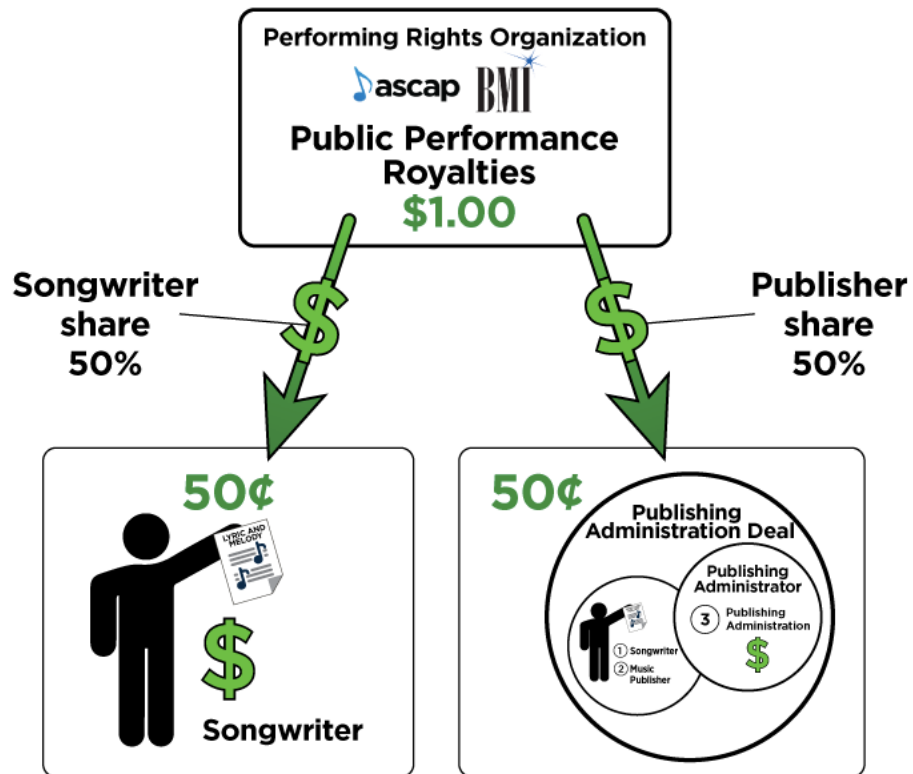


Figure 53

The other \$0.50 of the \$1.00 is paid directly to the Publishing Administrator as the Publisher Share. The Publishing Administrator then takes a cut of this portion of the songwriter's Public Performance money, before passing the rest of it on to the Songwriter.

The end result of this system is that for all royalties paid out by the PRO for the right of Public Performance, the Publishing Administrator does not get to take a cut of 50% of the public performance money.

As an example, assume that there is \$1.00 being paid out by the PRO and compare how it works when a person is a Self-Published Songwriter as compared to when a person is in a Publishing Administration deal.

### Example 1: Payment To A Person Who Is A Self-Published Songwriter

- The PRO directly pays \$0.50 of the \$1.00 to the Songwriter (the Songwriter Share) and the other \$0.50 of the \$1.00 to the Publishing Administrator (the Publisher Share).
- Because a person who is a Self-Published Songwriter is both the Songwriter and the Publishing Administrator, the entire \$1.00 is directly paid to them by the PRO.
- The person gets \$1.00, which is 100% of the money. (Figure 54)

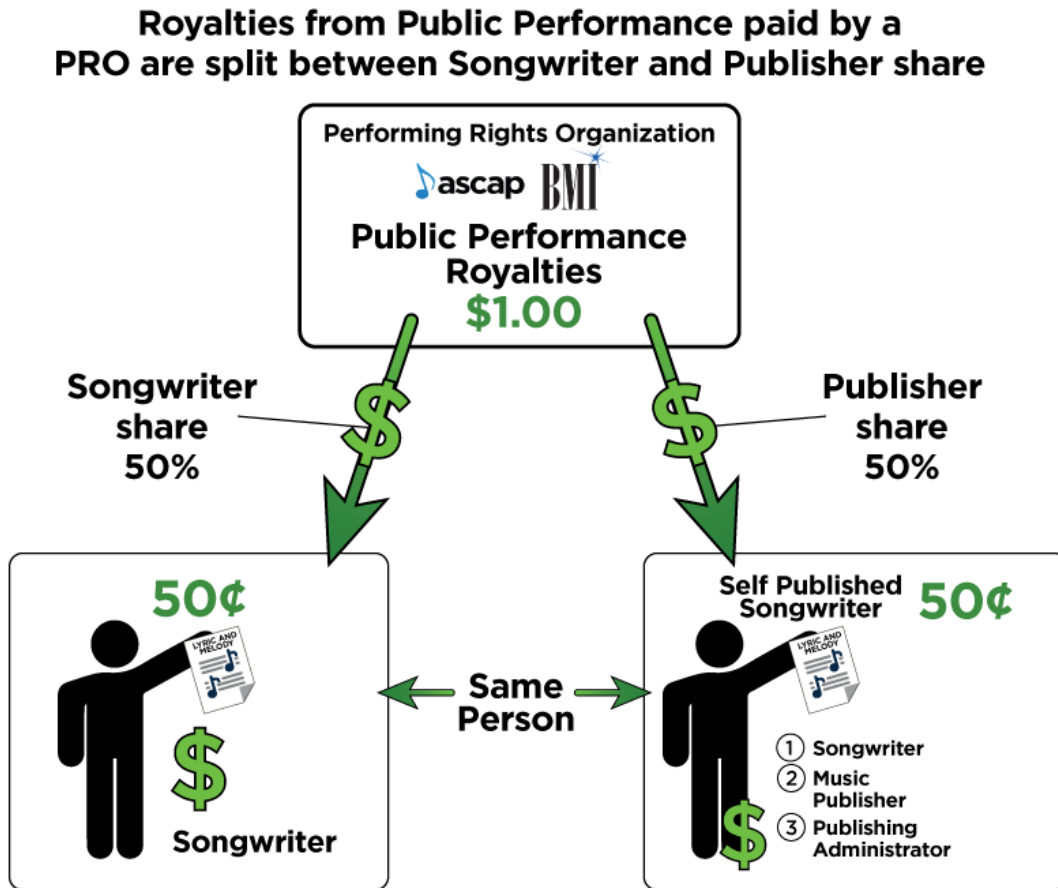


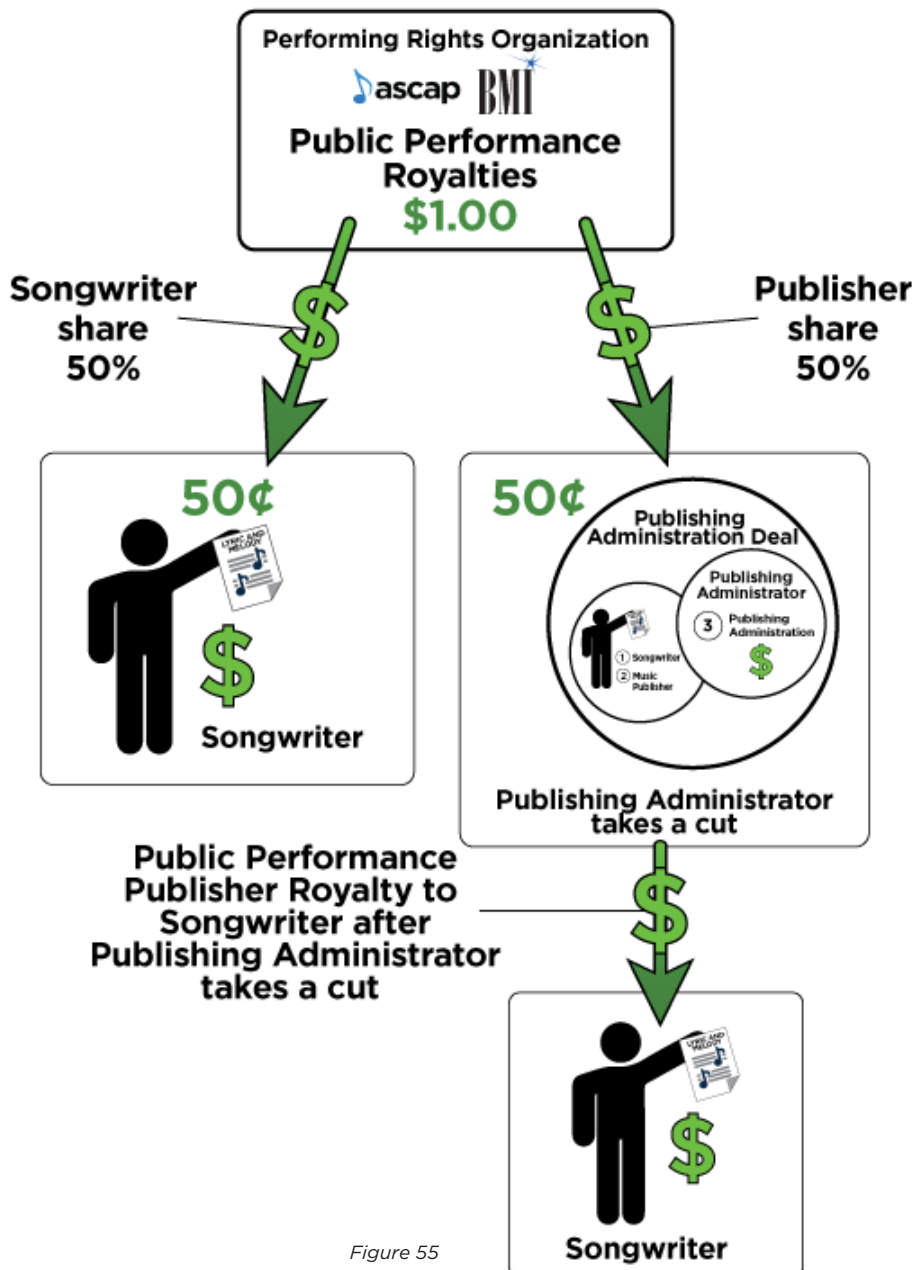
Figure 54

**Example 2: Payment To A Person That Is In A Publishing Administration Deal**

Payment to a person who is not a Self-Published Songwriter, but instead is in a Publishing Administration deal, works differently.

- The PRO directly pays \$0.50 of the dollar to the person who is the Songwriter (the Songwriter Share).
- The PRO directly pays the other \$0.50 of the dollar to the Publishing Administrator (the Publisher Share).
  - o The Publishing Administrator takes and keeps a cut (let’s say 10%) of the \$0.50 as a fee for its service. This means it keeps \$0.05 of the \$0.50.
  - o The remaining \$0.45 goes to the Songwriter.
- The person who is the songwriter gets the other \$0.50 as the Songwriter (half the money) directly from the PRO, plus the \$0.45 from the Publishing Administrator after the Publishing Administrator takes its cut. (Figure 55)

**Royalties from Public Performance paid by a PRO are split between Songwriter and Publisher share**



- The total amount the songwriter earns is \$0.95, or 95% of the PRO distributed Public Performance money.
- The total amount earned by the Publishing Administrator is \$0.05, or 5% of the PRO distributed Public Performance money.

Figure 55

Now compare how much the Publishing Administrator makes from \$1.00 in Public Performance royalties to how much the Publishing Administrator makes for \$1.00 if it is generated from one of the other five types of right. Let's say digital "Public Display," Composition/Song Lyrics displaying on a website.

- The website licensing the lyrics from the Publishing Administrator directly pays \$1.00 to the Publishing Administrator.
- There is no direct payment made to the Songwriter; the entire payment goes to the Publishing Administrator.
- The Publishing Administrator takes 10% as its fee.
- The Publishing Administrator gets \$0.10, which is 90% of the money.
- The other \$0.90, 90% of the money, goes to the songwriter.

(Figure 56)

Using the \$1.00 above, when the Public Performance royalties are paid out by a PRO, the Publishing Administrator makes 50% less money (\$0.05) than if all the royalties are paid to it directly (\$0.10).

Although the amount the Publishing Administrator takes as its fee can vary from 5% - 30%, the end result in every case is that when the PRO pays out the money for Public Performance, the Publishing Administrator does not get to take a cut of the money paid directly to the Songwriter.

This is why the direct payment by the PRO to the Songwriter for half of the Public Performance money is so important to the Songwriter; it's guaranteed income for the Songwriter, as it's being paid directly to them directly by the PRO. This means they get paid at least half of the Public Performance money, with no fee taken out of it by the Publishing Administrator. In addition, even if there are issues that stop the flow of money between the Publishing Administrator and Songwriter, the Songwriter still gets paid at least half of the PRO paid Public Performance royalties.

For the Publishing Administrator, it's the opposite. They are losing out on taking a fee on half of the Public Performance revenue. In addition, they cannot collect the money and use it to recoup any advanced money to the songwriter.

### Why This Matters With Spotify And The Royalties For The Right Of Reproduction (The Mechanical)

The relevance is that both the Songwriters and the Publishing Administrators want to make as much money as possible. As the royalties earned from Spotify for the Composition/Song are "All In" for the rights of Public Performance and Reproduction (the Mechanicals), and the money is then split between the two rights, the more money that is allocated to Public Performance may mean less money for the right of Reproduction (the Mechanical). As the money for the royalties for the right of Reproduction (the Mechanical) are the ones paid directly to the Publishing Administrators, they can take a cut or

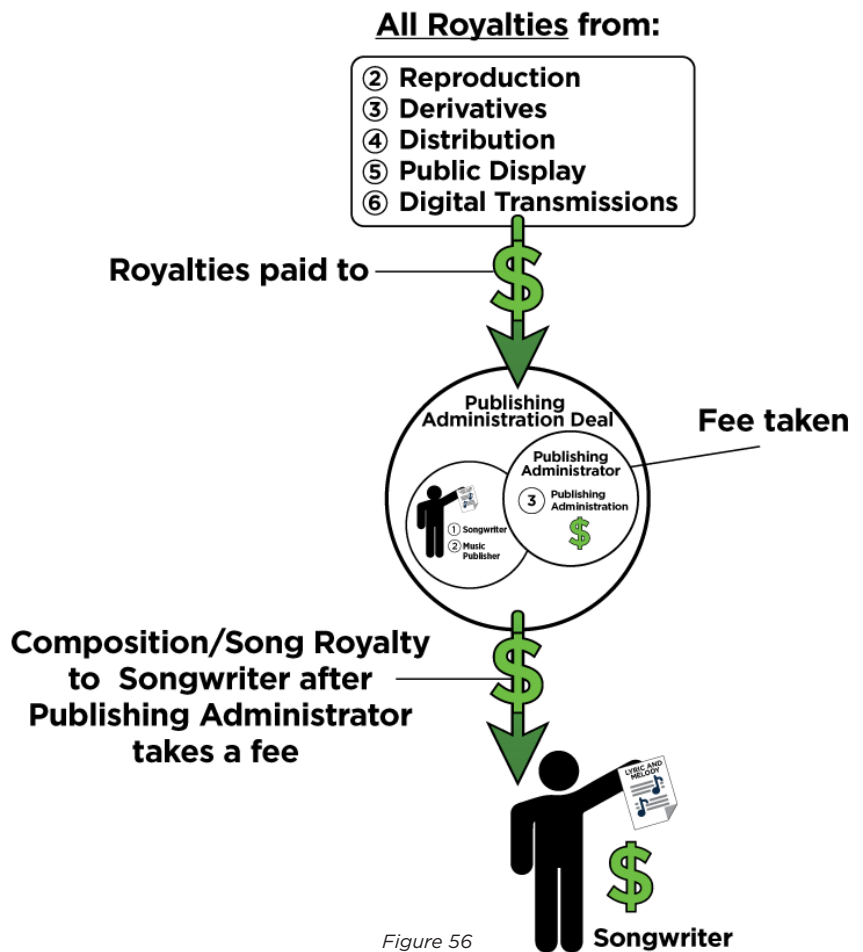


Figure 56

recoup money previously advanced to the Songwriter. This is why the Publishing Administrator wants as much money as possible to go to the right of Reproduction (the Mechanical) and not Public Performance.

### CRB Subscriber Minimum

Therefore, in the Statutory rates under the Compulsory license, there is a minimum amount that must be calculated for the royalty for the right of Reproduction (the Mechanical). This minimum amount is then compared to another amount which is either the higher of (1) a percentage of Spotify's monthly Gross revenue or (2) a percentage of the "Label Costs" .

Once this first comparison is done, and the higher number is picked, the higher number is then compared with the subscriber minimum number for the right of Reproduction (the Mechanical). Whichever is higher becomes the amount of money in the pool for the royalties earned for the right of Reproduction (the Mechanical).

The actual minimum amount the CRB set for each Spotify subscriber for the Mechanical royalty for the Composition/Song is \$0.50. (Figure 57)

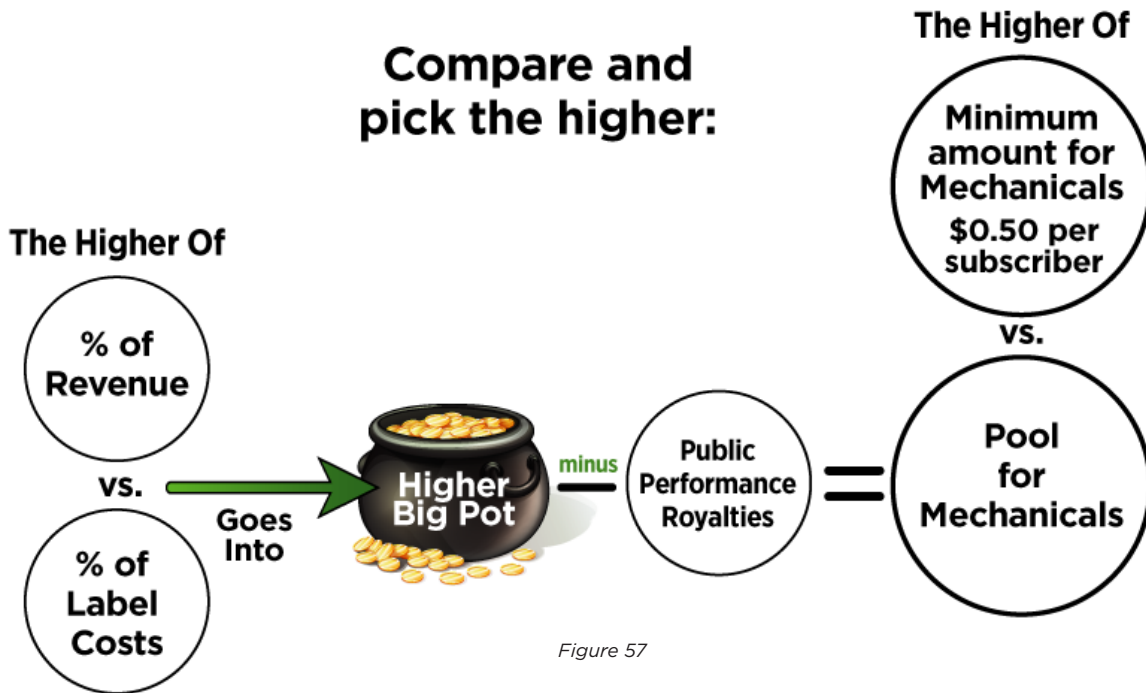


Figure 57

As an example, let's assume there are 11 subscribers to Spotify. The formula would be  $11 * \$0.50$  (the amount the CRB requires for each subscriber) = \$5.50.

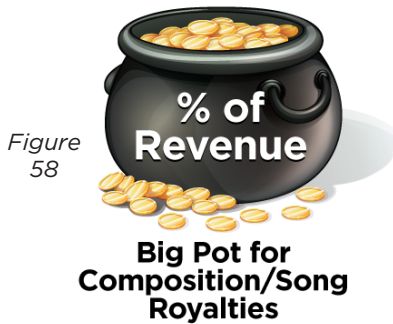
In this example, \$5.50 is the amount of money available for the royalties for the right of Reproduction (the Mechanical) based on the per-subscriber minimum.

**WITH ALL OF THIS INFORMATION AS THE BACKGROUND, WE CAN NOW SHOW THE STEPS FOR THE CALCULATION OF THE ROYALTIES EARNED FOR THE COMPOSITION/SONG**

Here now are the steps to calculate the royalties earned on Spotify for the Composition/Song each month:

**STEP 1:**

**Determine How Much Money Goes Into The “Big Pot” For The “All In” Royalty For The Composition/Song**

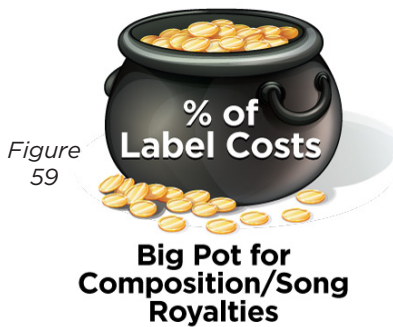


The money that goes into the “big pot” for the “All In” royalty for the Composition/Song is the greater of:

**•Calculation (1):**

A percentage Spotify’s monthly Revenue as set by the CRB judges (Figure 58).

As compared to:



**•Calculation (2):**

A percentage of the “Label Costs” as set by the CRB judges (Figure 59).

In the example at the start of this section of the article, the results of the calculations were as follows:

- \$13.30 is the percentage of Spotify’s Monthly Revenue.
- \$13.26 is the percentage of the Label Costs.

Therefore \$13.30 is the amount eligible to go into the “big pot” for the “All In” royalty for the Compositions/Songs.

**STEP 2:**

**From The “Big Pot” For The “All In” Royalty For The Composition/Song, Determine How Much Of It Is For the Right Of Reproduction (The Mechanical)**

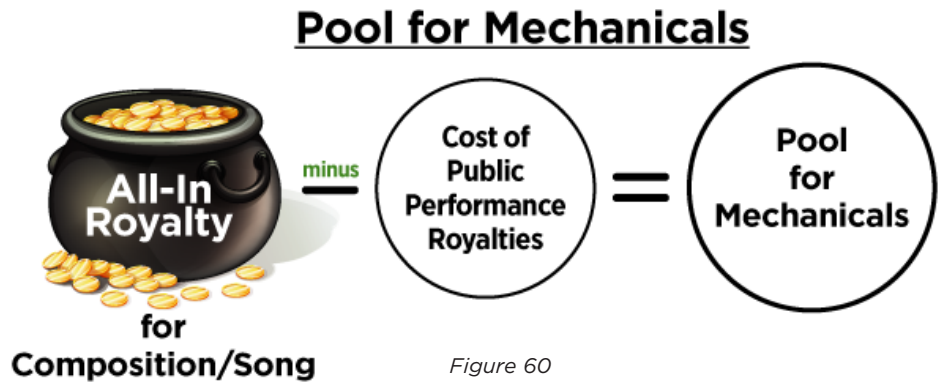
To determine how much money is for the right of Reproduction (the Mechanical), we now must run two new calculations. The calculation that has a higher dollar amount becomes the pool of money for the right of Reproduction (the Mechanical).



The two calculations are:

**• Calculation (A)**

Deduct the monthly cost of Public Performance royalties from the big pot of “All In” royalties. (Figure 60)



As compared to:

**• Calculation (B)**

Multiply the number of subscribers Spotify has by the CRB rate of \$0.50 for each subscriber (the “Subscriber Minimum”). (Figure 61)

**Subscriber Minimum for Mechanicals**

In the example at the start of this section of the article, the results of these calculations were as follows:

- \$6 of the \$13.30 is for the right of Public Performance. \$13.30 - \$6.00 = \$7.30 left for the pool of Mechanical royalties
- Spotify has 11 subscribers. It is \$0.50 per subscriber. 11 \* \$0.50 = \$5.50 for the subscriber minimum for the pool of Mechanical royalties

**Calculation B**



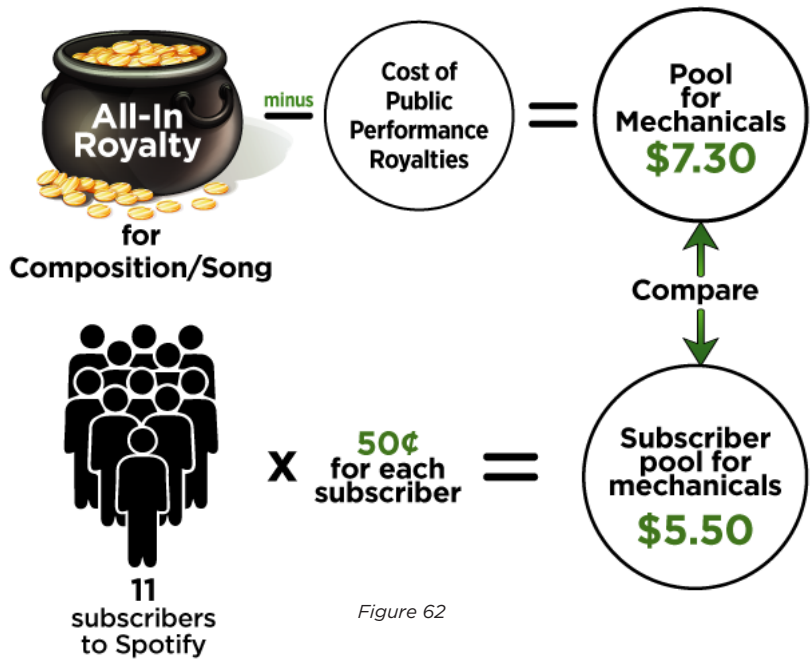
**11 subscribers to Spotify**

**X 50¢ for each subscriber =**



Figure 61

\$7.30 is greater than \$5.50, so the \$7.30 goes into the pool for the royalties for the Mechanical (Figure 62).



**STEP 3:**

**Determine What Percentage Of The Month's Streams Were For Each Self-Published Songwriter Or Publishing Administrator**

For this example, let's assume there were 10,000 total streams in Spotify that were eligible for royalties for the right of Reproduction (the Mechanical) (Figure 63).

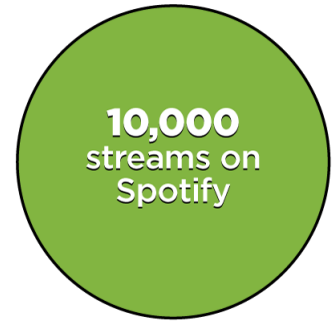


Figure 63

Next, let's assume that there were 300 streams of recordings of Compositions/Songs controlled by just one Self-Published Songwriter or Publishing Administrator (Figure 64).

To get the percentage of the month's streams that the one single Self-Published Songwriter or Publishing Administrator represents, the Statutory Rate in the Compulsory license requires Spotify to divide the number of streams of recordings of Compositions/Songs controlled by the Self-Published Songwriter or Publishing Administrator (in this case 30) by the total streams in Spotify (in this case 100,00).  $300/10,000 = .03$  or 3%

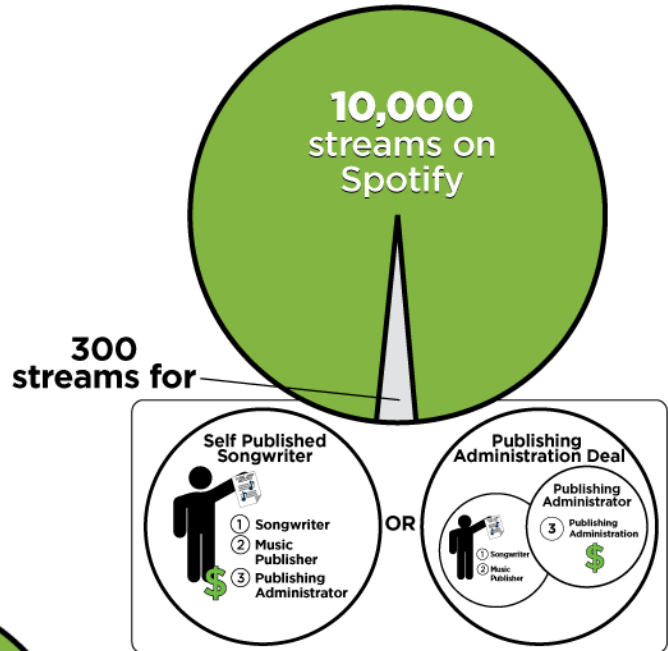


Figure 64

Therefore, the Self-Published Songwriter or Publishing Administrator represents 3% of the total streams in Spotify in the month (Figure 65).

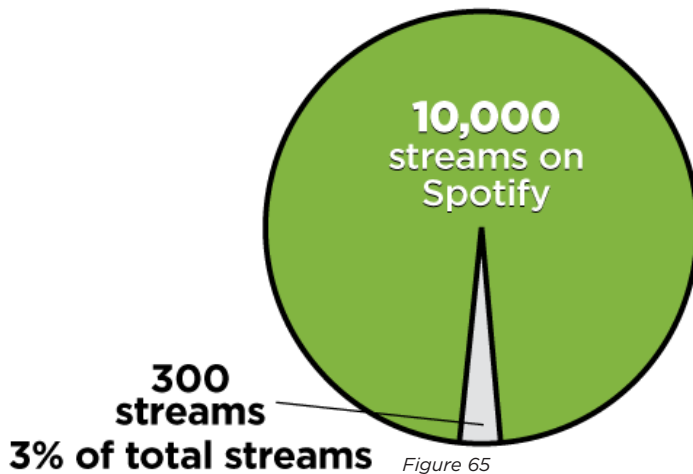


Figure 65

**STEP 4:**

**Determine How Much Money The Self-Published Songwriter Or Publishing Administrator Made From The Pool Of Royalties For The Right Of Reproduction (the Mechanical)**

To figure out how much money is owed to the Self-Published Songwriter or Publishing Administrator, Spotify multiplies the Percentage Of Streams that the Self-published songwriter or Publishing Administrator represents by the total pool for royalties for the right of Reproduction (the Mechanical).

In this case the Self-published Songwriter or Publishing Administrator represents 3% of the total 10,000 streams.

\$7.30 went into the pool for the royalties for the right of Reproduction (the Mechanical).

$$3\% * \$7.30 = \$0.219$$

Therefore, this one single Self-Published Songwriter or Publishing Administrator generated a total of \$0.219 (a little less than twenty-two cents) in royalties for the right of Reproduction (the Mechanical) for the 300 streams of recordings of their Composition/Songs in Spotify in that one month.

(Figure 66)

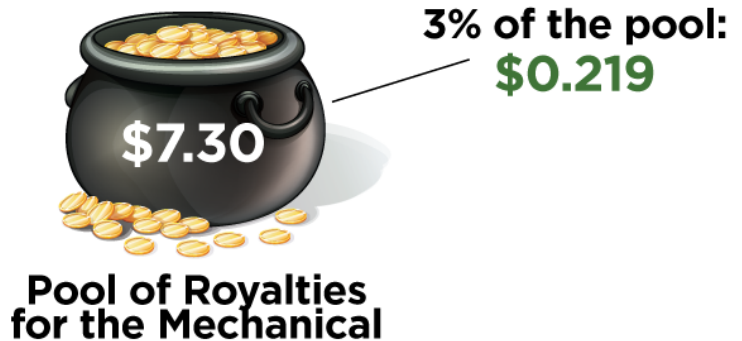


Figure 66

#### **STEP 5:**

#### **Determine The Per Stream Rate For The Right Of Reproduction (the Mechanical)**

To determine the per stream rate for the right of Reproduction (the Mechanical), Spotify then divides the amount of money earned by the Self-Published Songwriter or Publishing Administrator by the number of streams of the recordings of their Compositions/Songs.

In this example:  $\$0.219 / 300 \text{ streams} = \$0.00073$  per stream.

#### **STEP 6:**

#### **Spotify Provides A Royalty Statement And Payment**

When (if) Spotify pays the royalties for the right of Reproduction (the Mechanical), it must pay them to the Self-Published Songwriter, Publishing Administrator, or Reproduction Rights collection agency, like Audiam.

If Spotify got the license for the Composition/Song using the Compulsory license, then it must follow the rules of the Compulsory license as dictated by the U.S. government.

One requirement states they must pay the royalties for the right of Reproduction (the Mechanical) on the 20th of the month for royalties earned from the previous month.

In addition, the Compulsory license requires Spotify to provide certain information in each Mechanical royalty statement. This includes all the information and results of the formulas they are required to do as described above.

This information includes:

- How many subscribers Spotify had in the month for the specific Spotify service
- How much revenue Spotify made in the month
- How much was earned in total by the Record Labels and Distributors for their Sound Record ings that streamed in Spotify for the month
- How much in total was paid by Spotify for the right of Public Performance for the month
- The total number of streams of all recordings that generated royalties in Spotify for the month

Once they lay this information out, they then show all the formulas and how they arrived at the per

stream rate (which is the same for everyone) for the right of Reproduction (the Mechanicals) for the month.

## **AN ACTUAL SPOTIFY STATEMENT: THE NOVEMBER 2019 SPOTIFY NUMBERS USED TO CALCULATE SOUND RECORDINGS ROYALTIES**

Next we will look at and analyze and explain an actual Spotify statement for the Spotify \$9.99 a month Premium service (in legal speak they call it the S3: Standalone Portable Mixed Use Service) for the month of November, 2019.

Note that there are other types of Spotify services. Specifically:

- The Ad-supported service where you can listen to music without paying, but ads play between songs. (In legal speak they call it the S5: Free and Ad-Supported Services)
- Family and Student subscriptions, for which there are different per-subscriber minimums. The Family subscription allows one subscription to be paid for but shared with others. The Student subscription is cheaper than a non-student subscription.
- The service where you can play music on your computer only while connected to the internet with no ads (in legal speak they call it the S1: Standalone Non-Portable Streaming Only)

For each service, there are slightly different rules that apply and then calculations run.

Therefore, each month, a Self-Published Songwriter or Publishing Administrator that is paid by Spotify will get multiple statements from Spotify; one for each of its services. Each royalty statement will have different results than the prior month.

### ***How Audiam Got the Spotify Statement***

Audiam is a Reproduction Rights collection agency. It works for Self-Published Songwriters and Publishing Administrators to license and collect streaming mechanical royalties in the United States and Canada (you can become a member here <http://www.audiam.com>).

Spotify licenses Compositions/Songs from Audiam using the U.S. Compulsory license. As such, it is required to provide Audiam the back-up detail to support the per stream rates for the right of Reproduction (the Mechanical) earned for the Composition/Song each month.

Note that this statement is only for the Composition/Song and not for the second separate royalty for the Sound Recording.

As Audiam does not license and collect for Sound Recording streams in Spotify, it does not get these statements. It only gets the statements for the Composition/Song. However, using the statement for the Composition/Song, you can see how much Spotify was earned for the Sound Recordings for all the record labels and distributors. You can use this number to determine the average per stream royalty rate for the Sound Recording.

With that said, the following is an actual Spotify statement for the Spotify Premium Service in the United States for the month of November 2019. Following will be a breakdown of each line in the statement.

## Monthly Statement of Account

### Interactive Streaming Statutory Rate Calculation

**Service Offering:** S3: Standalone Portable Mixed Use

**Licensee:** SPOTIFY USA INC.

**Licensee Address:**

150 GREENWICH STREET - 62ND FL  
NEW YORK, NY 10007

**Period:** November 2019

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#### Inputs

Subscribers		18,424,350.00
Service Revenues	\$	160,925,339.75
Total Cost of Content	\$	83,400,885.60
Performance Royalties	\$	9,526,867.07
Plays (total plays adjusted for playing time)		19,047,324,777.90

---

#### Step 1

All-in Royalty Pool, greater of:

a) 12.30% of Service Revenue \$ 19,793,816.79

**and**

b) 23.10% of Total Cost of Content \$ 19,265,604.57

All-In Royalty Pool equals \$ 19,793,816.79

---

#### Step 2

Performance Royalties \$ 9,526,867.07

Separate Mechanical from Performance (less 9526867.07) \$ 10,266,949.72

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#### Step 3

Greater of Step 2 Result \$ 10,266,949.72

**and**

\$0.50/qualified subscriber/month \$ 9,212,175.00

Payable Mechanical Royalty Pool equals \$ 10,266,949.72

Effective Mechanical Rate per Play \$ **0.0005390232**

To request records of any promotional or free trial uses of the works, please contact:  
[publisherinfo@spotify.com](mailto:publisherinfo@spotify.com)

And here it is explained:

Monthly Statement of Account		Interactive Streaming Statutory Rate Calculation	
<b>Service Offering:</b>	S3: Standalone Portable Mixed Use	<b>Which Spotify service the statement is for</b>	
<b>Licensee:</b>	SPOTIFY USA INC.	<b>The number of people subscribing to this Spotify product</b>	
<b>Licensee Address:</b>	150 GREENWICH STREET - 62ND FL NEW YORK, NY 10007	<b>How much Gross Revenue Spotify made in the month</b>	
<b>Period:</b>	November 2019	<b>Month the statement is for</b>	
<b>Inputs</b>			
Subscribers			18,424,350.00
Service Revenues	\$	160,925,339.75	
Total Cost of Content	\$	83,400,885.60	
Performance Royalties	\$	9,526,867.07	
Plays (total plays adjusted for playing time)			19,047,324,777.90
<b>Step 1</b>			
All-in Royalty Pool, greater of:			
a) 12.30% of Service Revenue	\$	19,793,816.79	
<b>and</b>			
b) 23.10% of Total Cost of Content	\$	19,265,604.57	
All-In Royalty Pool equals	\$	19,793,816.79	
<b>The higher of 12.3% of Spotify's monthly Gross Revenue vs. 23.10% of amount earned by labels/distributors for their recordings in the month</b>			
<b>Step 2</b>			
Performance Royalties	\$	9,526,867.07	
Separate Mechanical from Performance (less 9526867.07)	\$	10,266,949.72	
<b>Step 3</b>			
Greater of Step 2 Result	\$	10,266,949.72	
<b>and</b>			
\$0.50/qualified subscriber/month	\$	9,212,175.00	
Payable Mechanical Royalty Pool equals	\$	10,266,949.72	
Effective Mechanical Rate per Play	\$	0.0005390232	
<b>Total pool of royalties for Mechanicals divided by the # of streams of Sound Recordings in the month</b>			

To request records of any promotional or free trial uses of the works, please contact: [publisherinfo@spotify.com](mailto:publisherinfo@spotify.com)

## Promotional And Free Trial Uses Of The Spotify Service

With the monthly statement now explained, it leaves one last note to point out. If you notice at the bottom of the monthly statement it reads:

*“To request records of any promotional or free trial uses of the works, please contact publisherinfo@spotify.com”*

The reason this sentence is there is that in both the Sound Recording direct license agreements as well as in the Composition/Song Compulsory license, it states that no royalties are earned for the stream of Sound Recordings or Compositions/Songs on Spotify in two cases:

### 1) Promotional uses

- This is when Spotify gives someone a free “promotional” Spotify account, and that person uses the free promotional account to stream music. In this case there are no royalties generated from streams. There are limits to the amount of promotional accounts Spotify can hand out each month.

### 2) Trial subscriptions

- This is when a consumer signs up for a “trial” subscription with Spotify (i.e. try the Premium service for free for 30 days before paying). When someone signs up for the trial subscription, until they start to pay for the service there are no royalties generated from the streams of the music.

## THE ANSWER TO HOW MUCH IS EARNED WHEN THERE IS A STREAM ON SPOTIFY

As you can tell, the complexity of how to calculate royalties generated on Spotify makes it difficult to provide the exact actual per stream royalty earned. That said, we can get in the ballpark by using the above statement as a reference.

### For Sound Recordings:

In the month of November 2019, the average amount earned in royalties for stream of a Sound Recording in the U.S. for the Spotify Premium service was \$0.004378614139912

To get this number we took the amount earned by Record Labels and Distributors for their Sound Recordings (\$83,400,885.60 ) and divided it by the total number of streams of Sound Recordings that generated royalties (19,047,324,777.9).

$$\$83,400,885.6 / 19,047,324,777.9 = \$0.004378614139912$$

### For Compositions/Songs:

In the month of November 2019, the amount earned in royalties for a stream of a Composition/Song in the U.S. for the Spotify Premium service was \$0.00103919143611.

To get this number we took the amount earned by Self-Published Songwriters and Publishing Administrators for their Compositions/Songs (\$10,266,949.72 for mechanicals + 9,526,867.07 for public performance = \$19,793,816.79) and divided it by the total number of streams of recordings that generate royalties (19,047,324,777.9).

$$\$19,793,816.79 / 19,047,324,777.9 = \$0.00103919143611$$

Also, as a side note, recall the \$0.00103919143611 is the “All In” royalty for both the right of Public Performance + Reproduction (the Mechanical).

## **For Both Sound Recordings + Compositions/Songs**

Therefore, if one person:

- Wrote the entire song
- Controls the Sound Recording
- Used a distributor that took no percentage of the money from Spotify (like DistroKid)
- Was a Self-Published Songwriter who collected all of their money directly from Spotify for both Public Performance + Reproduction (the Mechanical)

Then the total amount they would have generated from a single stream on Spotify in November 2019, in the Spotify Premium service is \$0.004378614139912 for the Sound Recording + \$0.00103919143611 for the Composition/Song.

**The grand total is = \$0.005417805576022**

If we round it down, it's about \$0.005 or half a penny per stream.

And that's a hell of a lot of work to put into something only to learn you earned half a penny.

### **CONCLUSION:**

If you've made it this far, you deserve a congratulations. This is a long, complex article answering a very simple question: "How much did I earn when my music streams on Spotify?"

I phrased the question intentionally using the word "earn" as opposed to "paid" as the two are very different. You can earn money but not be paid it. This happens for a variety of reasons in the world of streaming music. In some cases, royalties have been earned for either the Sound Recording or the Composition/Song, and they can't find the entity to pay or an error was made in whom to pay. In yet other cases, the earned royalties were paid to a middleman and that entity, for one reason or another, did not pay the entity they were supposed to pay. Finally, with the passage of a new law called the Music Modernization Act, it will be legal for the first time in the U.S. to take royalties a Self-Published Songwriter or Publishing Administrator earned for the right of Reproduction (the Mechanical) from streaming services like Spotify, not pay the rightful earner, and hand the royalties to entities that did not earn them.

And then there is the issue of a misalignment of interests: that is, is it equitable that Spotify's financial value is predicated on the number of people who use the service versus the artist that needs to sell their music to make money.

This misalignment incentivizes Spotify to price things cheaply and/or free to drive user adoption as opposed to working with the artists to generate equitable revenue off the music. This explains why a company like Spotify that loses hundreds of millions of dollars off music is still valued in the billions, made its investors billions, but pays out fractions of fractions of pennies to the very songwriters, record labels and artists that allow it to exist, flourish and have financial value.

There is an inherent inequality to the relationship, when a single artist, through a single song, can deliver Spotify over 20,000 of their fans while at the same time, these 20,000 fans streaming the song 200,000 times earn the artist \$100 in royalties for the right of Reproduction (the Mechanical).

But the worst part of it all? Due to the extreme complexity of how the royalties are calculated, and the pipelines these fractions of pennies flow through, very few know exactly what was earned from streams of their music on Spotify in the first place. How can an artist have a conversation over how and why things need to change, if the complexity and opaqueness of the situation precludes an understanding of how things work?

And that makes you wonder if perhaps this is part of the plan as well....



## **About the Author**

Jeff Price is CEO and Founder of the digital rights Reproduction collection agency Audiam and former CEO and Founder of TuneCore.

Audiam is a digital rights Reproduction collection agency for publishers and songwriters for all interactive streaming entities in the US and Canada including: YouTube, background and foreground services, digital jukeboxes, digital Karaoke, Apple Music, Spotify, Rhapsody, Amazon, Slacker, Tidal, scan & match lockers services and all other interactive digital streaming services.

In July 2016, Audiam was acquired by the Canadian performing rights organization SOCAN.

On January 26th, 2006, Jeff Price launched TuneCore and built it into the world's largest music distribution and publishing administration entity. He left TuneCore in 2012.

Jeff also contributed to the founding charter and organization of The American Association of Independent Music (AAIM) - a non-profit non-governmental trade organization representing the interests of its independent label members.

From 1997 - 2001 Jeff Price worked with EMusic serving first as a consultant, next as interim VP of Content Acquisition and finally as the Senior Director of Music/Business Development.

At the request of a congressional panel, he supplied a written deposition in the SEC investigation of Time Warner's failed acquisition bid of EMI and has provided a witness statement for the SoundExchange arbitration relating to the royalty rate for webcasting. More recently he was asked by the Congressional sponsors of the Music Modernization Act to provide input and mark ups to their proposed legislation.

He was also recently asked to testify to the Canadian House of Commons' Standing Committee on Industry, Science and Technology in view of its forthcoming study of the Statutory Review of the Copyright Act.

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