

Music Streaming Payouts: Is User-Centric the Future?

By: Mario Marini

Welcome back to part two of this ongoing series discussing select aspects of music streaming. If you missed part one, a brief look into the importance of the new mechanical royalty rate agreement, Phonorecords IV, you could catch up [here](#). In this post, I will take a look at an oft-discussed royalty payment method known as “user-centric” and compare it to the industry standard “pro-rata” formula. Both methods are complex and can’t easily be consolidated into a static sentence or two. Instead, by the end of this I hope you will understand the basic differences and why different parties might prefer one over the other. A final note before we begin: while it can be helpful to think of what each service pays “per stream,” there is no ticker counting streams and methodically paying out any exact per-stream rate. With those few notes in mind, let’s get started.

It’s important to consider the actual payment process. Streaming services like Amazon, Apple Music, Google, Pandora, Spotify, Tidal, and numerous others, pay rights holders, not artists directly. Typically, those rights are held by a record label. The record label then pays out to artists and others according to their negotiated contracts. So in a typical case, the service pays the label who pays the artist. In many cases, an artist isn’t contractually tied to a record label. You might think of this artist as an independent artist or “indie,” but the term isn’t necessarily tied to the “indie” genre. Any artist in any genre could be independent. Notice in this scenario that the independent artist is typically the rights holder.

We’ll start with the industry standard: “pro-rata” (sometimes referred to as market-centric). The majority of services currently follow this model, including both Spotify and Apple Music.¹ In this system, at its most basic, the streaming service pools all of the royalty payment money together and distributes it to rights holders according to their proportion of streams relative to the totality of all streams, usually monthly. Take this timely example: Taylor Swift just released *Midnights* and it is breaking tons of records. Since it’s doing so well, let’s say, hypothetically, the new album accounts for a 5% share of *all* streams across Apple Music for October. In the pro-rata model, the rights holder (Republic Records) will receive 5% of the pooled royalty money for October from Apple Music. Even if you personally didn’t give *Midnights* one play, 5% of the royalties you generated went to Republic. Conversely, if you *exclusively* listed to *Midnights*, still, 5% of the royalties you generated went to Republic. This system has been criticized for favoring those artists at the very top and leaving smaller artists behind.² And logically, that makes sense. It’s easy to understand that popular artists receive the bulk of streams leaving smaller artists a diminished pool that they share in perpetually-decreasing proportions as you track toward less-streamed artists.

The industry newcomer is a system often referred to as “user-centric.” It is, essentially, exactly what it purports to be: the royalties generated by each individual user’s subscription are divided and paid out only to the rights holders of the artists that each user streamed. So, returning

¹ Caleb J. Murphy, *On Streaming Payouts: Is a User-Centric Payment System Better for Indie Musicians?*, DIGITAL MUSIC NEWS (Aug. 2, 2022), <https://www.digitalmusicnews.com/2022/08/02/streaming-payouts-user-centric-payment-system-market-share-payment-system/>.

² Alyssa Meyers, *A music artist breaks down exactly how much money Spotify, Apple Music, Pandora, and more paid her in 2019*, BUSINESS INSIDER (Jan. 9, 2020, 8:46AM), <https://www.businessinsider.com/music-royalties-artist-revenue-compared-spotify-apple-music-pandora-2019-12>.

to the example above, if you didn't listen to *Midnights* a single time, Republic gets exactly no cut of your generated royalties. And conversely, if you were the one that listened to *Midnights* exclusively for the entire month, Republic would get the entirety of your generated royalties. This system tends to be favored by smaller and independent artists. The smaller artist, who before was receiving only a tiny portion of an already-tiny portion, is now able to receive the exact proportion of royalties earned from their listeners. The user-centric model has been criticized for not making as large of an impact as proponents claim and taking royalties away from some genres that receive more from the pro-rata model.³ I would counter by noting that small percentages of big numbers (as goes the argument that it doesn't take much away from the top) still yield big numbers to be reallocated to smaller artists. Currently, Tidal is the largest streamer utilizing this model.⁴ Other services using this model include Deezer and, in some instances, SoundCloud.

Which is better? Numerous studies have been undertaken and many continue today. [Click here](#) for a list of some of the most well-known and note particularly a Finnish study⁵ and a review of a French study conducted by Deloitte.⁶ In this ever-changing era, streaming services are not immune to change. Some are experimenting and some seem happy where they currently stand. In any case, it's impossible to say if that will be the same tomorrow. It is also worth noting that the descriptions I've provided are very high-level and do not account for a number of other considerations. Factors like free (ad-supported), premium (paid), or any other level of service offered may influence how the math is ultimately done, but that level of detail is outside the scope of this broad overview. So I ask again, which is better? Though it seems to me like user-centric is a more equitable system that compensates artists when their work is actually consumed, it is too early to know for sure.

³ Murphy, *supra* note 1.

⁴ Stuart Dredge, *Tidal reveals its user-centric payout plans and adds a free tier*, MUSIC ALLY (Nov. 17, 2021), <https://musically.com/2021/11/17/tidal-user-centric-payout-free-tier/>.

⁵ JARI MUIKKU, DIGITAL MEDIA FINLAND, PRO RATA AND USER CENTRIC DISTRIBUTION MODELS: A COMPARATIVE STUDY (Nov. 30, 2017), <http://www.muusikkojenliitto.fi/usercentric/>.

⁶ Emmanuel Legrand, *User-centric model would not lead to significant changes in the distribution of music streaming royalties*, LEGRAND NETWORK (Feb. 2, 2021), <https://legrandnetwork.blogspot.com/2021/02/user-centric-model-would-not-lead-to.html>.