# Supplementary written evidence submitted by the Association of Independent Music

## SOLUTION

## 'Artist Growth' Model for Fairer Streaming Outcomes

**Current Model – 'Pro Rata':**

The current, pro-rata model for the distribution of streaming revenues strikes a balance in the overall market between fairness – each participant gets their proportionate share of the overall streaming 'pot' for that time period - vs simplicity of outcome – i.e. it is relatively straightforward to administer and understand.

Importantly, it creates a linear relationship between numbers of streams and revenue expectations which helps in making investment decisions.

Under this model, where revenues are viewed as a single pot to be divided and distributed in proportion to the share of total streams for the given payment period, the main downside is that, as streaming activity rises, the number of streams needed by an individual artist to start to see a return on investment, or viable contribution to their income mix, gets larger and feels increasingly unattainable. Thus, like in many digital markets, the rich get richer and it becomes ever harder to get to scale as a newcomer to the market.

**Proposed Alternative – 'User-Centric':**

An alternative distribution system, known as 'User-Centric' (or 'UCPS' – User Centric Payment System), has been proposed, which increases complexity in the market as it calculates the individual value of each stream from each individual end-user and then applies that individual value for each individual stream to each individual artist.

It is hoped, by those who support it, that this will provide a sense of greater connection between the user's listening behaviour in a time period, and the relative payments received by the artists that user has listened to.

There are some key drawbacks to this approach, notably the cost and complexity of this new system, but also the volatility in value between streams. An artist might wonder why their streaming revenue varies massively from month to month where they may receive a similar number of streams, whereas in the current system revenues have become much more predictable and therefore investible.

The User-Centric model has largely been championed by French DSP Deezer, but Deezer themselves accept that their model does not address the challenge faced by new or niche artists, who are likely to be discovered and listened to by the most active users (who listen more and search for more new music), whose individual streams would be worth least under this model.

The concern is that User-Centric therefore leads ultimately to cultural homogenisation, with older, catalogue artists and artists with older fans who listen less, such as The Eagles, winning, rather than The Eagles of Death Metal whose younger fan base are likely to be more active on the platforms and listen to a wide range of music.

## THE SOLUTION

**New Proposal - Artist Growth Model:**

**Pro-Rata and User-Centric both singularly fail to solve the main problem with streaming – that new, emerging and niche artists find it increasingly difficult to get to scale on the platforms and that that digital market has become an increasingly 'winner takes all' proposition.**

We believe an 'Artist Growth' model would solve this fundamental issue.

The Artist Growth model proposes a so-called 'degressive' or 'log' scale approach to the value of streams. That is to say that the first tier of streams should be the most valuable, and that the more streams achieved by an artist, the less valuable each stream would become incrementally.

This is not dissimilar to the way we view fairness for income tax – the more pounds you earn, the less each pound becomes worth to you net of tax, incrementally as you pass various thresholds.

We believe that this approach would foster a fairer market by diluting the earnings of the biggest players, in order to distribute the wealth more broadly to the long tail of early-stage and niche artists who struggle to achieve scale. This approach would ensure better chances of success for mid-tier artists with solid fan bases, whilst also rewarding investment in higher-risk projects, which would ensure ongoing cultural diversity.

Whilst the Major Labels might argue that this would decrease their profitability on the most successful 1% of releases, it would in fact reward them proportionately for risk they take in newer artists, and encourage more adventurous signings.

**Conclusions:**

Aligned with contractual practices such as the independent music community's Fair Digital Deals Declaration ('FD3'), we expect the 'Artist Growth' model to lead to a positive outcome for incentivising investment and growth, and for cultural diversity in the market as well as delivering a fair share of value back to artists, particularly when they need it most – while growing and developing.

The Artist Growth model rewards artists and their backers for taking risk and presents a solution that would be much cheaper to implement and administer than other current proposals.

The degree of degressive pressure required to achieve an optimised balance could be decided by a cross-industry panel to balance the positive outcomes and financial returns.

Precedent for this type of approach is found within the Official Charts Company, which regularly monitors and adjusts conversion rates applied to the relative values of streams and physical sales in order to keep the chart operating as an effective benchmark for the industry and for consumers. Collective Management Organisations such as PRS and PPL also constantly adjust qualification criteria for distributions in order to adhere to their view of 'fairness' in the market.