DIGITAL MUSIC NEWS

Paying People in Music: the Definitive Guide

The Definitive Pocket Guide for Anyone Paying People In Music – From Startups to Enterprise-Level Platforms

As the global music industry races towards $100 billion-plus in annual revenues, success is often defined by the ability to manage extreme complexity.

With billions of royalty-generating plays and transactions, associated licenses, rights holders, and a complex layer of intermediaries triggered on a daily basis, accounts payable in the music industry now demands serious financial platforms and partners to get it right.

Assembled by Tipalti and DMN, this Playbook explores the accounts payable challenges facing music companies today, and how extremely complex payout problems can be addressed with smart automation.

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Music Listening Fragmentation Demands Capable Financial Backends

In 2023, leading industry trade group IPFI calculated this breakdown of hourly listening based on data pulled from 18 major music markets. The fractured result spans streaming, UGC, radio broadcasting, short- and long-form video, physical formats, live concerts, and TV formats. Each contains its own associated licenses, splits, royalty rates, and payout schedules (and here's a quick primer on music royalties for anyone jumping in).

THE MUSIC ENGAGEMENT MIX

32%
Audio Streaming
(Subscription and free tier e.g. Spotify, Apple Music, Melon)

7%
Other forms of music listening
(TV, on-demand premium video services such as Netflix, music swapped with family and friends)

4%
Live Music
(including livestreaming)

9%
Purchased Music
(e.g. CDs, vinyl, DVDs,digital downloads)

31%
Video Streaming
(Long-form and short-form e.g. YouTube, TikTok)

17%
Music on the radio
(Broadcast live, catch up, internet radio stations)

The takeaway is clear: the music industry is now a highly-fragmented and complex landscape, which places critical demands on financial accounting and payment platforms. Suddenly, accounts payable proficiency is making a major difference in the competitiveness of music companies – or even the survival of music companies.

In this playbook, we'll explore the nuances of ensuring stakeholders across all of these channels are treated fairly—and most importantly, paid on time and accurately.

As a first step, we start with a self-assessment of your current accounting and payment infrastructure.

Let's diagnose the strengths and weaknesses of your current financial platform.

Does it stack up?

Self-Assessment: How Competitive Is Your Accounting and Payment Infrastructure?

Competitive benchmarks on payments are quickly being established in the music industry.

◼ ARE YOU?

○ Capturing, accounting for, and paying rights owners for every play, on any platform, in any territory worldwide within 30 days (or less) of its occurrence?

○ Handling every type of payment method demanded by rights owners and clients (whether PayPal, ACH, e-check, foreign currency, or otherwise)?

○ Automatically handling all tax concerns, thresholds, and deductions for every US state and territory worldwide?

○ Managing complex payouts involving multiple rights owners, splits, disputes, and advances?

○ Tightly integrating your payments platform with existing cloud ERPs or accounting solutions like NetSuite, Intacct, Microsoft, SAP, QuickBooks, and others?

○ Managing these details with tens of thousands of payees and clients without extensive manual work?

Self-Assessment, Continued.

◼ ARE YOU?

Capturing, accounting for, and paying rights owners for every play, on any platform, in any territory worldwide within 30 days (or less) of its occurrence?

↘ Learn how Create Music Group delivers payments within 30 days (or less) to more than 25,000 artists and 5,000 labels with near-100% accuracy.

Handling every type of payment method demanded by rights owners and clients (whether PayPal, ACH, e-check, foreign currency, or otherwise)?

↘ Check out this detailed breakdown of payment methods and capabilities.

Automatically handling all tax concerns, thresholds, and deductions for every US state and territory worldwide?

↘ Here's a primer on business tax compliance with global supplier payouts in mind.

Managing complex payouts involving multiple rights owners, splits, disputes, and advances without rapid resolutions?

↘ How Splice reduced its AP resource time by 12 weeks a year.

Tightly integrating your payments platform with existing cloud ERP or accounting solutions like Netsuite, Intacct, Microsoft, SAP, QuickBooks, and others?

↘ This is easier than you think—if you have the right partners with pre-established connections, relationships and experience bridging to your existing systems.
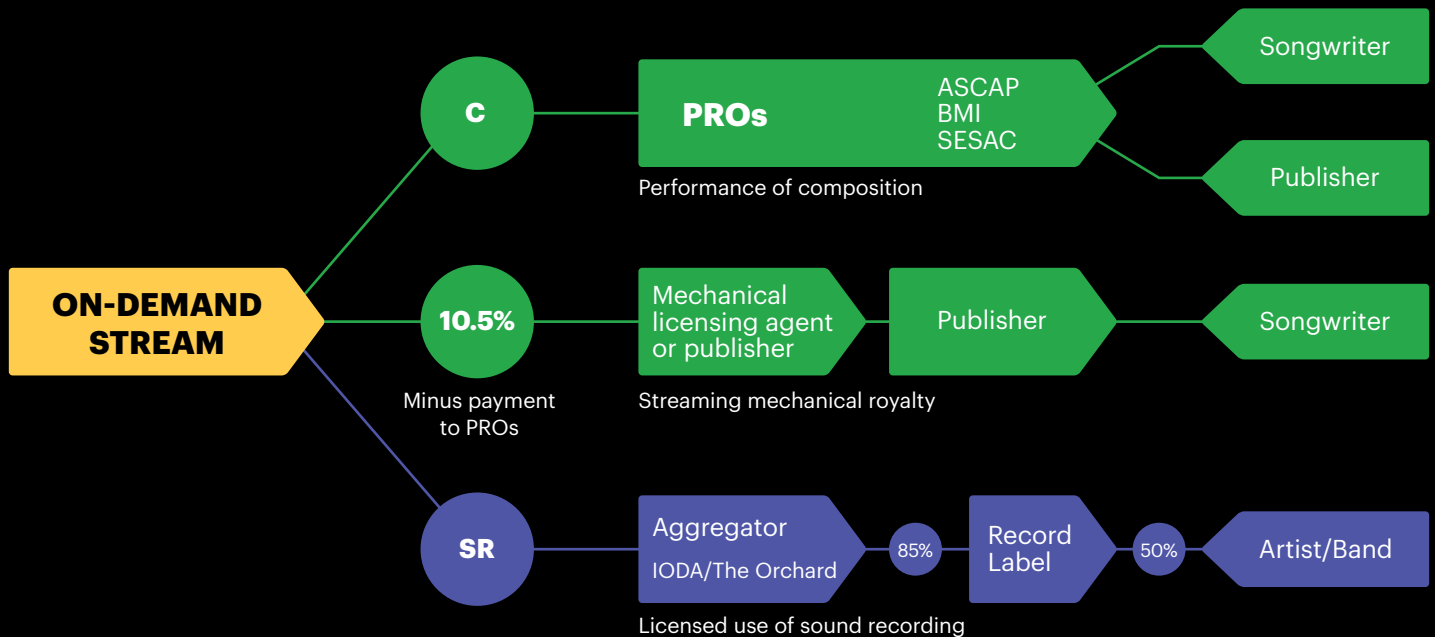
Managing these details with tens of thousands of payees and clients without extensive manual work?

↘ Learn more about mass payouts and their ability to transform businesses.

How did you fare on the self-assessment? Now, let's shift to some more questions, specifically related to payees. One of the key areas that many music companies struggle with regarding payments is properly identifying and paying each and every recipient tied to a monetized asset. At a very basic level, your team should always be able to answer: 'Who Are You Paying, Exactly?'

Who Are You Paying, Exactly?

ON-DEMAND STREAM

C → **PROs** — ASCAP BMI SESAC → Songwriter / Publisher
Performance of composition

10.5% (Minus payment to PROs) → Mechanical licensing agent or publisher → Publisher → Songwriter
Streaming mechanical royalty

SR → Aggregator (IODA/The Orchard) — 85% → Record Label — 50% → Artist/Band
Licensed use of sound recording

One of many scenarios involving music royalty payouts: in this schema involving an indie label artist, a song play triggers a number of payouts to both recording and publishing IP owners via various intermediaries (Future of Music Coalition).

Who you're paying depends on the details of your platform and the specific sub-industry within which it operates, with the vast number of possibilities including UGC platforms (with payouts triggered by detected uses and agreed-upon payout percentages), DSP platforms (with payouts triggered by plays), sync marketplaces, beats platforms, vinyl manufacturing and sales, live concerts, and even digital downloads (which remain surprisingly important on channels like Stationhead).

In most scenarios and platforms, a play triggers a number of different payout obligations for both recording (artist, label, distributor) and publishing (sync, performance, mechanical, and associated collection agencies) IP usage.

✓ Have you identified the rights owners and payment obligations tied to your platform, and, if necessary, negotiated the terms of using music in a variety of scenarios (including ad-supported and subscription)?

↘ If so, the next hurdle is to plug those use-case scenarios, percentage payouts, and 'vendors' owed in an AP system that can handle it.

Managing royalty payments isn't the only challenge music businesses face when it comes to finance automation. If you've ever bought a ticket to a sporting event, concert, or other show, you may be familiar with all the various stakeholders getting a piece of the ticket sale pie. In this next section, we delve into the complex payment systems that support a range of live concert and ticketing platforms. Managing payments for all these stakeholders is another example of why having a solution to manage mass payments can be a game changer for music or entertainment businesses.
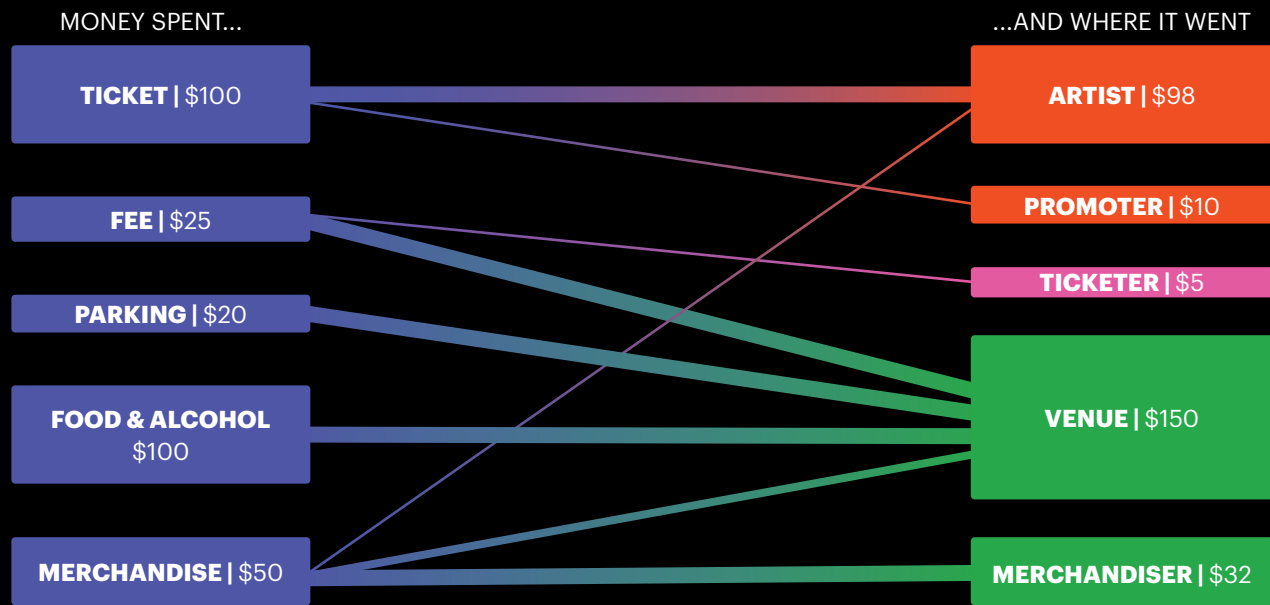
Fun With Ticketing

Ticketing and live concert revenue splits can present significant challenges for payment and financial platforms. But if you've grinded through music IP payout challenges, then you're probably battle-tested for concerts and ticketing.

While payouts and percentages vary, here's one schematic built out by the Wall Street Journal to illustrate where the typical concertgoers' money ends up.

WHO MAKES MONEY FROM YOUR SPENDING AT AN ARENA CONCERT

MONEY SPENT...   ...AND WHERE IT WENT

TICKET | $100   ARTIST | $98

FEE | $25   PROMOTER | $10

PARKING | $20   TICKETER | $5

FOOD & ALCOHOL $100   VENUE | $150

MERCHANDISE | $50   MERCHANDISER | $32

Across the live concert experience, a transaction typically triggers a percentage payout to a number of suppliers and partners. While obviously complex, payment infrastructures now exist to handle most aspects of these distributions.

Ideally, payouts are automated based on established contracts and agreements, with total sales, distributions, fees, taxes, and other variables pre-determined prior to the event start. Once a transaction engine is unified with a payment platform, sales across merch, food and drinks, parking, ticketing, concierge services, or all of the above can be bucketed, split, and accounted for in a unified system.

What else should music and entertainment businesses be thinking about when it comes to selecting the right finance and accounting systems? Compliance. When it comes to payments, compliance is almost always the number one most important barrier to future scale and success for emerging businesses.

On-Boarding Rights Owners and Licensors—With a Scalable and Reliable System
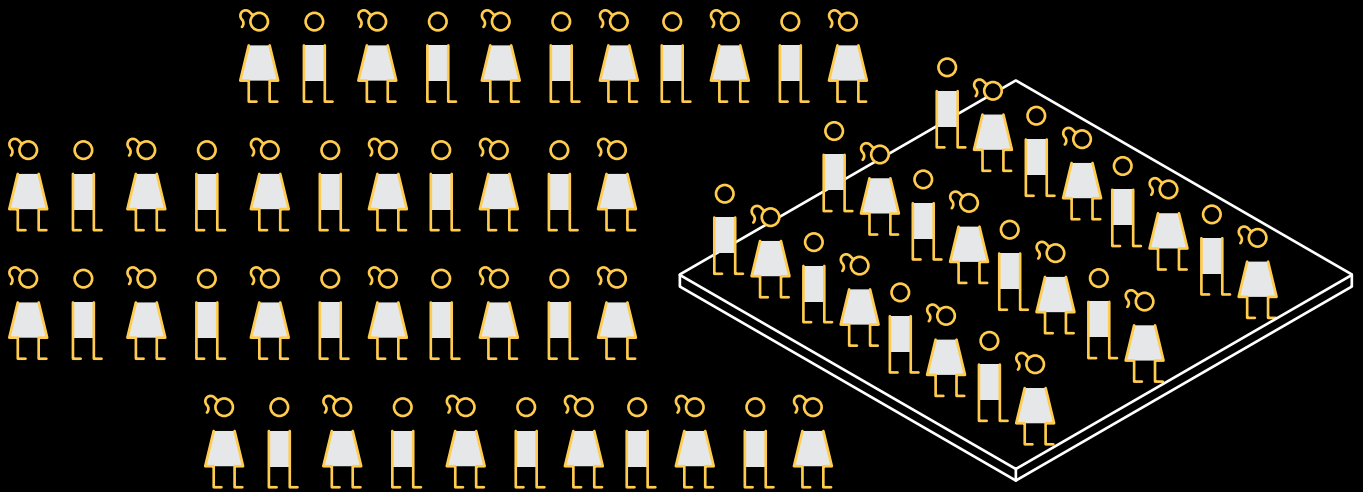
Nearly every music platform now faces the challenge of ingesting large numbers of rights owners and licensors, each with enormous quantities of associated metadata and payout details. That can mean thousands of new accounts daily with varied inputs, though a well-architected, automated system can vastly simplify the process.

It can also virtually eliminate issues related to missing metadata, downstream payment problems, and ownership conflicts.

Fraud is also becoming a bigger concern on many music platforms, particularly on streaming platforms (DSPs) and UGC platforms. But well-regimented on-boarding processes and KYC ('Know Your Customer') checks can dramatically lower fraud and virtually eliminate penalties.

By setting up self-service client and supplier portals, music platforms can streamline process workflows and manage and pay vendors in its supply chain. The result is more accurate data entry, faster payments, and increased transparency, with employees and support staff liberated to focus on edge cases and exceptions.

For those looking to construct self-service systems, or simply update their existing setups, here's a detailed white paper breaking down some of the critical considerations and steps.

> Once businesses start to get more comfortable with compliance, they often start to think about a very critical question: how do I actually remit payments to artists, producers, songwriters, influencers, and others?

The Moment of Truth: Distributing Payments to Rights Owners, Companies, Municipalities, and More

Increasingly, manual payout systems are proving incapable of managing the demands of today's music environments (whether recording, publishing, live performance, or creator economy). They simply burn too many resources, cost too much, and can't keep up with the thousands (or millions) of payees.

By stark contrast, music industry companies that deploy mass payout systems enjoy a critical edge over the competition. One could argue that effective and streamlined mass payout systems are now critical for survival in the modern-day music business.

In many cases, payment operations can be radically overhauled in a short period of time to reduce AP chores by more than 90%, with payment turnaround times dramatically quickened.

So what is a mass payout system, exactly?

In simple terms, mass payouts (or 'batch payments') involve a system for paying multiple recipients simultaneously in a streamlined manner. With a solid setup, payments are made regardless of recipients' currency, location, ownership percentage, associated license, taxation specifics, or preferred payment method.

Importantly, mass payout systems cannot be created with one payment platform (i.e., PayPal or Payoneer). A more sophisticated infrastructure is needed to capture all payees, splits, taxes, and other variables.

HERE'S A BREAKDOWN OF THE BASIC PILLARS FOR CONSTRUCTING A MASS PAYMENT SYSTEM — WHICH CAN BE TAILORED TO FIT A RANGE OF DIFFERENT COMPANIES AND SITUATIONS.

One of the biggest business challenges in the music industry is unclaimed payments. Up next, we address this critical issue, and how setting up the right payment infrastructure can help your team identify gaps in the payment claim process and reduce unclaimed royalties.

Unclaimed Payments and Fraud: A Look at a Serious Music Industry Problem—And How to Deal With It

Although exact figures remain elusive, the music industry's 'black box' of unidentified and undistributed royalties is estimated to be a multi-billion dollar issue. In many cases, the resulting non-payments are rooted in bad or missing metadata or simply unclaimed works.

A close cousin of this issue is outright fraud. Instead of missing metadata or negligence, bad actors knowingly enter incorrect information to divert funds to the wrong recipients or fabricate 'fake plays' to siphon funds from royalty pools.

For platforms that feature large numbers of creators, transactions, and payouts, some level of missing data, payment failure, and even fraud is inevitable.

BUT WHAT ARE THE BEST PRACTICES TO MINIMIZE MISSED PAYMENTS, TACKLE FRAUD AND ELIMINATE LIABILITIES?

Strong participant verification processes.

↘ This includes 'know your customer' (KYC) processes and validation steps to eliminate fraud, typically powered by a financial platform with strong vetting and security protocols in place.

Detailed metadata entry requirements, including verified information on splits, recording and publishing IP ownership, remittance details, and tax information.

↘ This not only ensures proper payouts on your platform, but also enables downstream remittance if content is distributed or used elsewhere. If a content owner is unable to offer the required data, they simply can't play on your platform.

Established and fair policies for holding and redistributing money that cannot be distributed.

↘ YouTube, for example, holds unaccounted funds for a specific period of time before redistributing those unclaimed funds evenly among registered stakeholders.

A system for managing disputes.

↘ Typically, this involves freezing payouts until the dispute is resolved, with an in-house team working to ensure that the conflict is properly adjudicated.

Payments can trigger both compliance and legal challenges — and we've discussed some of the compliance implications around onboarding, KYC, and more. Now, it's important to switch gears to take into account the global and legal implications around payments.

Legal-Proofing Your Setup—Quick Steps To Avoid Mayhem

The implications for mishandling accounts payable royalty commitments can be catastrophic. Incorrect or missed payments can trigger copyright actions and content removals, with litigation a time-draining result.

ACTIVE MUSIC INDUSTRY LITIGATION BY TYPE, AUGUST 2024

15%
Contract and Other

55%
Copyright

10%
Antitrust/Federal

9%
Patent and Trademark
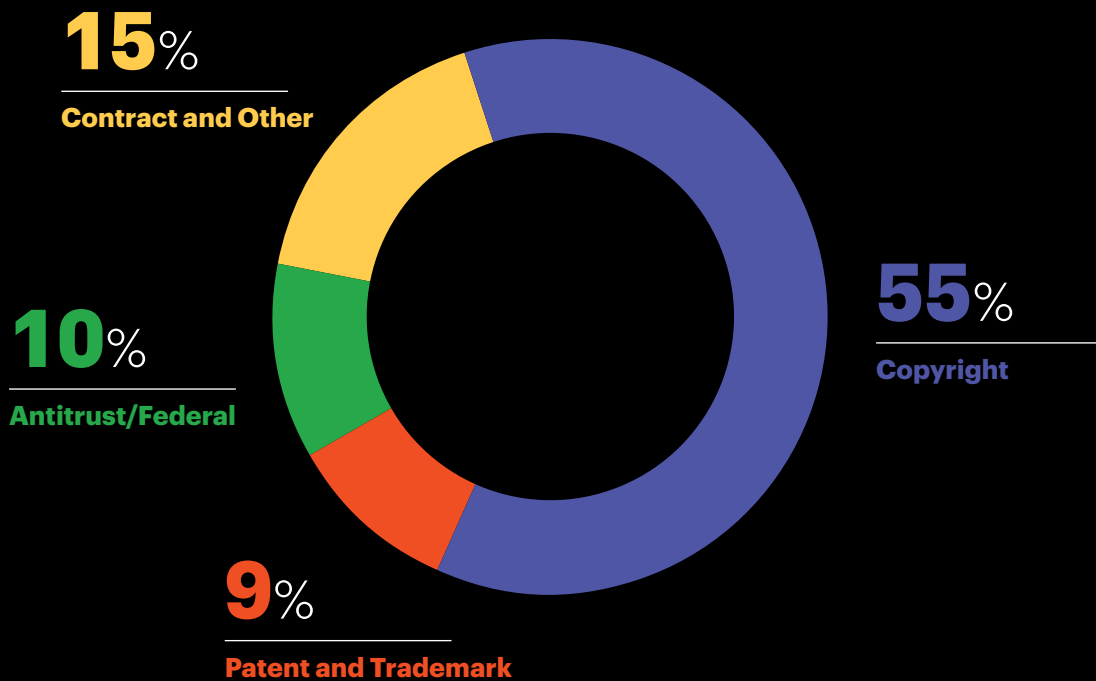
More than half of all music industry lawsuits involved copyright-related disputes in 2024. This includes allegations of copyright infringement, as well as issues tied to improper accounting or non-payments (Source: Digital Music News, DMN Pro research).

By stark contrast, a well-oiled payments and financial automation platform offers full tracking and accountability, with disputes more quickly understood and resolved.

Is your business legal-proofed? Take the assessment below to find out.

Legal-Proofing Your Setup: A Checklist

■ ARE YOU...?

○ Accounting for all triggered licenses within your model framework, including (but not limited to) performance, mechanical, synchronization, and territory-specific licenses?

○ Identifying and establishing connections with all payees for specific applicable licenses, including rights organizations, labels, publishers, and the artists and songwriters themselves?

○ Appropriately bucketing various licenses and payee relationships into matching territories and blocs?

○ Tying all creator and rights owner contracts with actual payout calculations and terms?

○ Prepared with a process to handle disputes, including conflicts over IP ownership?

○ Staffed appropriately to handle legal challenges, demands, and lawsuits?

○ Documenting all transactions and their calculations?

Legal-Proofing Your Setup: A Checklist (Con't)

■ ARE YOU...?

◯ Accounting for all triggered licenses within your model framework, including (but not limited to) performance, mechanical, synchronization, and territory-specific licenses?

↘ A detailed examination of your application, model, or platform with an industry attorney or top law firm is a good first step. Once you set sail, beware of overly-aggressive claimants who may try to stretch the definition of a specific license, particularly in novel use cases.

◯ Identifying and establishing connections with all payees for specific applicable licenses, including rights organizations, labels, publishers, and the artists themselves?

↘ For a number of triggered music licenses, an artist or IP owner often works through an intermediary to collect and administer royalties. In the case of performance licenses, for example, publishers and songwriters in the US often work with a PRO like ASCAP, BMI, SESAC, GMR, or AllTrack.

◯ Appropriately mapping those licenses and payee relationships into different territories and blocs?

↘ New territories often introduce different licensing and payout requirements. That demands a payment platform that can incorporate those modifications on-the-fly.

◯ Tying all creator and rights owner contracts with actual payout calculations and terms?

↘ If contractual terms change, then payments may also change as well. A huge win is when contracts are structured from the beginning to smartly connect into the payments platform.

◯ Prepared with a process to handle disputes, including conflicts over IP ownership?

↘ Conflicts over IP ownership are a near certainty, though different companies deal with the issue differently. In the case of YouTube, a conflict can freeze all monetization until a resolution is reached. For all platforms, a uniform process should ensure that royalties aren't being paid to the wrong party and legal liabilities aren't created.

Staffed appropriately to handle legal challenges, demands, and lawsuits?

↘ Depending on the size of the company and level of litigation, in-house attorneys or a contracted law firm can manage the flow of legal demands and lawsuits. Well-crafted upfront contracts also help.

Documenting all transactions and their calculations?

↘ With the right payments platform, this part is simple—with everyone in the payout chain able to look up specific transactions, payouts, and royalty calculations via a unified interface.

Knowing your numbers is crucial to success in any business. As we've highlighted throughout this playbook, the music and entertainment industry has unique challenges when it comes to managing payments.

If change is the only constant, a flexible payments platform is a necessity to scale your business to the next level.

Future-Proofing Your Setup

If change is the only constant, a flexible payments platform is a necessity to scale your business to the next level.

Perhaps the simplest changes required by payment systems involve modifications to existing licensing and payout specifics, including changes in rates, percentage splits, tax rates, or regulatory filings. Broader changes include shifts in consumption formats or experiences that demand substantial modifications in payment and accounting methodologies.

According to **Tipalti**, a number of structural elements in a core payments system dramatically improve adaptability and flexibility of finance operations over the long term:

- A modern IT stack to maximize adaptability and growth.

- 100% cloud-based systems, which integrate well with the other tools in your fintech stack—like your ERP or accounting system of record. High levels of automation throughout the payment process are critical, with workflows simplified.

- Robust analytics and monitoring capabilities, with better forecasting capabilities once modifications are implemented.

- A consolidated and connected (not disparate or disjointed) system to manage your people, processes, and technology.

More About Tipalti

■ **WE HOPE THIS PLAYBOOK HAS BEEN HELPFUL!**

Tipalti is the only company handling both mass payments and accounts payable workflows for high-velocity companies across the entire financial operations cycle: onboarding and managing global suppliers, instituting procurement controls, streamlining invoice processing and approvals, executing payments around the world and reconciling payables data across a multi-subsidiary finance organization.

Tipalti enables companies to scale quickly by making payables strategic with operational, compliance, and financial controls. Companies can efficiently and securely pay thousands of partners and suppliers in 196 countries in their own currency within minutes.

Thousands of companies, such as GoDaddy, Roku, and WordPress.com, use Tipalti to reduce operational workload by 80% and accelerate the financial close by 25% while strengthening financial and spend controls. For more information, visit tipalti.com.

> **Remember: automation is your friend – and no matter how complex and voluminous, royalty payments can be handled and simplified with the right systems in place.**