

## Why Rappers Aren't Millionaires

by Wendy Day

**W**ho is the incredible bonehead who said rappers are millionaires?

Wrong, wrong, wrong, wrong, wrong! Because fans expect their favorite artists to be richer than Bill Gates, this puts an incredible amount of pressure on the artists to appear wealthy. And it's not just the fans; I can't tell you how many times I've been out with rappers along with people who work in the industry, who expect the artists to pick up the dinner check or buy bottles of Moet. I've even seen people cop an attitude if the artist doesn't pay for everything. This is small-minded and ignorant, because the artist is always the last to get paid.

Once an artist releases a record, the pressure is on to portray a successful image to their friends, families, fans, and people around the way. People expect the artists to be well-dressed, drive an expensive car, etc. Think about it: Don't you expect the artists "to look like artists?"

Sadly, when an artist gets signed to a label deal, especially a rap artist, he or she receives somewhere between 10 and 15 points. What that means is 10% to 15% of the retail sales price, after the record label recoups the money it puts out (the advance, the sample clearances, the producers, usually half the cost of the video, any cash outlays for the artists, half the radio promotions, etc.). The artist has to sell a huge amount of units to make any money back. Here's an example of a relatively fair record deal for a new rap artist with some clout in the industry and a terrific negotiating attorney:

**Royalty Rate:** 12% ("All in deal"). We're going to assume that there are 3 artists in the group, and that they split everything equally. We're also going to assume that they produce their own tracks themselves. Suggested retail list price: \$14.98 less 15% packaging deduction (usually 20%) \$12.73 gets paid on 85% of records sold ("free goods/breakage") \$10.82. So the artists' 12% is equal to about \$1.30 per CD sold.

Let's assume that they are a hit and their record goes gold (although it is rare that a first record blows up like this). Bear in mind that in the year 2000, only 45 rap records sold more than 500,000 units out of almost 1,000 releases. Of these 45 records, less than 10 were by new artists.

**Gold Record** = 500,000 units sold x \$ 1.30 = \$650,000. Looks like a nice chunk of loot, huh? Watch this. Now the label recoups what they've spent. Half of the independent promotion, half of the video cost, some tour support, all those limo rides, all those out of town trips for the artist and their friends, the advance, etc. \$650,000-\$50,000 half the indie promotion-\$ 75,000 half the video -\$ 25,000 tour support, trips, etc. -\$200,000 recording costs-\$ 70,000 advance... \$230,000.

Still sounds OK? Watch... now, a third of the \$650,000 stays "in reserve" (accounting for returned items from retail stores) for a year or so, depending on the length specified in the recording contract. So the monies are actually subtracted from \$429,000 (the other \$221,000 is in reserves for a year and a half the way accounting statements are figured). Now, there's also the artists' manager, who is entitled to 20% of all of the entertainment income, which would be 20% of \$650,000, or \$130,000 (although many managers do not commission the recording costs). Remember, the artist is the last to get paid, so even the manager gets paid before the artist.

So the three artists actually receive \$33,333 each for their gold album, and in a year and a half when the reserves are liquidated, if they've recouped, they will each receive another \$73,666. Again—if they've recouped. Guess who keeps track of all of this accounting? The label. Most contracts are "cross-collateralized," which means if the artist does not recoup everything on the first album, the money will be paid back out of the second album. Also, if the money is not recouped on the second album, repayment can come out of the "in reserve" funds from the first album, if the funds have not already been liquidated. This is why almost all artists go into their next album "in the red." From artists like DMX to Slick Rick, they are always in a debt position with their record label, even though the label is making millions of dollars per release. For example, on the Gold album example we're illustrating here, at a wholesale price of \$11.41 per CD, 500,000 units would bring the label a gross amount of \$5,705,000.

Even after the reserves are paid, each artist only actually made 21 cents per unit based on this example. The label made substantially more. This example doesn't include any additional production costs for an outside producer to come in and do a re-mix, and you know how often that happens.

So each artist in this group has received a total of about \$107,000 from record sales. After legal expenses and costs of new clothing to wear on

stage while touring, etc, each artist has probably made a total of \$90,000 before paying taxes which probably took another 28% to 33%, plus accountant fees. Let's look at the time line now. Let's assume the artists had no jobs when they started this. They spent 4 months putting their demo tape together and getting the tracks just right. They spent another 8 months to a year getting to know who all of the players are in the rap music industry and shopping their demo tape. After signing to a label, it took another 8 months to make an album and to get through all of the label's bureaucracy. When the first single dropped, the group went into promotion mode and traveled all over, promoting the single at radio, retail, concerts and publications. This was another six months. The record label decided to push three singles from the album, so it was another year before they got back into the studio to make album number two. This scenario has been a total of 36 months. Each member of the group made \$64,800 (after taxes) for a three-year investment of time, which averages out to \$21,600 per year. In corporate America, that works out to be about \$10 per hour. Think about this next time you see your favorite artist drive by in that new Escalade-- I do.

*Wendy Day is a writer and the founder of **Rap Coalition**, a non-profit advocacy organization to support, educate, protect, and unify hip-hop artists and producers--in other words, to keep artists from getting jerked. Day's contributions also include *The Source*, *Vibe*, *Rap Pages* and *Volume.com*.*