

THE

..... **Streaming Is Fueling**

BIG

..... **a Metamorphosis of**

BET

..... **the Music Business**

AFTER A DECADE AND A HALF during which the music business was unable to stem the ever-deepening decline in sales, streaming is finally providing the industry with a healthy backbone. In the first six months of 2017, thanks primarily to **Spotify** and **Apple Music**, total consumption (album sales + singles sales + streams) was 293 million equivalent albums, up 9.9% from the same period a year ago, according to **BuzzAngle's** midyear report. The bulk of that consumption has been generated by streaming, which has grown to just shy of 180 billion streams, a year-over-year increase of 58.5%. As a result of this dramatic growth, paired with associated lowered overhead, budgets for deals and marketing activities are on the rise and a sense of risk-taking is returning to the music business, as the majors double down on their pocket aces.

We're already seeing who can win at this new game in which streaming is the driver. It's the players who capture and analyze data the quickest, then make calculated investments based on their findings. In some cases, it means casting a wider net for artists. At the same time, the majors are showing an increasing willingness to create JVs or finance imprints for artists and writer-producers with hit-filled track records.

Meanwhile, artists are putting out albums at a faster clip than in the past, when high-profile releases were typically separated by extended touring cycles. Nowadays, superstars are finding there's a beast with a voracious appetite for the new out there, and they're eager to feed it. As a result, artists such as **Drake**, **Kendrick Lamar** and **Rihanna** are delivering music at a far faster pace than the previous generation and, in turn, are getting through deals much more quickly. **One Direction**, another prolific



MICHELLE S.:
SoundCloud is "where the actives are."



DRAKE: Picking up the pace.

act, were in a position to renegotiate their deal after album number three.

It's now a seller's market thanks to streaming, which has done far more to level the playing field than downloading ever did. Still, the majors continue to bring an element to the table that most indies lack: global strength, media opportunities, radio, etc. And the smart majors are looking for the acts, especially in the pop, R&B and hip-hop sectors, that already understand how to create buzz on their own. Because these days, a single can make a star.

A STAR IS BORN...ON SOUNDCLLOUD

"What many people are overlooking is that the audience that matters—the tastemakers who are anointing the new contemporary stars (and this is as true for R&B artists like **Party Next Door**, **Bryson Tiller** and **SZA** as it is for the rap kids)—are on **SoundCloud**." So notes **HITS'** **Michelle Santosuosso**, who adds that for many A&R reps, the beleaguered but vital service is their secret sauce.

SoundCloud, Michelle S. further points out, "is where the musically passionate, highly coveted actives are; the audience that tells you where things may be trending and where the curators like me live. And I guarantee a huge portion of A&R people under **Mike Caren**, including an entire intern staff, are combing over the service to find the music that is on the come-up—which is why **Atlantic** finds so many of these young acts first.

"There's an authenticity on SoundCloud *because* of its users and posters, and that relationship, which extends to the comments on the song files themselves, encompasses an entire culture," she continues. "DJs, remixers, producers and artists use it as a platform to post new music, a dynamic that does not exist on the more 'selected for playlist' scenarios of Spotify and Apple Music, both of which also require a more 'traditional' music-delivery system to get things ingested.



CAREN: Cloudy with a chance of signings.

“Soundcloud is like a radio station—you upload that file and just like that you’re on the air. It’s more real-time and much more dynamic than other streaming services. This does not, however, apply to GO, the paid tier. Nobody fucks with GO.”

Here’s a pair of breakout artists launched on SoundCloud:

XXXTentacion, a 19-year-old Floridian, has accrued 1m SoundCloud followers. His producer **Rojas** posted the track “Look at Me” while the aspiring rapper was sitting in jail. This is part of the lore of his uprising—XXXTentacion blew up on the Internet while doing jail time. **Empire** is going for reports on “Look at Me” at Rhythm radio this week—after the track racked up more than 90m plays on SoundCloud.

Playboi Carti, from Atlanta and signed to **AWGE/Interscope**, has 350k SoundCloud followers. He too was an Internet star at 19, coming up on SoundCloud starting in 2014, which led to his being co-signed by **A\$AP Rocky**. Like Rocky, he’s created a discernible brand centered on style, but he keeps a low profile on other social media, which has actually ramped up curiosity about him. Carti’s track “Magnolia,” however, is all over social media as a meme-able anthem; think *endless* Snapchat party videos. The track is currently #23 at Urban and #27 on the Mediabase Rhythmic chart. According to Michelle, “This kid is known as king of the ad-libs but is from the ‘mumble rap’ movement—a newer hip-hop subgenre that includes **Migos** and **Lil Yachty** as well as **Future** and **Desiigner**, all from Atlanta.”

Kyle, one of the 10 acts on **XXL**’s annual Freshman Class cover this year, took a somewhat different route to a record deal via the single “iSpy” with Lil Yachty. Prior to its release in December, Kyle had issued two albums via the L.A. management and content owner company **Indie-Pop, Smyle** in 2013 and *Beautiful Loser* two years later. The debut sold 15k copies and was streamed 60m times; the follow-up had sales of 12k and 74m streams, but the video for one of its tracks, “Keep It Real,” scored

“If the label gets 80% of streaming income, the artists will really begin to consider putting their projects out on their own.”

ERIC GREENSPAN

a million views. Atlantic saw enough activity to sign the Ventura, Calif.-based rapper, and they’ve been blessed with an unstoppable hit. “iSpy,” released jointly via Yachty’s labels—**Quality Control/Motown/Capitol**—and Kyle’s—**Indie-Pop/Atlantic**—has 257m streams, 221m video views and sales of 758k downloads. Off that single—there’s no album yet—Kyle has been able to tour as a headliner in clubs and at festivals, having done 34 dates in the spring and ready to hit 19 U.S. cities beginning 8/26 before heading to Europe for October shows.

CONTRACTUAL STICKING POINTS

“It’s still next to impossible to break on a mainstream level without a major label,” says attorney and onetime label head **Peter Paterno** of **King, Holmes, Paterno & Soriano**. And when a hit single has the power to drive ancillary benefits in a way that has not been seen before, there’s one simple business conclusion. “All the labels are doubling down on 360 rights by hiring dedicated staffs to pursue their participation,” Paterno notes.

“Three of the five largest music markets in the world are still predominantly physical, and all five of those markets have very different consumption patterns,” says one major-label group executive. “It requires a customized marketing/promo mix in each territory that can truly break an artist worldwide. Only a major can provide global marketing support.”

As veteran music attorney **Eric Greenspan** of **Myman Greenspan** explains, “Ten years ago—when we were in recession and the business was struggling more—the deals were tougher and more conservative. So labels came up with 360 deals to make up the difference. Now, it’s moved back a bit towards artists—but only if they have the buzz. You can find a band with great music but without huge streaming numbers and another band whose music might not be as great but has huge streaming numbers. Labels will tend to favor the band with the bigger following, while bands that don’t have that big buzz are still getting conservative deals with 360 rights as part of those deals.”

For perspective’s sake, Greenspan suggests assuming there are 1,000 acts looking for record deals. Say 50 of them have all the correct analytics; those people, he says, are getting the great deals. Those 50 who’ve generated the buzz and have built confidence as a result don’t need the majors’ money—**Chance the Rapper** being the quintessential example. For these DIY achievers, new alternatives exist to signing with a major.

“In the past,” says Greenspan, “an artist needed access to the pipes, which isn’t necessarily the case now unless you’re a pop band; then a major label is still the best option. If you’re looking for talent and you’re lucky enough to come across one of those 50, rather than the other 950, then you evaluate it differently. The problem is that the majors, over the past 10 years, have decided they want a piece of touring and a piece of this and that. The label’s point: ‘Hey, if it wasn’t for us, you wouldn’t be able to

KENDRICK: DAMN., that’s a lotta streams.

tour, make endorsement deals or publishing deals. So we should have a taste of all that ancillary income.' That's what 360 deals are, and they stem from the labels' belief that they are the ones that drive a career forward. But that straight line no longer exists. There are many ways that artists, who can record so much on their own now, can move their careers forward—so they believe they don't need the pipes as much. And frankly, if the labels keep losing enough of those top acts in that space, they're gonna have to change their business model."

PLAYING CATCH-UP

In terms of genres, country (#5 in total consumption YTD behind hip-hop, pop, R&B and Latin, according to BuzzAngle) and rock/alt/indie (#6-8) have been relatively slow to embrace streaming, but some majors in these areas have started to borrow from the lessons that U.S. pop/R&B/hip-hop execs have learned. The Nashville labels in particular are starting to see real progress as country fans grow more accustomed to this new way of listening.

But because fewer dollars come in from streaming in the country business as downloading and physical sales are declining, the 360 deal is still commonplace in Music City. **Sony Nashville** Chairman and CEO **Randy Goodman** says his company looks to participate in touring and merchandise, provided they bring in sponsorship. He hired **John Zarling** from **Big Machine Label Group** earlier this year to spearhead those efforts as EVP of Marketing & New Business.

"The declining revenues create greater pressure on overhead and promotion costs," Goodman explains. By aligning with partners, "we're going to be able to bring to the **Brad Paisley** campaign marketing dollars we wouldn't normally have. Part of this change is how we continue to bring our manager partners along and let them know about this new paradigm. I want to be really honest with them about the pressures we face, and why it's important that we go find dollars from somewhere else to drive their brand."

"From the contract-negotiating standpoint, 360 deals are a hot point," says lawyer **Jess Rosen of Greenberg Traurig**. "Labels have slim margins and are looking for supplementary income streams. Superstars aren't getting to the point where they have to incentivize the record company; it's the acts that are trying to get to that superstar level—they're the ones who need to get the label's attention. It's not as big a financial impact on the pop acts, but labels know with country, all these acts do is work. So it's a significant amount of money. It's not about the cash advance; that's short-sighted. When the label asks for 360, it's a percentage of touring, merch, endorsements and sponsorships, which adds up. The idea is to know what leverage you've got and use it to your advantage."

But there are issues with these 360 deals in practice, according to one high-level exec: "Before, you could pretty much ignore the 360-payment obligations, but the labels are very persistent in their collection efforts and intimidate inexperienced or weak managers into fearing that the label won't

support the next release or otherwise threaten to withhold support."

Because the Nashville labels haven't yet seen the streaming bubble explode, country acts don't yet have the same leverage as their hip-hop/pop/R&B counterparts. As for country music's transition to the new model, some are predicting that a breakthrough could occur if **Amazon** were able to successfully target country fans with its music service; the belief is that Amazon Prime customers—now 85m strong—already fit the mold of the average country consumer.

THE SEESAW TIPS

What's really happening is that democratization of the overall business through streaming and social networking is enabling those who can move the needle in a meaningful way to not have to give up any ancillary rights because of the competitive nature of the deals from the labels.

Atlantic is rumored to have paid \$4m for boy band **Why Don't We** for the first two albums and received no ancillary rights whatsoever. Did **Blackbear**, who just signed to **Alamo/Interscope** in a deal competitive labels claim was north of \$3m, retain all his ancillary rights as well? One top label executive said he was willing to buy a small percentage of 360 rights from top artists for substantial money. The example he gave was \$1m for a 5% piece. Bottom line, if you're a new act that doesn't move the needle, and/or have an inexperienced manager and lawyer and want a major-label deal, the label will get those 360 rights from you.

As for how these deals may shift—and they're already starting to—the album model is becoming increasingly outdated and unrealistic in this singles-focused streaming era. "The classic model of one-plus-three albums no longer reflects reality," Greenspan asserts. "Who wants to wait two years to get an album out when you can put out single after single? Now, we're trying to do deals that say, 'We'll give you 12 songs—it's the equivalent of an album. You don't have to put out an album—fuck that. Who cares?' But those 12 songs have to count."

Another point of contention is the traditional contractual royalty split. "If they give you a 20-point royalty rate, you're getting 20% of streaming," Greenspan points out. "An act can argue, 'No, we should get 50% of streaming.'" This sticking point is leading to an increase in profit-based deals. "If the label gets 80% of streaming income, the artists will really begin to consider putting their projects out on their own, say through **TuneCore**, and get 100% of streaming income. But on the flip side, there are hundreds of thousands of records released on TuneCore, and a label can argue that you still need them for promotion and marketing. And they're right—for some artists. So those top 50 artists who've already accomplished that don't need to give up 80% of their streaming income."

In any case, things are changing quickly across the music business—so much so that there's no telling what the landscape will look like by the end of 2017, let alone five years down the road. But it now appears that the ceiling is moving ever higher. •



PATERNO: Labels chasing 360s 24/7.



GREENSPAN: The Top 50 acts hold the cards.



GOODMAN: "Find dollars from somewhere else."