Going from Obscurity to Ubiquity Overnight:

How to Monetize Music on Social Streaming and Capture Royalties Due

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The “Digital Renaissance” for the music industry has disrupted the traditional model for royalty revenue. As music streaming has overtaken physical album sales, the effect of this on-demand licensing structure vs. traditional mechanical royalty rates has compounded. However, unlike the Napster Wars of the Millennium, this time Silicon Valley is simpatico with rights holders, collaborating to help them leverage technology across multiple platforms and usher in a new era of rights monetization. Music on social media has opened more than two billion new revenue streams (in terms of users creating content) – adding complexity, but also opportunity, for those who know how to collaborate and capitalize in this new arena.

The viral nature of social platforms like Chinese-owned TikTok, a 15-second music meme maker and video sharing app, can take a rights holder's music from obscurity to ubiquity in a matter of hours. Take, for example, Lil Nas X's "Old Town Road." Its popularity on TikTok resulted in a Columbia Records deal and a Billy Ray Cyrus remix and music video. It went on to a record-breaking run at #1 on Billboard's Hot 100 list, reigning as the chart topper for longer than any song in history. Its trajectory continued, becoming the longest leader of all time on the Streaming Songs chart. All of this, stemming from a music meme on TikTok. This is an even more impressive feat when one considers Lil Nas X had no recording contract when his song went viral.

And then there's American band Fitz and the Tantrums, under label Atlantic Records, who saw their song "Hand Clap" surpass one billion streams on TikTok in China after a Chinese video gamer uploaded the song to the platform, with his own enhancements — combining gunshot sound effects from a video game. Back in the analog days, the band DNA did it the hard way with Suzanne Vega's "Tom's Diner" song, re-mastering it with their own enhancements and faced ominous legal challenges.

"Old Town Road"

Lil Nas X (feat. Billy Ray Cyrus)

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There's a joint incentive for social media platforms and music rights holders. For the social media platform, it's more user traffic and advertising dollars. For music right holders, it's the promise of extending their songs' lifespans. Users are reimagining their music in new contexts, increasing the music's relevancy and longevity as it becomes integrated into special occasions or life events. For music holders it creates a new digital rights revenue stream.

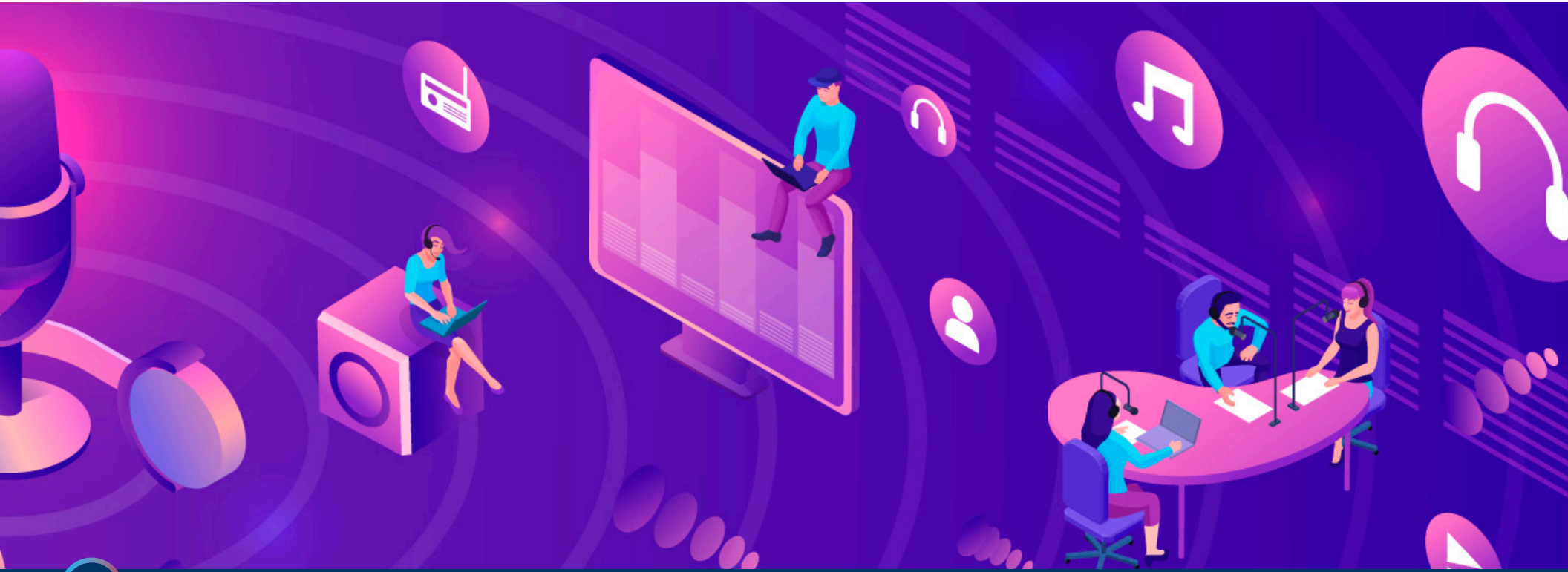
Today's user-friendly tools enable fans at all skill levels to digitally collaborate with rights holders and augment their intellectual properties. This is a hallmark of the Digital Age. The incentive for fans making all of this derivative content is the addictive, continual dopamine drip they get from total strangers' public approvals. In short, it's social street cred.

The side benefit to all this unprecedented content augmenting capability is the resulting virality. Royalty management software is the only way that rights holders can guide and manage the resulting firehose of incoming data. TikTok alone is processing 50 million gigabytes of data daily, which mushrooms when adding the layer of royalty transaction calculations. One major-label executive recently told Billboard magazine that user-generated content (UGC) already accounted for $1.2 billion of the global recorded music industry, mostly driven by YouTube. This doesn't factor in the many social platforms about to launch with newly minted music licensing deals.

Lost Royalties, or a Marketing Expense?

Music labels are asking themselves the age-old question – are these flat-fee licensing agreements with social media platforms actually profitable? Are these agreements giving the musical artists and labels enough free promotion to justify these platforms' unlimited access to free music? And do these free promotions justify players like TikTok (with a current valuation of approximately $78 billion) getting rich from the rights holders' music?

A flurry of renegotiations are already occurring. Labels are threatening to pull out, since they feel they were taken advantage of in the original licensing deals, when they agreed to too-low flat fees in exchange for unlimited song snippets. However, musical artists have to factor in the fan conversion rate. How many fans who were introduced to their new music through a viral platform ended up paying to buy their songs, merchandise and concert tickets? In this era of digital music revolution, should lost royalties be reframed as a mere "marketing expense" in the eyes of the music publishers and artists?



Who Are the Players? How Are They Paying?

This fast-moving ecosphere requires a scorecard for watchers to keep track of the acquisitions and deal making happening daily. Here is a current briefing on who is doing what:

Tiktok

TikTok is owned by Chinese startup Bytedance Ltd. Bytedance bought Musical.ly in 2017 and folded it into their short music-enhanced video solution, TikTok. Akin to six-second video streamer Vine back in the day (from 2012 to 2016), TikTok enables users to create and share 15-second videos, mostly lip syncing, which the fans categorize as “music memes.” Bytedance Ltd.’s core product that launched their wealth is a news app called Toutiao (which translates to “Headlines”). They also have a China-only version of TikTok called Douyin. TikTok is in growth mode, already in talks with music licensors about their new paid streaming service.

Royalty Payment Details: TikTok secures licensing deals and negotiates royalty payments directly with music labels and publishing platforms. TikTok never pays the artists directly. When song titles are labeled incorrectly — which has happened on TikTok — artists have little recourse, since the Digital Millennium Copyright Act of 1998 (DMCA) favors TikTok and makes the users responsible for reporting the copyright violations that impact their royalty payments. When the option is either issuing TikTok a DMCA takedown notice or trying to get TikTok to correct the errors, the latter is the lesser of two evils.

Facebook, Inc.

For these properties, Facebook has done UGC licensing deals with SESAC's HFA/Rumblefish, Universal Music Group, Sony/ATV and Warner Music Group. They have partnered with Spotify and Apple Music so that when someone watches a story or post with music, they can tap to learn more about the artist, or listen to more of the song and then stream it or buy it legally.

Lip Sync Live is a feature inside of Facebook. This is a format for users to live stream karaoke, similar to Muiscal.ly and Dubsmash.

Lasso is an app for creating short-form videos, currently only available in select regions on iOS or Android. This is Facebook's attempt to compete with TikTok.

Facebook (the platform) A newly released feature within Facebook is the ability to pin a song to the user's profile, which friends can also exploit.

Instagram is owned by Facebook, Inc. Instagram Stories launched music stickers, allowing users to add soundtracks to their Stories. Facebook has now added that feature, enabling users to add streaming clips of their favorite songs to their profiles, a la Myspace Music back in the day.

Royalty Payment Details: While Facebook recently started reporting its usage metrics to labels, they have yet to offer that functionality on the publishing side. At this time, publishing revenue is being divided according to market share. Self-published songwriters can enter into a direct licensing agreement with Facebook by creating an HFA Online Account for Facebook publishing royalties. The same account tracks royalties for Spotify, Apple, Napster, The Orchard, and 7Digital, plus more.

Dubsmash

Dubsmash is owned by German developer Mobile Motion GmbH. Initially, when Dubsmash launched in 2014, it was competitive with Musical.ly and TikTok. In October 2018, the company launched the app with a new emphasis on dance challenges instead of lip syncing.

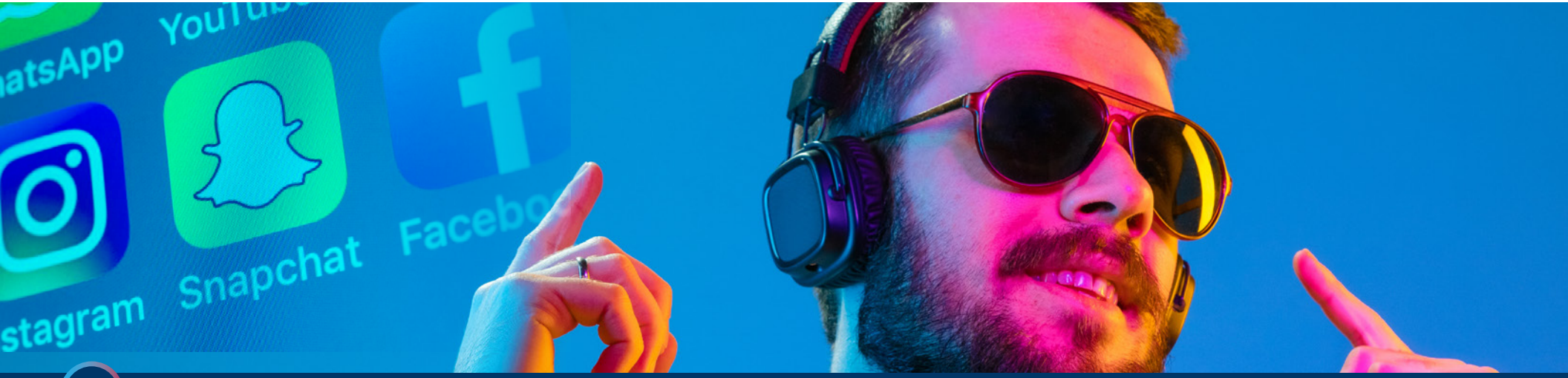
Royalty Payment Details: Dubsmash is claiming that their music clips are 10 seconds or less, so they are not liable for licensing fees. However, the number of seconds used will not impact Dubsmash's fair use claim. They are still liable.

Snapchat

Snapchat is owned by Snapchat Inc. They are currently in talks with Sony Music Entertainment, Universal Music Group and Warner Music Group to license song catalogs for their app.

Snapchat already has a deal with SiriusXM's Pandora, enabling Pandora Premium members to share their favorite songs, albums, stations and playlists through Snapchat. Snapchat users can also ID a song while in the Snapchat app, due to Snapchat's deal with Apple-owned Shazam. Like Instagram, Snapchat allows labels and artists to roll out new music and merchandise via branding their own custom selfie Lens, a brand-centric filter that Snapchat users can layer over their own photos and videos. Snapchat has also struck a deal with Spotify to share what you're listening to in a Snap (story).

Royalty Payment Details: Currently in negotiations. On the Pandora Premium side, it's ad supported. If a Snapchatter receives a fellow member's playlist card and doesn't currently own a Pandora Premium account, thy can access free, unlimited, uninterrupted session of music after viewing an ad.



Storylines

Storylines is owned by Spotify, which is their new test feature competing with Instagram and Snapchat's 'Stories' feature. In Storylines, users can tap on an Instagram-like UI and see cards featuring images and text. This feature is currently available on a handful of songs. This has the potential to replace the Genius-powered 'Behind the Lyrics'' pop-up cards, which often post inaccurate information and have caused legal troubles for Spotify with a lawsuit from music publisher Wixen for displaying music lyrics from clients Tom Petty, Rage Against the Machine and Weezer without any valid license or authorization.

Twitch

Twitch is a live broadcasting platform popularized by video game player broadcasters. It is owned by Amazon. Twitch is currently in negotiations with the National Music Publishers' Association, since there are many user violations slipping in licensed music on this platform, but Twitch doesn't have any music licenses, nor does it pay licensors or have a way for licensors to monitor music broadcasted through this channel.

Royalty Payment Details: Not applicable at this time.

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YouTube

YouTube is the video-sharing website owned by Google that includes YouTube Premium and YouTube Music. UGC can be monetized through the Google AdSense program, which targets ads by matching the ads with the audience and the site content. If UGC uses a copyrighted song, the rights holder has no influence over which ads are shown before or after the song is shown, which can be a sore point for some rights holders. To ensure copyright holders were paid their royalties, Google developed Content ID, a digital fingerprinting system for identifying and managing copyrighted content on YouTube. As of April 2016, if there is a dispute about any video, the video will continue to earn money while the dispute is in progress, with the money going to whomever wins the dispute.

In 2016, Content ID led to around $2 billion in copyright holder payments. In 2017, YouTube entered into a global, multi-year licensing agreement with Universal Music Group prior to launching YouTube Premium. Warner Music Group also has an extended recorded music and publishing deal with YouTube. A recent global partnership was announced between YouTube and Sony/ATV's EMI Production Music to cover sync licensing for YouTube content creators. This ensures YouTubers and Channels can license this music and all rights holders are paid accurately.

In mid-September of 2019, YouTube began instituting their new copyright policy, which blocks rights holders from manually monetizing "creator videos with very short or unintentional uses of music." This will not impact copyright claims filed through content ID, currently handling 98% of all YouTube claims filed, according to YouTube.

Royalty Payment Details: In 2019, the per-play rate is $0.00069. Industry experts claim rights holders earn about $1,000 to $2,000 for one million per-click views.

In summary, there is no shortage of social media platforms on which to promote music — and collect royalties — but until the blanket license becomes a standardized practice, each platform will have its own distinct payment protocols.

Ones to Watch?

byte

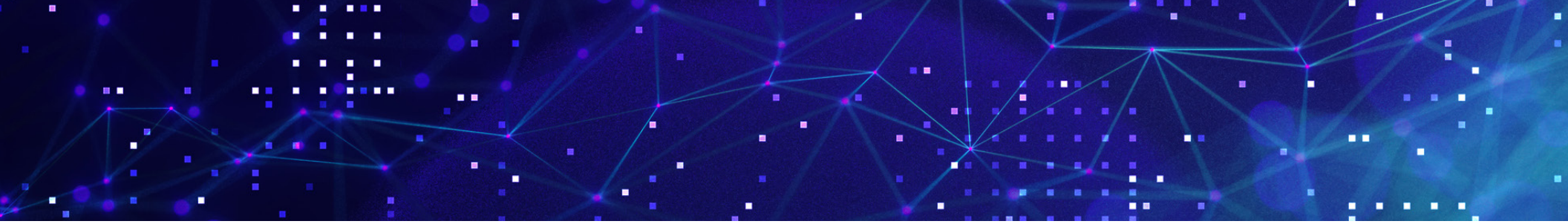
byte is the rumored resurrection of Vine, which was a six-second looping video created by Dom Hofmann. Twitter, Inc. bought Vine in 2012 and shuttered the app in 2016. Dom Hofmann is the creator of the new offering, byte, which is in no way affiliated with Twitter, Inc.

Royalty Payment Details: T.B.D.

Periscope

Periscope is a live broadcasting platform still owned by Twitter. To date, they do not have licensed music deals.

Royalty Payment Details: Not applicable at this time.



The Critical Role of Software

The caffeinated pace of sales and royalty payments means billions of lines of transactional code must be calculated and managed efficiently and accurately. The only means to do so is with royalty management software, which mitigates risk while managing money.

How Vistex Can Help

The rapid-fire changes in the digital music landscape and the mass adoption of streaming music have amplified sales transactions and the complexities arising from numerous income streams. Today's music companies are confronted with processing this unwieldy detail in an effective, efficient manner. Vistex provides a high-volume, easily configured solution poised for traditional, current and future music business trends. Contracts, metadata and all royalty activity are captured in a single system, which is used for registration, licensing, sales, royalty reporting, analytics and more. This enables music companies to manage all aspects of their industry in a single solution.

About Vistex®

Vistex is a global enterprise software company headquartered in Chicago. The company is a pioneer in enabling organizations to better deploy their products and services through effective and managed Go-to-Market programs. The software and services provided by Vistex help companies increase revenue and reduce costs with their business partners by managing trade, channel and vendor programs, pricing, performance incentives, and rights & royalties. Optimized by industry and deployed on premise or in the cloud, enterprises are empowered with unprecedented visibility into the full life cycle of program performance through strategy, software, implementation, execution, and analytics services.

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