In recent times, artists/songwriters, who once made their living recording and writing songs, have been severely affected by the slump in royalty revenue coming from labels, publishers, and rights organizations. The decline is not only attributed to piracy and market trends, but to a shift in consumer demand to digital delivery formats. Artists/songwriters claim the new music economy is not compensating them fairly or evenly, and this paper draws together recent research on the subject.

Context

A growing number of artists and songwriters have come forward to voice their dissatisfaction with the little money they receive from digital streaming. Some artists who are fortunate to control their own recordings have gone as far as to pull out their catalogs from streaming services like Spotify, YouTube, and Apple Music while others strike lucrative deals to make their catalogs available to streaming sites for the first time. Songwriters who are not also recording artists with some level of control over their recordings aren’t as lucky. The combination of traditional record label deals signed early in their careers, the section 115 compulsory licenses, and the ASCAP and BMI antitrust laws have made it impossible for them to take any action against these services. But digital streaming also includes YouTube, which is regarded as the largest music streaming site in the world and is largely governed by private dealings and not the rules that audio-only internet radio services like Pandora are subject to. YouTube in particular is notorious for its measly and erratic payouts and under the protection of the DMCA Safe Harbors (section 512 of the Copyright Act) it is probably the largest provider of music copyright infringing material on the web.

The Shift in Consumer Demand

There has been a dramatic shift in the way music is consumed in the last fifteen years—from CD purchases, to downloads, to digital streaming which has gone from representing barely 3% of the US recorded music revenues in 2007 to 34% in 2015, ten times more! The shift from brick-and-mortar distribution to digital retail, and now to streaming,
There is little revenue for artists in digital streams, and our cover article addresses this in the light of recent research. It is a lengthy and analytical piece that summarizes the problem and points to a variety of causes, some industry based and others less so. This issue also attempts an explanation of another related question. Recorded music sales today depend on streaming services like Spotify and Deezer gaining traction. If such services have inherently low profit margins music makers will not be doing well in the future. Unless, that is, the services monetize music transactions in other ways.

Many of the other topics covered in this issue are at the intersection of business and society. Beyoncé’s Lemonade sparked controversy and the star has undergone, it seems, a career makeover defined by more political activism. In turn, the Idol phenomenon may be nearing its end. We track the factors that led to its success, and, perhaps, its demise. Additionally, Christian Music is experiencing a boon, partly fuelled by a boon in faith themed film. We follow the money of a genre that often tiptoes between profit and non-for-profit motives. Finally, we conduct an appreciation of Prince’s work and business practices, and marvel at how he could exercise such control over his work during his lifetime, yet leave no will.

An interview with entrepreneur and musician Rana June closes the issue. Ms. June’s stage act popularized the iPad as a legitimate musical instrument, and she is the founder of Lightwave, a company that collects fan biometrics in concert performance.

This edition of the Music Business Journal is my last as Editor-in-Chief. Thank you to our outstanding writing team and editing staff for your hard work and dedication, and to you, our readers for your support.

Sincerely,

Spencer Ritchie
Editor-In-Chief

Editor’s Note: Some articles have been printed without footnotes for production reasons. Please log onto www.thembj.org to find them.
translates to lower mechanical royalties for publishers and songwriters who in the past benefited from the sale of complete albums (traditionally an album cut would produce as much mechanical revenue as the most popular single in the album). The Nashville Songwriters Association (NSAI) reports mechanical royalty declines “in the order of 60-70% or more.” Songwriters who happen not to be performing artists are especially hard hit because they can’t make up for the loss by touring or selling merchandise. NSAI reports the number of fulltime songwriters falling by 80% since the year 2000. A well known contributor to The New Yorker reports, “If streaming is the future of music, songwriters may soon be back to where they started: broke!”

The Music Rights In Question

In the realm of digital streaming services, song and sound recording copyright owners are entitled to collect on three major rights:

1. The right to reproduce.
2. The right to distribute. Together with the right to reproduce, this is the “mechanical” right.
3. The right to perform publicly.

As mentioned earlier, a form of digital streaming that adds a visual component to a copyrighted work, as is the case with sites like YouTube or Vevo, adds a fourth right, the right to create a derivative work. Known as “synchronization” or “synch” rights, these are generally understood to be a combination of the owners’ reproduction and derivative work rights.

Because laws/regulations are typically created for technology and industry practices that exist at the time that they are enacted, changes and advances in technology over time have resulted in legal patchwork and consequently anomalies in the market for sound recordings. A few examples:

- Rights at the federal level apply only to recordings made after February 15, 1972. The decision made by Congress in 1971 to leave pre-1972 recordings under common state laws has gone from “a copyright oddity to a serious legal issue” with several lawsuits and resulting settlements taking place in 2015.

- Terrestrial (broadcast) radio stations are exempt from paying for any sound recording public performance rights. This 1972 law was passed when artists and labels relied on AM/FM radio broadcasters to promote their music, which, broadcasters argued, turned into increased profits for record labels and artists from album sales and touring. In today’s satellite radio and digital streaming market, such promotional value is arguably a fraction of what it used to be.

Streaming Revenue and Distribution

For Spotify, the largest digital streaming service in the world, negotiations to plan its launch in the US were so complex that it took years before an agreement was reached. Founder Daniel Ek said of his experience, “If anyone had told me going into this that it would be three years of crashing my head against the wall, I wouldn’t have done it.”

The first type of digital streaming service is known as “internet radio” or “non-interactive” while the second is known as “on-demand” or “interactive.”

A third distinction is made on:

- Services that include video. Example: YouTube and Vevo.

Appendix A shows the streaming models, what source of income is collected by performance rights organizations (PROs), record labels, and publishers. Where known, the revenue split is shown.

Sound Exchange (SoX) is an independent nonprofit organization that collects statutory license-only, non-interactive sound recording public performance royalties on behalf of label and artist members. A digital radio performance of a popular song recording may generate revenue for both SoX as well as ASCAP/BMI who collect on behalf of publisher and songwriter members. However, as Appendix A shows, SoX’s collections for the same stream as compared to those of ASCAP/BMI are much higher, reportedly by a ratio of 12:1 (some say as high as 14:1). Bette Midler’s highly publicized $114.11 royalty payment from Pandora for 4 million plus plays can in fact be shown to yield a high ratio of 23:1.

It is worth noting that SoX does not collect royalties for digital services that include an audiovisual component (e.g. YouTube, Vevo). YouTube, the world’s biggest music streaming service, enters into direct, private deals with copyright owners for mechanical/synchronization rights.

However, the DMCA Harbors protects sites like YouTube for any content “posted on their systems at the direction of users,” in essence, passing over to copyright owners the responsibility for notifying YouTube about the infringement, which they do by means of takedown notices. The DMCA Safe Harbors law has been highly controversial as it sets the stage for a continuous flow of copyright infringing material and takedown notices which in 2014 alone aver-

(Continued on Page 4)
Artist Payments (cont.)

SERVICES LIKE YOUTUBE ARE FREE TO THE USER AND SPOTIFY OFFERS A FREE TIER TO ENTICE USERS INTO A PAID SERVICE. IT IS REPORTED THAT THE RATIO OF FREE TO PAID USERS IN SPOTIFY IS 3 TO 1. FREE, AD-SUPPORTED SERVICES CONTRIBUTE TO DILUTE THE INCOME GENERATED BY LABELS AND PUBLISHERS AS THESE KIND OF STREAMS PAY LESS THAN SUBSCRIBER STREAMS BECAUSE SPOTIFY AND GOOGLE MAKE LESS ON ADS THAN ON SUBSCRIPTIONS. SURPRISINGLY, LABEL REVENUE GENERATED BY AD-SUPPORTED STREAMING SERVICES LIKE SPOTIFY HAS BEEN RECENTLY SURPASSED BY REVENUE GENERATED FROM THE SALE OF VINYL RECORDS.

The presence of a free tier was the reason licensing content to Spotify took so long because when Spotify started, the free tier was an on-demand service and record labels opposed it arguing, rightly so, that it would cannibalize the downloads market and perhaps what was left of the physical product market. Spotify argues that since it has to pay a large share of its revenues as royalties, it has little to no room for a marketing budget and the free tier is an effective form of marketing for the premium version. Spotify accounts that it converts about a quarter of its non-paying users into premium subscribers. When asked about Apple’s music service who does not offer a permanent free tier, Spotify’s answer is simple: “We don’t have a phone business.”

As far as the value of each stream, the average is approximately 6/10 to 8/10 of a cent. That means that a $1.29 song download is equivalent to about 160 to 215 streams. To calculate the royalty rate per stream, Spotify divides up the monthly streams of an artist’s song by the total number of streams in that month. That tiny share is multiplied by the total monthly revenues minus 30%. However, as mentioned before, some streams are worth less than others based on geographical location and whether the stream is from a free service.

Spotify’s website states that its premium service “delivers more than two times the amount of revenue to the industry (per track) compared to what was left of the physical product market.”

The advent of interactive digital streaming was perhaps an opportunity to offset the low mechanical license rates of physical sales and downloads and provide publishers with a higher royalty pool. In the corporate boardrooms of the large music corporations, however, record label interests appear to have taken precedence. One music publisher described the scenario as it appears to have happened, “Basically, the major music corporations sold out their publishing companies in order to save their record labels which in the end, means that the songwriter got screwed.”

It is well known too that the share of artist and publishing royalties has not varied by much despite the elimination of certain costs such as packaging/manufacturing and distribution. Whereas the two are not necessarily connected, many in the industry argue that the record labels’ keeping of a larger share of the revenue from today’s digital stream in comparison to what they kept from yesterday’s CD appears unjustified.

RESUMES, A RELEVANT FACTOR IN THIS DETERMINATION IS THE Royalty rate established by the CRB (Copyright Royalty Board) for mechanical licensing of physical records and downloads which many claim “does not reflect the fair market value of musical works and acts as a ceiling that does not allow publishers to seek higher royalties through voluntary negotiations.”

The fact that mechanical licensing is compulsory makes matters worse for publishers as they are bound to accept a low rate currently set at 9.1 cents for most songs. Said rate “has not kept pace with the times, since the original 2 cent rate set by statute in 1909 represents 51 cents today when adjusted for inflation.”

The share of record labels in digital streaming has increased. According to Spotify, the ratio of streaming to sales is 1800 to 1. At the current 10% of the overall revenue is paid to the labels, for royalties alone, the labels would receive over $1 billion.

The rise of streaming has also raised concerns about the value of music rights. The CRB has attempted to value mechanical licenses for physical sales and downloads and determine whether the amount of revenue to the industry (per track) has increased. Presumably, a relevant factor in this determination is the royalty rate established by the CRB. Spotify has confirmed that record labels receive approximately 160 to 215 streams. The CRB has determined that the royalty rate established by the CRB for mechanical licensing of physical records and downloads which many claim “does not reflect the fair market value of musical works and acts as a ceiling that does not allow publishers to seek higher royalties through voluntary negotiations.”

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Conflict Over NDAs

It is no secret that labels received a stake in Spotify, collectively owning about 15% of the company. The question of major record labels owning equity in a major player in the digital streaming service market has raised concerns of fair competition among Spotify’s rivals and independent artists. As of July 2015, before Apple launched its on-demand digital streaming service, Spotify accounted for 86% of the market in the US.26 If Apple, Amazon, or Google—who have a steady profit from a multitude of sources—try to undercut Spotify’s presence in the market in the US,25 they know they have the capacity to respond? An insider label source was quoted as saying, “You might want to take a discount in a business you have equity in, you might not want to take a discount in a business you don’t have equity in.”27

If we consider the overall income generated by digital service providers, a number of intriguing questions come to mind: How are the financial benefits of advances and advertising space to record labels shared with artists and songwriters? What about capital gains derived from the equity they own, is that benefit shared with artists/songwriters? What about those artists that have old recording contracts without any payout provisions for digital streaming?

Sony’s deal with Spotify revealed the presence of big royalty advances in the order of $9 to $17.5 million per year in quarterly installments which aren’t treated as royalty revenue until Spotify actually reports on period revenue data. Advances are of course recoupable, but include a “minimum guaranteed revenue clause,”28 which essentially means that if either the advance or the agreed minimum guaranteed royalty/value sharing earned during the licensing period, then the label is protected thanks to “breakage” and gets to keep the difference.

After the hacking scandal, Warner Music Group was the first major record label to clarify convincingly its policy of sharing all advance monies (including “breakage”) with artists and to state that it has been honoring that policy since 2009. Warner Music artist royalty statements made public in 2015 confirm the claim.29 While Sony Music and Universal followed suit with similar public statements, both failed to provide a time since the policy has been in place and most importantly whether or not they share all or only a portion of the unallocated income from advances.30

June 2016

Artist Payments (cont.)

Other clauses in the same deal “allow Spotify to keep 15% of its ad revenues sold by third parties ‘off the top’ without accounting them as revenue” and also require Spotify to give Sony “advertising inventory at a discounted rate in the amount of $2.5 to $3.5 million per year, which Sony is then able to resell for a profit.”31 It is unclear how these obscure arrangements provide any benefit to artists and publishers/songwriters.

Reportedly, Spotify’s dealings with indie labels or digital distributors such as Tunecore are much more transparent than those with the majors, with timely payments accompanied by monthly statements and streaming details neatly broken down per artist.32

PRO Consent Decrees and Rate-Setting

The Department of Justice (DOJ) consent decrees were signed by ASCAP and BMI in 1941 in response to antitrust complaints and radio boycotts which attempted to curb the dominant position and resulting abusive practices that ASCAP had established in the marketplace. The consent decrees laid out a set of rules governing the operation of the two PROs.33

Among them:
- PROs can’t refuse to grant a license to any user that applies even if pricing terms are not agreed to by licensees.
- Licensing terms should be the same and cannot discriminate against licensees in similar standing/positions.
- PROs must offer alternatives to the blanket licensees if requested.
- PROs may only represent nonexclusive rights.

The decrees basically shifted the balance of power away from the PROs and to songwriter/publisher members and licensees. With the shift in consumer demand, away from terrestrial radio/TV and into the digital/online space, the existence of the consent decrees gave digital service providers such as Pandora and iHeart Radio an enormous advantage heading into rate negotiations.

Since licensees are able to start performing ASCAP/BMI repertoire as soon as they apply for a license without having to agree on a rate, they can choose to rely on interim fees while long ratesetting processes take place or they can delay payments and potentially leave creators without compensation for an extended period of time.34

The NMPA blames the ratesetting procedures established by the consent decrees (currently two judges in New York District Courts with antitrust concerns) as the source of the exceptionally low rates paid for the public performance of a composition,35 which “deflate royalties below their true market value.”36

Adding to the imbalance is the disparity in the law created by Congress’ decision to not require broadcast TV/radio stations to obtain licenses for public performance rights of sound recordings. This terrestrial radio exemption also limits sound recording copyright owners’ ability to collect royalties on foreign radio/TV broadcasts as most foreign collection agencies would not release the funds due to lack of reciprocity.37 It’s possible that the revenue lost due to this exemption influenced how market forces interacted to even the playing field in favor of record labels and artists when it came time to set rates for digital radio service providers like Pandora and SiriusXM.

It is worth noting that the DOJ consent decrees only apply to ASCAP and BMI repertoire, but not to Global Music Rights (GMR), a newcomer PRO that started operations in 2013, and SESAC repertoire, both of whom represent significant catalogs of works. This disparity of application gives a competitive advantage to newer PROs that are not subject to the same antitrust regulations. GMR was founded around the time the issue of “fractional licensing” came about—when publishers attempted a partial withdrawal of ‘new media’ or digital rights from ASCAP/BMI. The goal of the publishers was to circumvent the norms set by the DOJ consent decrees so they could negotiate directly with digital service providers at higher rates.

Just as publishers started to have success negotiating private deals with digital service providers like Pandora that would have increased songwriting revenue from public performances in the digital space, the DOJ rate courts ruled that “partial withdrawal of rights was not permitted,”38 forcing music publishers to back out.

(Continued on Page 6)
Appendix A

Non-interactive / Satellite radio
Ex. Pandora, SiriusXM

Sound Exchange (CIRB Statutory)
Split: 50% label, 45% Artist, 5% BMI

Public Performance

ASCAP/BMI (Blanket licensing/DOI Rate-setting)
Split: 50% Publisher, 50% Songwriter

SESAC/GMR* (Private Deals)
Split: 50% Publisher, 50% Songwriter

Public Performance/Master Use

Labels 60% Revenue (Private Deals)
Artist royalty based on contract

Interactive (On-Demand)
Ex. Spotify, Tidal

Mechanical

Publishers 10% Revenue
Songwriter’s royalty based on contract

Audiovisual**
Ex. YouTube, Vevo

Public Performance (all content)

ASCAP/BMI (Blanket licensing/DOI Rate-setting)
Split: 50% Publisher, 50% Songwriter

SESAC/GMR (Private Deals)
Split: 50% Publisher, 50% Songwriter

Mechanical/Synch (User Generated w/Master)

Labels (Market Rate) (Private Deals)
Artist royalty based on contract

Publishers 10% Revenue (Private Deals)
Songwriter’s royalty based on contract

Mechanical/Synch (User Generated, no Master)

Publishers 35-50% Revenue (Private Deals)
Songwriter’s royalty based on contract
Artist Payments (cont.)

Appendix B

Why are my songs making so little from digital streams?

Section 115 Mechanical Licensing
- OBH low rates that have not kept up with inflation
- Compulsory Licensing

Labels’ Lack of Transparency
- Unallocated advances/royalty payments
- Obfuscation of revenue and discount advertising arrangements
- Financial benefits of owning equity
- Mirroring the old “50/50 physical CD sales model” in today’s digital world

Labels’ Conflict of Interest
- Favoring one side of the business to the detriment of the other

Streaming Services Business Model
- ‘Freemium’ or free service tiers
- Low subscription fees on premium tiers

Consumer Trends
- Shift from physical sales to downloads and subsequently to streams means fewer people buying albums in favor of singles

ROG’s Antitrust Laws
- ASCAP/BMI compulsory licensing
- Divided rate setting regime, DOJ courts’ antitrust concerns in CBI under sections 112-115
- Long interim fees/court rate-setting procedures

DMCA Safe Harbor Laws
- Shields Digital Providers like YouTube from liability for user copyright-infringing material
- “De minimis” effect on royalty rates

(Continued on Page 9)
Gross Margin Blues

By Ryan Stotland

There has been a lot of excitement around streaming lately. At the end of last year, Apple launched their own service that amassed over ten million users in just three months. Despite the competition, Spotify was able to grow its user base at an even faster pace than usual and now boasts over thirty million users. Streaming now generates nearly $3 billion in revenue, which allowed for the first growth in recorded music sales in many years.

At the end of March, Spotify raised over $1 billion in convertible bonds that holders can convert into a specified number of shares. The issue proves that the markets still consider Spotify a good investment, though the involvement of the equity firm TPG and hedge fund Dragoneer suggests that mostly high-risk takers are taking the bite. Spotify, like other streaming services, has yet to post a profit. In France, Deezer cancelled their plans to launch an initial public offering in the fall of last year at about the same time that talk about Spotify’s own IPO, for likely over $8 billion, was quelled.

One of the main reasons that streaming services like Spotify and Deezer can’t post a profit is that they have very low gross margins. Gross margins are defined as the difference between revenue and cost of goods sold. It is common to express the figure as a percentage of revenue. For example, if a car manufacturer can make a car for 4000 dollars and sell it for 10,000 dollars then they have a gross margin of 60%. The purpose of gross margins is to show the value of each incremental sale. Each time the manufacturer sells a car 60% of the selling price will go towards profit (before accounting for operating and financial expenses).

The year-end financial statements for Spotify and Deezer show that Spotify had a gross profit margin of 22% and Deezer was at 16%. Margins are small because of the high cost of paying rights’ holders, i.e. the record labels and the song publishers, for their music. Spotify’s CEO Daniel Ek insists that he wants to pay 70% of revenue to rights holders. This follows the iTunes model and older record label deals, where a third of every sale is allocated to distribution (before iTunes that money stayed in-house with the labels because the majors owned their distributors). If Spotify and Deezer were able to buy catalogue for a fixed fee they would benefit a lot from economies of scale. For now, the 70% payout means that gross margins will not improve much as the streaming services grow.

Naturally, a 20% gross margin makes it hard to make a profit once other expenses accrue: for marketing, operations, taxes, rent, legal, and interest payments. This is the structural problem for streaming services like Spotify and Deezer, and many analysts believe that getting ahead of their costs will prove difficult.

Even Pandora, not a profitable business, has gross margins of over 35%. The royalties for radio streaming are lower than for on-demand services due to the lower level of “control” exercised by the end user. On demand streaming has been growing its user base at a much faster rate but it won’t matter unless they can become more efficient in turning revenue into profit.

Deezer’s margins are so tight that they claim to only make money when their app is downloaded directly. And when consumers buy their app from the Apple store, Deezer gives up another fee, which undermines potential profit. In their financial statements they write that “app stores typically charge a percentage for billing up to 30% of revenues [and this] reduces our margins significantly.” The low gross margin means that they need perfect conditions to make money and have very little buffer for any other adverse factors that could weigh on their operation.

Legendary investor Warren Buffett says that the gross margin ratio is one of the first and most important things he looks for when analyzing the income statement of a company. He believes that you should only invest in businesses that have a gross profit margin of at least 40%. Those businesses may have a durable competitive advantage. Less than that and Buffett says that competition is too fierce.

One way for Spotify to improve their margins would be to try to negotiate lower royalty payments. This will be a difficult proposition though. The reason that Spotify has margins much lower than 40% is because of the reason that Buffett talks about: competition. It will be hard for Spotify to ask for a lower rate if the competition is Apple music, which may be willing to keep paying the current rates. If Apple pays a higher rate then they will end up being seen as more artist friendly and could have advantages with new releases.

In their financial statements Deezer talks about how they have negotiated licensing agreements with the three majors labels for an average term of two years. Even though they have the flexibility to negotiate better rates because the deals are done on a relatively short-term basis, they don’t have the bargaining power to do it. The market is very competitive and the path to better margins likely will not come from much lower licensing costs.

A better solution to the gross margin problem would be to look for ways to move into higher margin sectors. Spotify has a lot of data it has collected on people’s listening habits and their favorite artists. Monetizing this information should be a higher priority item. Moody’s Analytics, a company that provides financial intelligence, has gross margins that are consistently above 70%. Putting data to good use is good business. Another way for Spotify to improve their margins would be to find synergy with another high margin business. Ultimately this could involve a merger or acquisition and the acceptance of a loss leading strategy on music sales – not ideal, however, for music makers. Short of that, Spotify might have to pin its hopes on the record labels accepting a smaller split than they are currently taking.

Steve Jobs was uncharacteristically wrong when he predicted that people would never want to rent music. The current juncture belies that. The problem hasn’t been so much that people don’t want to rent, or stream, music but rather that the businesses of streaming is weighed down by low gross margins.
Conclusion

Appendix B summarizes the issues contributing to the decline in artist and songwriting royalty income. The issues appear to fall into one of three categories: regulatory, business/organizational, and market-oriented. Some of the issues/categories are interconnected, and therefore influence or impact one another. For example: regulations such as the DMCA Safe Harbors that are well-intentioned but not free of collateral damage to intellectual property rights.

While online piracy and shifting consumer patterns are a contributing factor, it is fair to hold that the lack of an integral solution that addresses the diverse licensing needs of music users in the marketplace in addition to the lack of fair, flexible, and comprehensive government regulations bear the greatest impact on the mealy royalty checks artists, but particularly songwriters, receive today.

The aggravation of artists and songwriters with traditional record labels and publishers comes across in their readiness to join newer “label services”, “rights management”, and “collection services” organizations which provide more flexibility, transparency and control. Companies such as BMG Rights and Kobalt perhaps represent the hottest growth sector in the music industry offering artists and songwriters something “simple and fair, rather than a takeover of rights, a partnership opportunity where clients construct their own budgets and decide their own future.”

For music publishers, the absurd disproportion of royalty payments collected for song copyrights vs. sound recording copyrights is driving a transformation that puts ASCAP/BMI at risk of losing major catalogue representations. But performance rights is not the only source of income where an inequity represents. But performance rights is not ASCAP/BMI at risk of losing major catalogue representations. But performance rights is not.

Service providers like Spotify readily defend their models, basically stating that “a little money is better than free.” For artists, perhaps the stage at which their careers are plays a part. Developing artists and established artists with solid catalogues that tour extensively need the exposure and can probably take the loss. However, artists that do not tour as much or are growing their catalogues cannot afford it.

Several in this latter group have expressed that they prefer to continue to weather the storm than settle for pocket change. With the pocket change also comes the impact of a continued degradation in the perceived value of music. The fact that the revenue generated by the sale of such a niche product as vinyl records has been able to generate more revenue than free/ad-supported digital streaming ($226 million vs. $162.7 million in the first half of 2015) is perhaps the best indicator of the music industry’s “poor ability to monetize its non-physical products.” Both the RIAA and Spotify appear to agree that while paid services continue to compete with “free,” market forces will not digital streaming subscription service rates go any higher.

The hacked licensing agreement between Sony and Spotify shined a light on the various payment arrangements between the two organizations and to no one’s surprise, it was the record label siphoning off most of the revenue and diverting only a small portion back to the artists they represent and claim to care about. Moreover, the major music companies’ conservative stance and reluctance to adapt and transform in light of a new business model era appears baffling. The lack of transparency demonstrated only upholds the belief that conflicts of interest in the music industry exist and the party who has the upper hand will always put their interests ahead regardless.

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In *Lemonade*, her new and celebrated hour-long visual album that was released without prior publicity or promotion, Beyoncé makes a departure. The storyline is personal, for she draws on the experience of the women in her family as well as her own problems as a black woman. Inspiration for the album title is close to home: Hattie Smith, rapper Jay-Z’s grandmother was known to say “I was served lemons, but I made lemonade.” Indeed, the release casts light on Beyoncé’s marriage and Jay-Z’s infidelity and therefore hits a raw nerve among her fans.

It also shatters public perceptions of the star because the feeling is that a different and more artistic persona is on display here. First, she is able to be vulnerable, forthcoming, and relatable to her audience as Beyoncé Knowles-Carter—a wife and mother rather than an entertainer. Secondly, this is not just the upbeat mainstream Pop/R&B act meant to continually top the charts. The sound of *Lemonade* is not genre specific. Rock and country music, to take an example, live together in the album, while unconventional collaborators abound, including guitarist Jack White, the Yeah Yeah Yeahs, Father John Misty, Animal Collective, and Led Zeppelin.

Sales took off globally immediately after the release, which included a conceptual short film. Nearly half a million units were quickly cleared with more than one hundred million streams. But this is half the story, and the album is arguably destined to become important in popular culture for other reasons.

Beyoncé is fuelling a very special narrative in her latest production. She uses Malcolm X in her lyrics to suggest that a black woman is the most disrespected and unprotected social archetype in America. But she drives the point home more personally. In her song “Sorry” she refers to an alleged extra-marital affair by Jay-Z. The track is anything but apologetic and the lyrics are tinged with bitterness. The ending, “He better call Becky with the good hair”, led to a rush in social media to uncover her husband’s alleged paramour. It is hard to think that this was entertaining for Beyoncé to do. And she could have made money too with a different, more commercial, song. But in a world that seems to crave for authenticity, Beyoncé chose to portray herself as one of many victims sharing a common problem which, although seems exacerbated in the black community, is instantly recognizable outside it.

Moreover, although the songs on the album focus on the marital strife and tumult that Beyoncé has faced, the amalgamation of the visuals and the spoken word in the feature film morphs the piece into a much broader statement.

Imagery, costumes and gatherings of women of all ages allude both to Latin American immigrants and African Americans in the U.S. Fundamentally, the album was released following a fervently debated and widely viewed Super Bowl 50 performance in which she sang her single *Formation*, a nearly militant declaration of her support for the Black Lives Matter movement. The video features a young black boy dancing in front of police officers, Beyoncé herself symbolically sitting on a sinking police car, and dancers wearing berets reminiscent of the Black Panther movement.

Clearly, Beyoncé is in her thirties and became a mother in 2012. In all likelihood she is quite a different person than the twenty-year old pop sensation she once was. Whereas some, including ex-CNN host Piers Morgan, have questioned her motives, suggesting that she may be opportunistic, it appears that she has simply evolved as more socially conscientious individual. For example, *Lemonade* goes into great detail about her personal life, including glimpses of her wedding, as well as Jay-Z and her daughter Blue Ivy playing together; it is natural to draw the conclusion that this is her own proud moment as a black woman. It is also significant that Beyoncé has made a deliberate decision to associate with the Black Lives Matter movement. This is quite unlike her, because in the past she steered clear of inflammatory topics lest she alienate some of her diverse fan base.

It must be remembered too that over the years Beyoncé has also managed to garner support for her own brand of feminism. She has, after all, exuded much a professionalism, grit and ‘girl power’. She appeared at the Video Music Awards Ceremony in 2014 and performed under the glare of the word ‘FEMINIST’ written in giant lights behind her. This, notwithstanding that for a long time she branded herself as the “girl-next-door” with blatant sex appeal, and that feminists argued that her overt sexuality perpetuated a patriarchy that traps women (*Dangerously in Love*, the title track on her first solo album, is a good example).

Therefore, in a career that has longevity already, this latest transformation of Beyoncé is not completely unexpected. Entertainers and artists are human and will often take new positions as times change. Events in America this year were polarized by the perception of racism in law enforcement and well-known African American leaders in the public eye could hardly stand idly by. Spanish philosopher Jose Ortega y Gasset has said that the self of every man—or woman— is a product of circumstances (“Yo soy yo y mis circunstancias”). This seems right for Beyoncé. There is, of course, nothing wrong making money if you can change the world for the better.

Endnotes:

Web. 12 May 2016.
The Fall of American Idol

By Edward Panek

Last year American Idol experienced its lowest viewership since the show began, down to eight million from a peak of thirty-eight million fourteen seasons before. The Core Media Group, owner of the current Idol, declared bankruptcy and the show is now in hiatus, its production team reviewing options. It begs the question as to what changed, and some context is provided below.

Projection

American Idol, and dozens of singing competitions in English speaking TV, trace their roots back to the early days of reality shows and, in particular, New Zealand’s Popstars (1999). Producer, Jonathan Dowling, licensed the format to Australian TV network Screentime, starting a sequel that would involve licenses in more than fifty countries. In the UK, English television producer and entrepreneur Simon Fuller picked up the show and rebranded it as Pop Idol (2001). Under Fuller, we first observe the features that would make the show so successful later on. Viewers could vote for the act they enjoyed most by calling in, texting, logging into the show’s official website, or, if they had a digital TV, they could simply press the red button on their remote control. Audience engagement catapulted.

In addition, for the first time ever, breaking new artists happened on TV without the brokerage of the major record labels. In the UK, the winner and runner up of Pop Idol’s first ever season, Will Young and Gareth Gates, respectively, recorded number one singles (Will Young is still an active recording artist and Gates recorded three successful albums and seven Top 5 singles before moving on to a career in musical theatre). The pattern repeated in later seasons, with winners and runners-up both of Pop Idol and The X Factor, the replacement of Pop Idol in 2004, becoming household names, and sometimes even topping international charts.

Another element first seen in the UK’s Pop Idol was the potential for the judges to be just as entertaining as the candidates. Simon Cowell’s signature catch phrase “I don’t mean to be rude, but…” defined the show. His famously blunt criticism embarrassed talent but helped lesser prospects air alongside the more successful candidates purely for entertainment. British audiences were absolutely hooked on this never before seen combination of viewshership interactivity, heart-warming success stories, and brutally honest reviews of less than good singers. It became a Saturday night primetime event for millions in the island before the show travelled abroad.

When the United States became interested, Simon Fuller took his well-proven format there. All elements previously seen on Pop Idol were present in the US version of American Idol, and again the show skyrocketed in popularity. Season one’s finale saw twenty-three million viewers tuning in to witness the judges’ verdicts for the winner of the competition. Like Britain, many American artists got their breaks from performing in the competition, and notably among them Kelly Clarkson and Carrie Underwood.

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To sustain success, however, the format required follow-through by its talent. This in part has proved the undoing of the show. By 2014, for instance, the debut album of American Idol’s winner, Caleb Johnson, was a dud and only debuted at 24 in the Billboard 200. Winners from mid-way through the show’s life have not experienced the same success of Clarkson or Underwood. If the show becomes less relevant as a curator of talent, momentum must undoubtedly slip.

Another factor is the changing of the judges. To keep the show interesting, a change of guard was necessary. But this, in a format that parades so many different faces of contestants on the screen, has made Idol less familiar. There were questionable choices. Nicki Minaj and Mariah Carey bring up ratings only if the chemistry between them is there; their constant bickering, in the event, did not. And Jennifer Lopez probably overdid her praises. Hits and misses, of course, are part of TV programming, but given the calamitous drop in ratings the notion that any celebrity can play the game of A&R has probably been disavowed.

Future

If, as Simon Fuller has said, “there will no doubt be another format of American Idol somewhere down the road”, the question is what will it be. Fuller has suggested that virtual reality may get us closer to the contestant than ever, allowing us to experience the show more intimately than before. Maybe, but finances are tight right now for his Core Media Group and if there were something there already for the taking other competitors would have rushed in. Meanwhile, attention has to be refocused on the public’s emotional connection with the contestants, something that was getting increasingly lost as the seasons went by.

One of the things that made the show work is that it showcased an inordinate number of aspiring vocalists. Before Idol the general public may have been largely unaware of how many vocalists it took to make a star. This is no longer the case, but it taxes interest to watch singers who are not talented trying to make it time after time. In fact, the appeal of Idol lies in our vicarious enjoyment of its format: degrading the attempt. There is something good therefore about the show going off air and looking for new bearings.
Rana June, Musician and Technologist

By William Kiendl and John Lahr

It had to do with me being a guitarist. I could plug in a wireless guitar bug and be mobile anywhere on stage. My understanding of the audience, of how to interact and put on a great performance, was dependent on me being unchained. When I first started focusing on electronic dance music, I found it very jarring that the creative potential of a computer was in fact restricted. It just seemed counterintuitive that a DJ had to be stuck behind a desk.

When the iPad came out in 2010, the seed in my mind had already been planted. I had pre-ordered Apple’s first iPad and was standing in line at the Apple Store in New York City. The day before the launch Apple had released the iPad App Store, and I used my iPhone to check it. I quickly realized there was an entire section of the store just for music and scanning the few apps that were available I understood, like a bolt of lightning, that this was going to change music production and performance forever. The area was ripe for disruption. I went on to purchase two iPads and combined them with a basic Numark mixer, which I really hacked together, to start my own way of DJing.

At the time I was part of the iOS development community, and familiar with the potential to change live music performance. We live in a world that is fact driven. Media, corporations, and individuals consume information. Data analytics are rife. One of the few areas still unexplored is the production of human markers from audiences in public events. I invented Lightwave’s technology because I wanted to understand audience reaction there and then, at the concert, not after from Twitter. It depends on fans using wearable technology to track their emotions live (see MBJ, ‘Your Heart on Your Sleeve’, May 2015). I wanted to know if a song was landing with the audience, or if the excitement was too intense before a later climactic moment so an adjustment could be by the artist in time. This information can shape not just the way we interact with entertainment audiences, and the business of music in particular, but help other ventures that can benefit from the ability of knowing what the emotional feedback of their consumers is there and then. Direct to Consumer industries can benefit from research on this type of data, as does the film industry already when they run focus groups to adjust scenes based on the immediate response of captive audiences prior to the release of what are usually big dollar productions. Getting Lightwave in the hands of artists is something we are extremely excited about because of its potential to change live music performance.

MBJ: How did you become involved with technology?

I was fortunate because I grew up in the D.C. area where there was both a vibrant music scene and a strong technology sector. From an early age I held both artists and technologists in high regard. At the exact moment I started playing music I bought my first Powerbook, so I was using a digital audio workstation on the laptop while learning music. The integrity of the experience was never lost on me and production has always been part of my music making process.

My job in college was working at Guitar Center, which gave me the opportunity to be around musical instruments all the time. Every free moment I had I would spend trying out new digital tools, like Fruity Loops, Logic, and plugins of various kinds — a perk of the job. I had a studio in my house with instruments and computers but it was strictly after hours work. Now it is coming up on fifteen years! My interest in electronic dance music also helped. EDM has always been a popular art form amongst coders and technology has greatly influenced it.

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Christian Music

By Spencer Ritchie

Modern Christian music, i.e. contemporary Christian, Gospel, Worship, and Christian Rock, may be an afterthought for some analysts and secular consumers in North America. This is no longer right. Faith based music sells well and is increasingly in the crosshairs of mainstream talent and their marketers. Pop and Country stars, including Blake Sheldon, Carrie Underwood and Trisha Yearwood, are crossing over and a proliferation of new films and record breaking tours are turning heads in the business.

Recorded Music

Recording revenue is earned mostly through the sale of physical CD’s. Christian music purchases of sound recordings tend lag the regular market, which is mostly digital, by two to three years. It accounts for 3.6% of all album sales in the United States, and it is on a par or exceeds the Latin music market and the burgeoning EDM market. It does much better than Classical, Jazz, and Children’s. Moreover, the fastest growing radio market in the United States is Christian music. Traditional media does well for the genre.

Projections are good, in part because Christian music audiences come from all walks of life and ethnicities. The genre can thus continue to grow due to its universal appeal, something that may be missing from other niche genres (even though it may not command the vast market of Rock and Pop). For instance, a recent report concluded that in a given month in 2014, 215 million people listened to Christian music, that seven out of ten Americans were exposed to it, and that an overwhelming proportion of African Americans were following.

Film

It also appears that Christian music is growing rapidly as the faith-based film market expands and secular companies begin to use religious music to sell their products and services. Throughout 2014, firms like Coca-Cola, McDonald’s, and NASCAR made use of Contemporary Christian Music in commercials and other marketing efforts, giving legitimacy to the Gospel Music Association’s assertion that their music has appeal across genre boundaries and religious sects. Adding to the popularity of these religious artists is the commercial success of movies such as God’s Not Dead and its sequel, which together grossed over $80 million. More Christian films are in the making and will be released throughout 2016, including Risen, 90 Minutes in Heaven, and Miracles from Heaven.

These films yield substantial and predictable box office revenues, and often drive music sales. The biggest all-time collection goes to Mel Gibson’s The Passion of the Christ, which netted $612 million and received two Dove awards for its original score and a compilation album of songs related to the movie (the Dove award is similar to a Grammy and is presented by the Gospel Music Association). The soundtrack of The Passion received a nomination for the 2005 Grammy Award in the category Best Original Music Score. It sold over 100,000 units, unheard of in film soundtracks. Music publishers are having a field day licensing synchs and new music from the genre.

Tours

Massive tours add value. The Winter Jam Spectacular has been the #1 first quarter tour for five years in a row, catering to 550,000 attendees, surpassing Bruce Springsteen’s 2014 tour and Beyonce’s. Charging only $10 per ticket, the same price it has maintained over the last decade, and offering a $49.99 deluxe admittance package, the event circumvents major ticket vendors and promoters to keep ticket prices down (and spread the faith). But there is plenty of merchandise sales, and even when free admissions are occasionally considered, the tours generate very healthy balances. The New Song Ministries and Premier Productions, INC, the leading producer, is obligated to invest any earnings back into their ministries and their community. It most likely does, but a cursory examination of their website fails to inform how exactly the money is spent (although it appears that Holt International, a faith centered adoption, child services and humanitarian agency based out of Eugene, Oregon, is a big beneficiary).

A very successful Contemporary Christian Music Act is the band Hillsong United. Hillsong United falls under the aegis of the Australian based Hillsong Church, with many international ministries. Tickets on the primary market for the band’s current tour sell from $40 to more than $250 in both the primary and secondary markets. These are mainstream stadium concert prices. Ancillary revenues are all there: merchandise income from t-shirts starting at $40, fan club memberships, and record sales. Hillsong United has sold more than 1.2 million albums since its debut album in 2007. Its single “Oceans” went platinum. The church earned more than $4 million dollars on sales of its entire recorded music catalog (with bands other than United) out of a global total of $70 million. This, of course, doesn’t take into account live performance revenue, which suggests that music is one of the keys to the fortunes of this Church.

Artist Issues

It does not appear that artists are...
Elvis Presley had the Pompadour, James Brown had the cape, and John Lennon had circular-rimmed sunglasses. Prince Rogers Nelson wore the color purple. Every iconic musician since the 1950’s has adopted his or her own trademark look. But only a creative force as genius as Prince could take something as simple and universal as a color and successfully claim it as their undisputable trademark. Prince was an instrumental virtuoso, and a master of genres. At 19, he singlehandedly wrote, composed, arranged, performed, and produced his debut studio album and its follow-up. Over his career, the seven-time Grammy Award winner would release thirty-nine LP’s, and ninety-seven singles, of which 5 scored #1 on Billboard’s Hot 100. Prince was also the creative mind and lead actor behind the 1984 film Purple Rain, and directed its follow-up. The soundtrack went platinum thirteen times.

Prince also fought hard to protect his art and image. He was a fierce advocate for creative control and artist rights. He expelled two Warner Bros Records executives from the recording session of his debut studio album For You when it was suggested that the song ‘So Blue’ could do with a bass line. This is what Prince had avoided. Regardless, Warner kept Prince on its roster and did very well. The relationship may not have been harmonious, but Prince produced what is widely seen as his strongest and most valuable work with the label.

He was a true artist, and could not live comfortably within the confines of contract law. Prince’s first manager, Owen Husney, claimed that not owning his masters after the label recouped and broke even was “completely abhorrent to him.” And when told he could only release so much material at once before oversaturating his audience, he could not understand, for the music just flowed through him.

In the 1990s, under a storm of media coverage, Prince changed his name to avoid any contractual obligation. The public referred to him, with some humor, as The Artist Formerly Known as Prince. The ruse did not work initially, so he began appearing in concert, d at the BRIT Awards in 1995, and a Today appearance in 1996, with the word “slave” written across his cheek. Warner finally released him from his contract, and eighteen years later, in 2014, signed him over again, this time with a deal that saw him regain ownership of his catalog.

The Internet became the World Wide Web in the late 1990s, and it allowed Prince to connect with fans directly and sell his music on his own terms, a freedom he sought early on. He may have been the first well-known megastar to do so. Later, in 2001, Prince launched his own website, the NPG Club (NPG stands for New Power Generation), which offered exclusives on track sales, including videos, radio show clips, specialty playlists, and preferred concert seats. Prince supported the concept of an integrated website that spanned the entire range of a musician’s output so as to maximize sales’ value. Fifteen years later, streaming service Tidal took a page out of Prince’s book, and, indeed, Prince obliged by removing all other streamed music from competing sites.

The irony of the Internet was not lost on him, though. It ushered piracy and streaming and with it massive losses in artists’ payments. If Spotify couldn’t pay then his music had no place there. The same reasoning applied to YouTube. In fact, he had excised most of his YouTube videos by the time he died.

If in life he sought to maintain much control over his business, in death he did not. He left no will. This in spite of the opening of a vault at his residence in Paisley Park, Minnesota, that seemed to have uncovered enough material to release a new album every year into the next century. He must have known he was in danger, for he abused opioids to quell chronic hip pain and maintain his punishing touring schedule.

Now the value of Prince’s estate is of concern to others, not to him. And because of his latest deal with Warner, in which he gave the major distribution rights over his music, one of the big beneficiaries is his erstwhile foe. The Very Best of Prince hit #1 on the charts in the week after his death on April 21, and as much as 3.5 million album and song sales happened between in the three days after. Two weeks later, eight of Prince’s albums re-entered the Billboard 200.

Sources:

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making money hand over fist, though. One
the one hand, these are non-profits that funnel
funds to the leadership and pay substantial in-
come to the founders. On the other hand, the
purpose of many Christian artists may not be
to get rich, (even with the credo of a “pros-
perity gospel”).

With the exception of a few elite
artists such as United, and others like Cast-
ing Crowns, Mercy Me, Newsboys, making a
living in the industry is an even greater chal-
lenge for independent and up-and-coming
Christian musicians. This is because of ticket
prices, radio, and piracy.

As shown with the Winter Jam
Spectacular, many touring artists in the Chris-
tian music scene earn less because of reduced
ticket prices. This is true as well of ministry
shows at large churches, where tickets go for
$10-$15 apiece, probably making it hard to
break even.

Moreover, those who listen to
Christian radio frequently will be made aware
that many stations that play religious music
are “listener supported”, meaning that in gen-
eral they have smaller budgets to work with
and in turn can only afford to pay artists whose
music is not broadcast in traditional radio sta-
tions.

Finally, for an industry that reaps
rewards from the sales of physical CD pur-
chases, piracy is still a concern and detracts
from new label ventures (comparatively little
Christian music is streamed).

Another issue is that Independent
CCM artists often find themselves in a dif-
cult position, for it is a challenge to break
t.hrough the established acts in and it is easy to
lose a footing in the mainstream secular mar-
ket without altering one’s image, name or be-

lief. There are exceptions: Katy Perry (former-
ly Kate Hudson) eschewed her CCM image for
the flashy appearance of a pop superstar; Sufjan
Stevens, “The Poster Boy For Hipster
Christianity”, has retained a similar look and
image, though his lyrics are now more main-
stream. But sadly, for numerous other artists,
Christian music has a reputation of producing
somewhat of a “ghetto”, in the sense that those
artists that rise to any sort of prominence within
the genre have a challenging time crossing over
into the general market.

Overall, Christian music is becoming
stronger and more important in American culture.
Therefore, it is just as likely to be a candidate for
continued inbreeding as it is for cross-pollination
from the outside. If the genre is going to scale
well, though, it will need more attention. Taking
a musical and market based perspective, U2 front
man Bono points out that the genre ought to be
more honest and forthcoming with the emotions
and the thoughts of its creators. The profusion of
“glory”, “majesty”, and “kingdom” in Christian
lyrics, for example, does tax the patience of secu-
lar listeners, and is a barrier to the genre’s projec-
tion. Finding ways of putting faith on record in a
more intimate and less jarring context, and with
a different aesthetic, could make the form thrive,
somewhat like Country did with Pop in the mid
1990s. If so, Carrie Underwood, Blake Shelton,
Trisha Yearwood may be pioneering the future of
Christian music.