



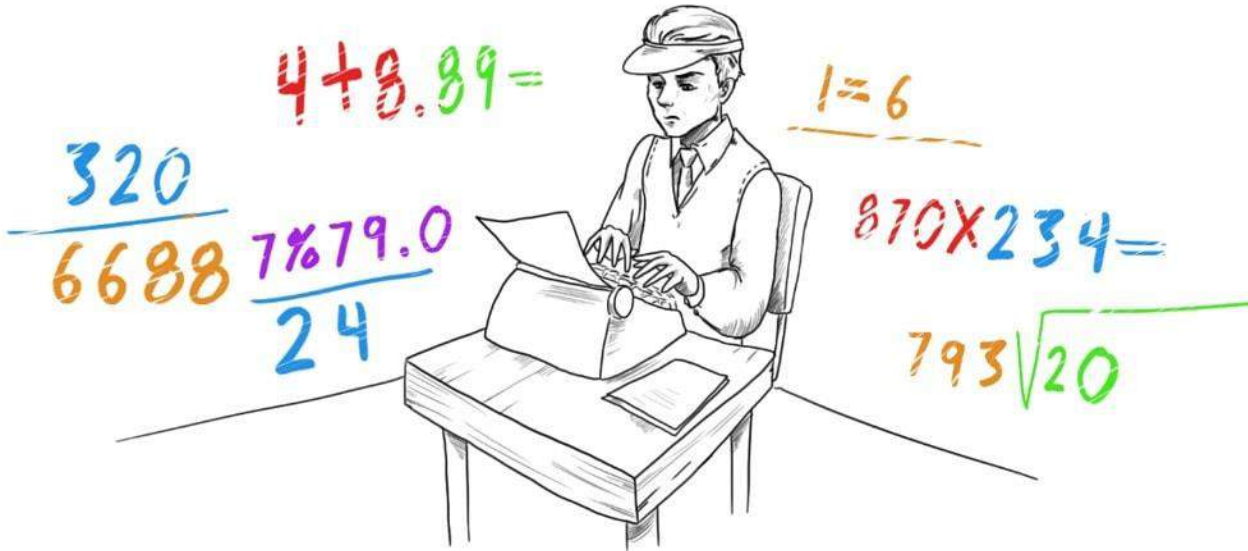
THE MUSIC ROYALTY CO

&



midem.  
connected by music

# A Royalties Survival Guide



RAY BUSH

Founder & Director

The Music Royalty Co. (UK)

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# INTRODUCTION

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With ever increasing sizes of data, an evolving music ecosystem and a demand for greater transparency, the world of music royalties is becoming an ever more important sector. Tied in with the ability to analyse the data to give vital insights into your business, it is crucial to understand the finer details of royalties and the best ways to work with the results.

In this report we aim to give you key advice for approaching your royalty processing, show you the latest in royalty reporting trends and how to take them to the next step; keeping your artists happy, making the numbers work for you and helping to grow your business.

$$4 + 8.89 =$$

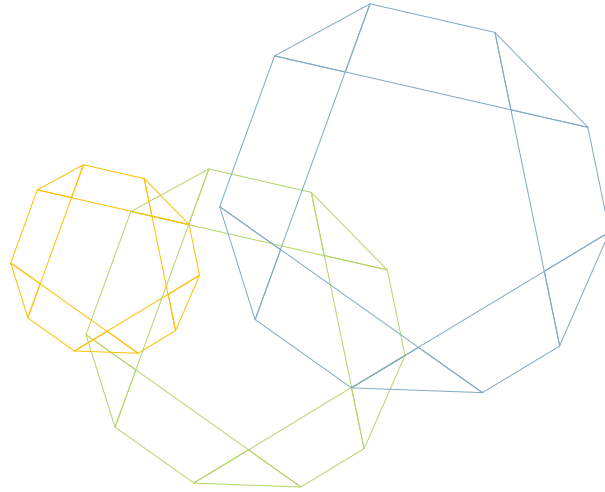
$$\frac{1}{6}$$

$$870 \times 234 =$$

$$793 \sqrt{20}$$

$$\frac{320}{6688}$$

$$\frac{7\%79.0}{24}$$



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# ALL ABOUT ROYALTIES

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## ALL ABOUT ROYALTIES

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Royalty processing can be a very confusing process, with many differing royalty rates, contract types and sales sources to ingest. There are incredibly fine details that you need to be aware of to ensure accuracy in your payments.

While this can be time consuming the benefits of accurate royalty processing go much further than keeping your artists happy. Complete data can be used as a vital resource to provide an insight into your business, showing your successes to be proud of and your failings for areas to work on.

The following tips present some useful ideas to be aware of when processing your next royalty run.





# ALL ABOUT ROYALTIES

## ▪ Software

Excel is brilliant and serves as a quick to use solution but digital royalties have changed the landscape forever - the volume of data alone can render excel inadequate. Complicated physical deals where 3 or 4 royalty calculations are being performed on each sales line are also very difficult to create in excel. There are plenty of good royalty systems available – the biggest tip here is that these systems are not regulated like normal accounting software is, choose the software wisely and find a product with the features and price range that work for you.

## ▪ Metadata

Even with the best systems in the world, throwing poor data in will result in poor data out. Understanding the data being processed will dramatically reduce the pain when running final statements. Internal knowledge from other departments, especially the digital department, could radically improve the quality of your output.

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# ALL ABOUT ROYALTIES

## ▪ Income In

The biggest tip here is to ensure there is tight control on the income being processed in a royalty period. Common mistakes found here are statements being processed twice, statements being processed in an incorrect currency & statements not being captured in full, usually due to manual accountancy procedures. This could lead to literally giving money away.

## ▪ Costs

It is vitally important all costs are being captured in the royalty statements. Firstly understand the deal types you have and what costs are recoupable in each deal. Secondly capture all costs being incurred, many costs are very easy to overlook. The most common example of this is third party fees such as aggregation & distribution fees. These companies will often take their commission without applying the cost to the financials in the statement. You need to check this when calculating the income and apply it in your processing to avoid paying out a higher rate than you should.

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# ALL ABOUT ROYALTIES

## ▪ Digital Data Handling

Old fashioned accountancy will struggle to survive without the aid of other technology or systems. The impact of streaming is huge, not just financially but in terms of the size of data – the growth in this area doesn't show of abating. To perform any analytical work or to incorporate new income streams on such a data set is almost impossible until the real issue of processing the data is tackled. Crunching down and controlling this data is key.

## ▪ Reporting Periods

Income can be received for multiple reporting periods within the same statement. This is especially the case when receiving statements from digital aggregators who receive income from sources at different times. Make sure that you are reporting the income into the correct royalty period to maintain consistency and avoid confusion for you and your artists.

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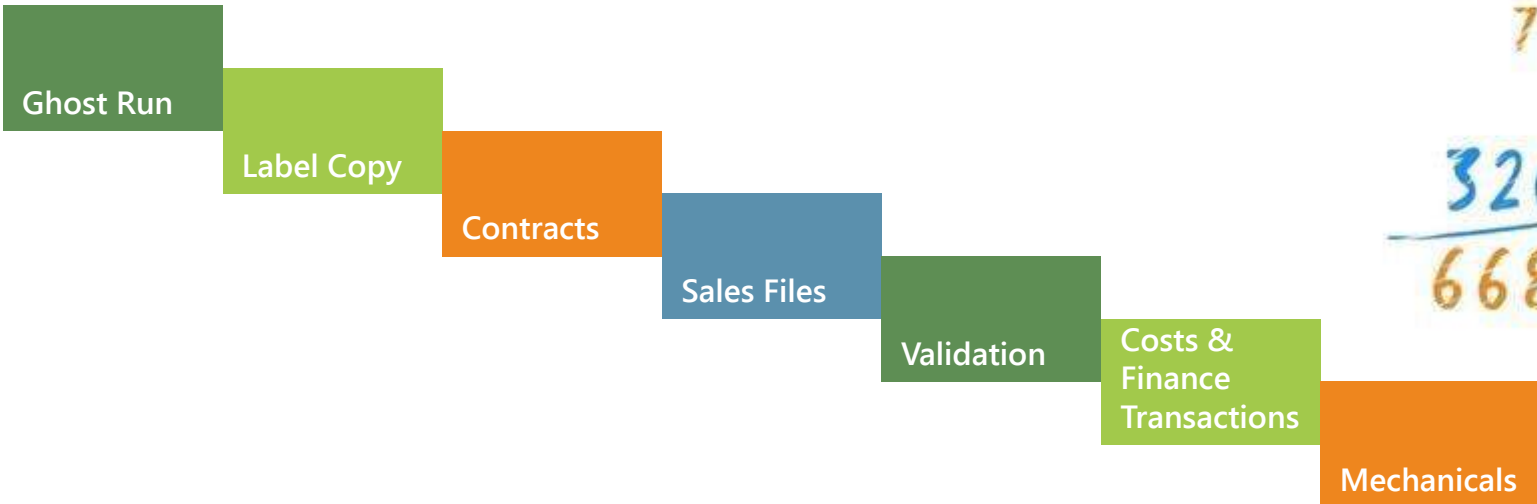
$$\frac{7\%79.0}{24}$$





# ALL ABOUT ROYALTIES

On top of these details there are seven major steps to processing royalties that we have laid out on the following pages. If you follow these processes you will be more than halfway towards producing perfect royalty statements every time.



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# ALL ABOUT ROYALTIES

$$4 + 8.89 = 870 \times 234 = \frac{7879.0}{24} \quad 1 = 6$$

$$\begin{array}{r} 793 \overline{)20} \\ \underline{320} \\ 6688 \end{array}$$

Ghost Run	Label Copy	Contracts	Sales Files
<p><b>Investigate</b> the previous runs as a guide to auditing.</p> <p><b>Error check</b> the previous run to fix problems and ensure accuracy.</p> <p><b>Save money</b> by removing inaccurate accounting that has previously been paid out.</p>	<p><b>Ingest</b> all product data onto your royalty system.</p> <p><b>Cleanse</b> data to produce an accurate database, removing duplicate products and correcting errored product codes and ISRCs.</p> <p><b>Create</b> a complete database of the catalogue.</p>	<p><b>Upload</b> all artist contracts onto the royalty system.</p> <p><b>Link</b> each contract to the correct products.</p> <p><b>Adjust</b> all details including reserves, royalty rates, deal types, deductions &amp; multiple payees.</p>	<p><b>Take care</b> with sales files as errors here could lead to major problems with your reporting.</p> <p>Particular attention should be paid to:</p> <ul style="list-style-type: none"><li>• Determining gross or net revenue</li><li>• Defining exchange rates</li><li>• Confirming territories and their rates</li></ul>





# ALL ABOUT ROYALTIES

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## Validation

**Validate** all sales lines to ensure accuracy of the ingested data.

**Ensure** all sales lines are mapped to the correct products.

**Audit** to make sure the number of sales lines entered matches with the number being output from your system.

## Costs & Finance Transactions

**Upload** all associated costs & transactions to be recouped against sales.

**Remember** to double check commissions from aggregators that haven't been included on statements .

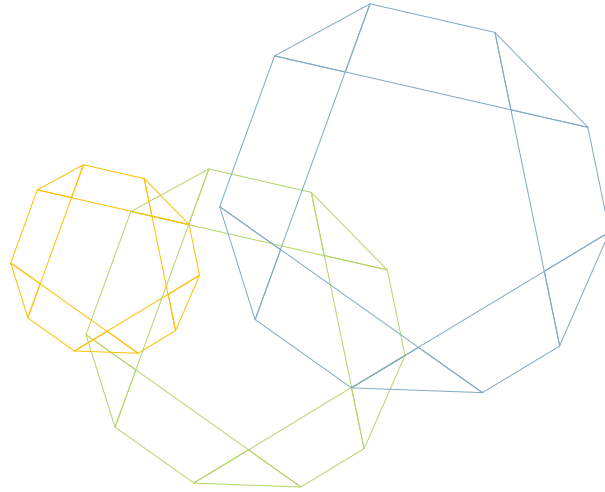
**Check** for missing costs or anomalies that need adjusting.

## Mechanicals

**Mechanical licenses** from companies including MCPS and HFA should be attached to the relevant products.

**Your royalty system** should be able to run these against sales lines to produce statements for delivery to collecting societies.





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# STREAMING INCOME

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## STREAMING INCOME

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The streaming market is continuing to show incredible growth, helping to fill the gap of continually tumbling download sales. This does create a problem in processing the money coming in due the vastly increasing sizes of sales data that streaming produces and the varied reporting methods that are now being seen.

Through the following points we hope to give some clarity to the issue and guide you through to the new normal.



**45%**  
Revenue Growth  
Year on Year

**19%**  
MARKET SHARE

**\$2.9b**  
Revenue 2015



# STREAMING INCOME

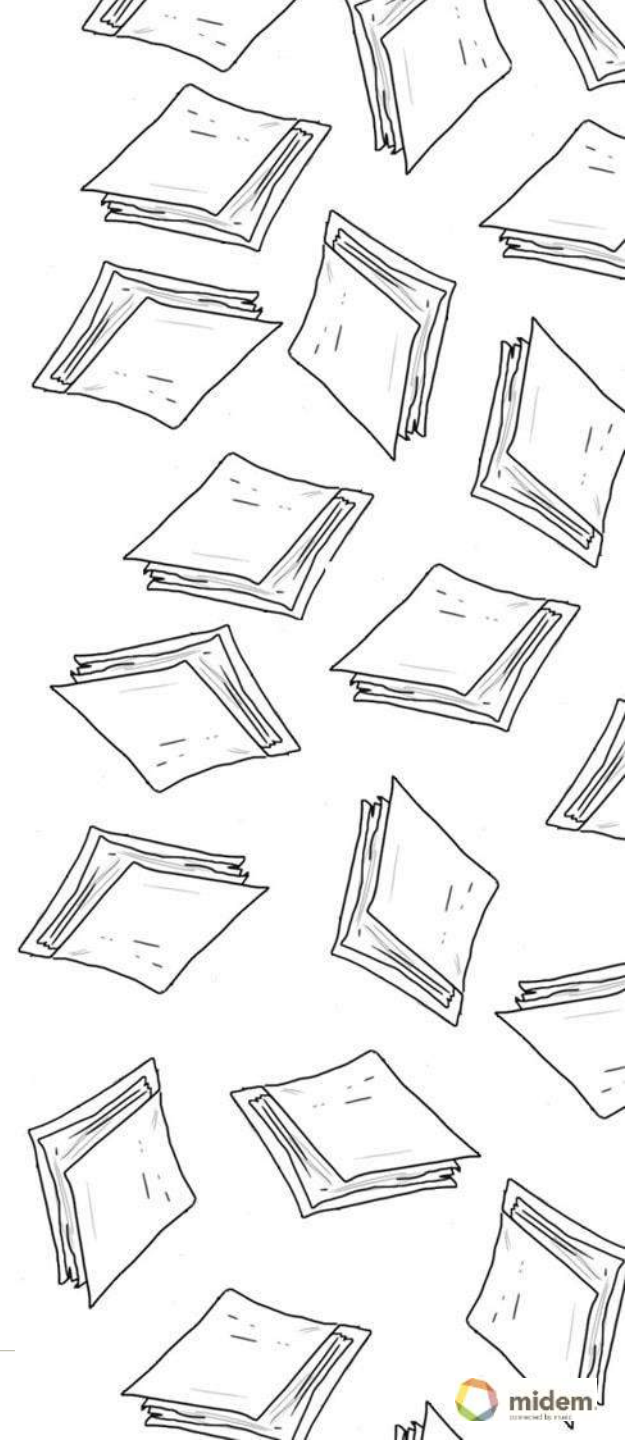
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- **Territories**

Streaming Platform royalty statements can cause confusion as they might not contain all the territories you are expecting. This can be down to having different aggregators or distributors in different territories or individual streaming services only being active in certain territories. It is important to check that all the territories you are expecting to see are present and, if not, chase up to make sure you don't miss out on income.

- **Platforms**

Make sure you are receiving the correct streaming rates you have agreed with each platform. With micro-payments such as these even the smallest error can lead to massive miscalculations. Streaming rates for each platform will also vary per territory and it is important to make sure these are correct as well.





# STREAMING INCOME

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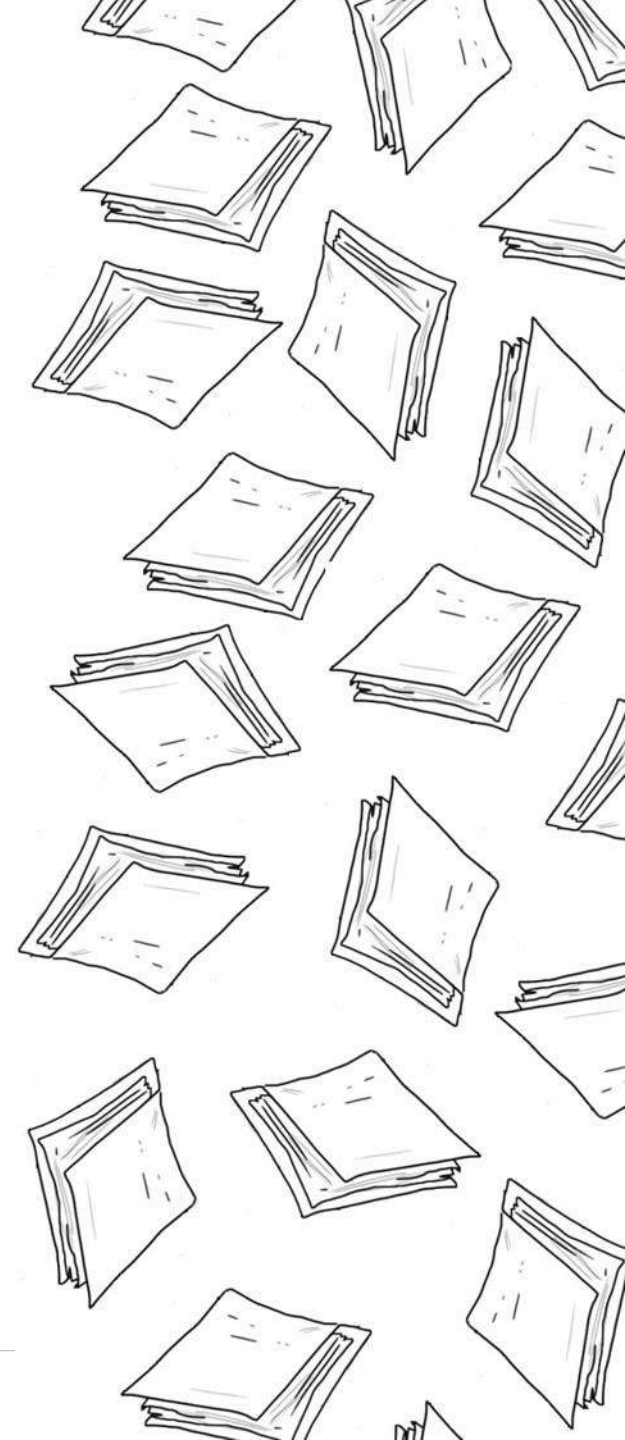
- **YouTube Sales Lines**

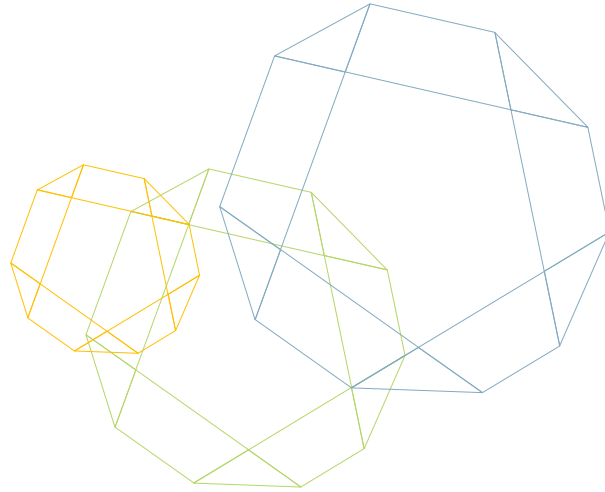
YouTube royalty statements will contain many “non-monetised” lines of data, where plays have occurred but income has not been placed against them. This will occur when the song has not been registered with the video is it being played on. It is important to adjust these before inputting the data into your royalty system. Once chased up these can be monetised and can potentially make a significant difference to your total revenue.

- **Catalogue Accuracy**

As vast catalogues have been uploaded onto streaming services in a relatively short space of time it is not uncommon for errors to have been made and songs to have been left off the reporting of albums. Check your statements against your catalogue to make sure you are not missing income for certain tracks. If you have 10 tracks on an album, make sure there are 10 tracks on the statement.

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# TRANSPARENCY & THE FUTURE OF ROYALTIES

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## TRANSPARENCY & THE FUTURE OF ROYALTIES

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Transparency has become the latest buzzword in the music industry, and for good reason too. A history of inaccurate payments, unfavourable artist deals and, more recently, vague knowledge about streaming rates have all left their mark. Artists now expect complete accuracy and accountability from their labels to show all sources of income at increasingly regular intervals.

With the latest techniques for processing and analysing royalty statements this is an expectancy that labels can - and should - now achieve with relative ease. Here we discuss three emerging trends that can help towards creating a more transparent industry that will aid not just the artists but the industry as a whole.



**“While the digital music industry has made leaps and bounds over the past few years, it still fails to provide artists with easy access to real-time data regarding their listeners.”**

**Bruno Guez ~ Revelator**



# TRANSPARENCY & THE FUTURE OF ROYALTIES

## ▪ **Monthly Reporting**

In a fast moving industry with an influx of data available labels are now coming to the realisation that only processing royalties every six months is no longer a viable option. With efficient software it is now possible to easily process royalties every month, helping to give a snapshot of an artist's current position. This provides vital support for key business decisions such as advances, sales, orders and contract option commencement, allowing labels to make informed decisions with latest data available.

## ▪ **Blockchain**

An emerging solution for total transparency in the music industry lies in the use of Bitcoin Blockchain solutions. There are current discussions about creating a new format for music distribution. This format will contain not only the audio data, but all metadata for ownership of a song, including songwriters, recording artists, labels, publishers & more. These formats will feed into a Blockchain digital currency service that will ensure all royalties for any usages anywhere in the world are sent securely, accurately and transparently to their rightful owners.

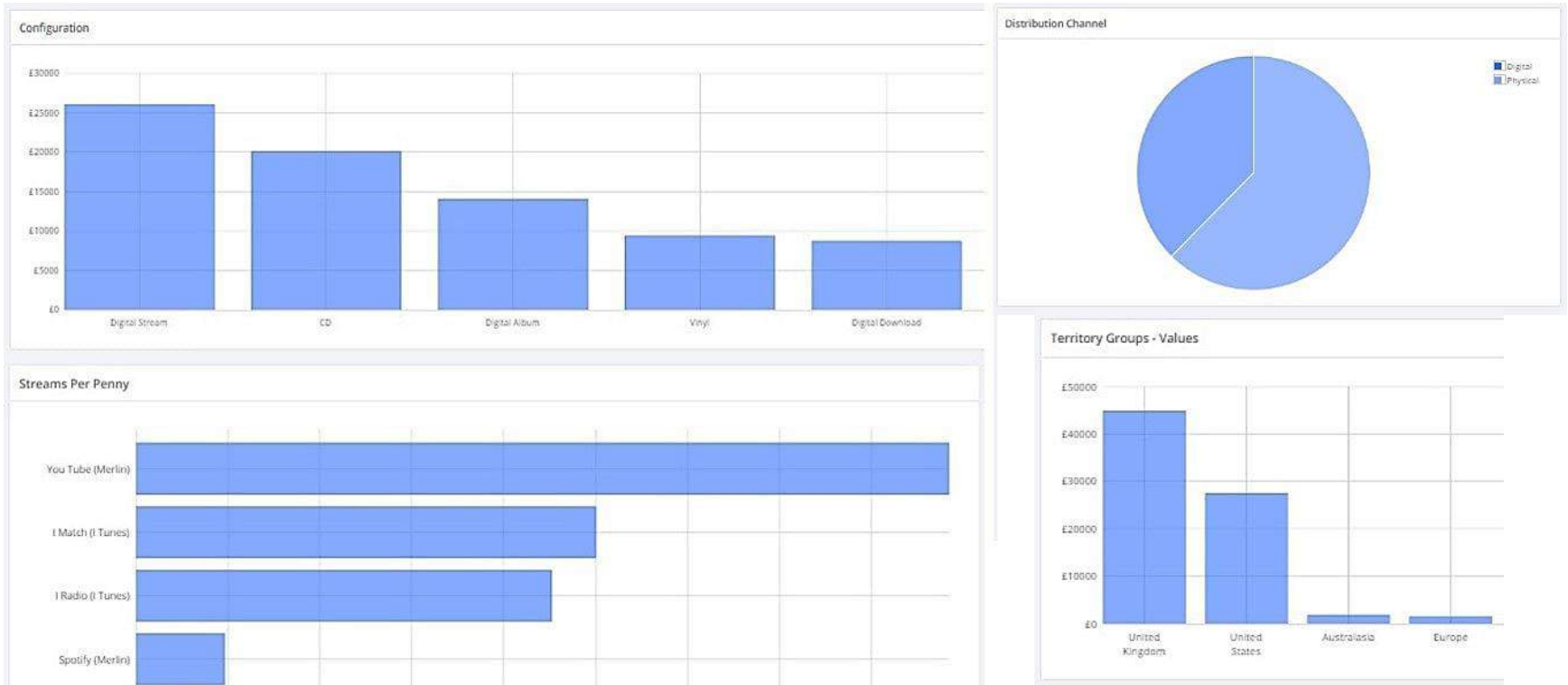




# TRANSPARENCY & THE FUTURE OF ROYALTIES

## ■ Data Analysis

Royalty processing combined with the right software is now opening a whole new world of data analysis with a level of detail not seen before. Labels can now view a host of different combinations of data to learn the details of how an artist is performing by territory, sales source, format, track and much more. Artists and labels can use this data to inform their strategies and make more intelligent decisions than ever before.



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# ABOUT THE AUTHOR

The Music Royalty Co. is a new collective of industry experts, brought together to provide an outstanding backend service for record labels, distributors and music publishers. The company offers a wide variety of services, from producing detailed royalty statements for your artists and handling all accountancy needs, to providing brilliant administration of your catalogue for neighbouring rights.

We are much more than just a royalty processing service, we care about the data we receive. In an ever changing industry with increasing volumes of data to analyse this means we are able to combine everything to provide a clear picture, informing your future plans, saving you money and leaving you free to focus on the creative side of your business.

Find out more at [www.themusicroyaltyco.uk](http://www.themusicroyaltyco.uk)

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