

where the money goes! a breakdown of the \$19.95



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Introduction

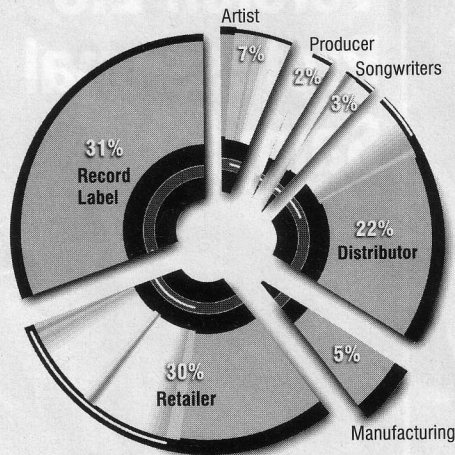
How much does the artist make from the sale of an average priced CD?

Would you guess \$15? \$10? \$5?

Answer: likely less than \$2.

Artist

Under typical major record company agreements the artist is paid a percentage (12-14 per cent) of suggested retail list price (\$19.95) which is called a royalty



rate. A simple calculation that appears to give the artist much more than \$1.31 at first glance – however, one must take into account several factors such as: (i) standard deductions found in record contracts which reduce the suggested retail list price dramatically; (ii) the producer's royalty which is regularly taken out of the artist's royalty (3-4 per cent); (iii) most contracts do not pay for all the records sold as is in-

dustry standard resulting in a reduction to the artist (10-15 per cent); and, (iv) full royalty is not normally paid for CDs resulting in a further reduction to the artist (10-15 per cent).

When you factor in all these items you calculate a "penny rate" for the artist which regularly falls in this range. Very successful artists may negotiate a better rate but regardless it is very unlikely that their penny rate has risen beyond \$3.

Producer

The producer traditionally is entitled to 3-4 per cent of the artist's royalty of 12-14 per cent royalty leaving the artist with 8-11 per cent left over. As you can see the producer is entitled contractually close to 25 per cent of the artist's overall royalty for working on the album for several months. Meanwhile, the artist's job is just beginning when the album is completed. The release of the album is typically complemented by months and months of touring, interviews, and videos where as the producer is no longer required once the master recording is delivered. This apparent discrepancy, between work done and royalty return, is further magnified where the artist is a five- or six-member group and the royalty is further divided.

The Breakdown

The \$19.95 price breaks down approximately as follows:

Artist	-	\$ 1.31
Producer	-	\$ 0.44
Songwriters	-	\$ 0.69
Distributor	-	\$ 4.39
Manufacturing	-	\$ 1.00
Retailer	-	\$ 5.95
Record Label	-	\$ 6.17

Total: \$19.95

Songwriters

Songwriters on songs included on albums receive a mechanical royalty for use of their songs on artists' albums. This is separate from the recording artist royalty for record sales. The statutory rate in Canada is 7.1 cents per song (for 5 minutes or less), however, through a complicated clause found in most recording contracts the maximum payable by the record company

for mechanical royalties is capped at approximately 69 cents per album (the so-called, "Controlled Composition Clause").

Distributor

Distribution fees range between 20-25 per cent of suggested retail list price. I chose an arbitrary amount of 22 per cent for the purposes of our example: \$4.39. The so-called, major labels distribute their own records and most of the world's other large record labels. Distributors are responsible for warehousing product, manufacturing, filling orders, shipping albums, invoicing stores, collections, compiling royalty statements, and paying distributed labels.

Manufacturing

The total cost to produce a CD may be lower than \$1 depending on which manufacturer you speak to. Obviously economies of scale develop where thousands of CDs are manufactured. This cost takes into account the costs of designing artwork, preparing artwork film, manufacturing CDs, shrink wrap, jackets, jewel boxes, and container boxes. Standard record industry contracts deduct 25 per cent from the suggested retail list price (approximately \$5) for manufacturing costs. This deduction consequently reduces the artist's royalties.

Retail

Record companies sell records at wholesale prices to retail. This wholesale price typically ranges from \$11.50 - \$14.50. For our example I chose a wholesale price of \$14 which has been marked up 143 per cent to \$19.95 leaving the retailer with \$5.95 per sale.

Record Company

The record company is left with the remainder of the pie: \$6.17. This piece of the pie pays for all the record company's operations including, staff, severance packages, expensive building leases/rent, computers, cars, sushi lunches, flights, conferences in Hawaii, cell phones, etc. In addition this piece of the pie pays for the initial individual costs of the artists including recording, video, tour support, marketing and promotion.

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