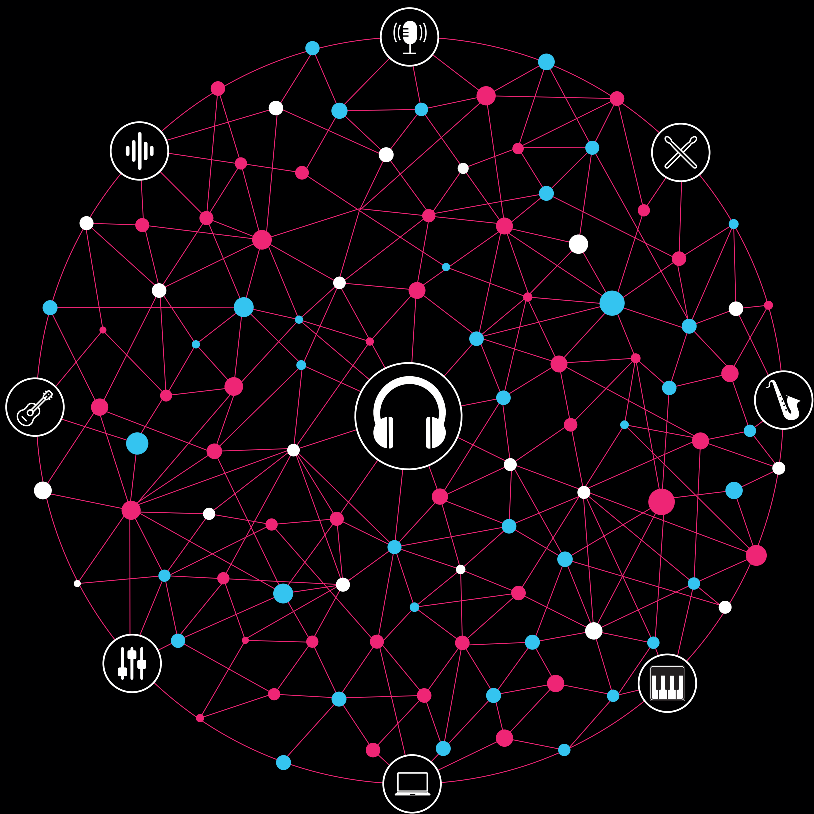
AIM PRESENTS

DISTRIBUTION REVOLUTION



MAPPING THE 21ST CENTURY DIGITAL MUSIC SUPPLY CHAIN

THE ASSOCIATION OF INDEPENDENT MUSIC
AIM.ORG.UK

'Distribution Revolution' is a new report based on research undertaken by CMU Insights on behalf of the the Association Of Independent Music.

ABOUT AIM

AIM is the not-for-profit trade body exclusively representing the UK's independent music sector, which now makes up a quarter of the recorded music market.

Now in its 20th year, AIM's members range from the largest, most respected record labels and associated music businesses in the world to self-releasing artists and the next generation of entrepreneurs in music.

AIM promotes and supports this exciting and diverse sector globally and provides a range of services, commercial opportunities and practical help to members; enabling them to innovate, grow and break into new markets.

At the larger end, AIM member businesses include companies such as Beggars Group, Domino Records, Warp Records, Mute Records, Ninja Tune and [PIAS]. They release music from artists including AJ Tracey, Arctic Monkeys, Aphex Twin, Blood Orange, Bonobo, Danny Brown, Hot Chip, High Contrast, Little Simz, New Order, Radiohead and many, many more.

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ABOUT CMU INSIGHTS

CMU helps people navigate and understand the music business through media, education, research and events. CMU Insights is the company's business intelligence unit.

CMU shares its insights with thousands of music industry professionals every year through its own programme of seminars and masterclasses; the training courses it delivers for music companies and organisations; the speed briefings it presents at music conferences around the world; and the three full-day conferences it curates as part of The Great Escape showcase festival in Brighton each May.

CMU also supports grass roots artists and future industry talent through partnerships with the likes of the Featured Artist Coalition and the Roundhouse; the Pathways Into Music guides and courses for music educators; and by delivering guest lectures at a range of music schools and colleges.

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As the digital music market has grown over the last two decades most attention has been given to the evolution of the consumer-facing digital platforms.

But behind the scenes the companies that help labels and artists deliver their music to those platforms have also been evolving their businesses.

In particular, the role of the music distributor has changed considerably during that time. Distribution partners will now usually offer a much wider range of services and work with a more diverse range of clients, including those artists who self-release their recordings, usually via single-artist-labels. This means rights-holders now have much more choice when picking a distribution partner.

DISTRIBUTION REVOLUTION

With this in mind, AIM commissioned CMU Insights to undertake an in depth review of the music distribution sector.

We wanted to provide an overview of how music distribution works today, while also summarising the key trends and developments of the last two decades, to better understand why distributors have evolved their businesses in the way that they have.

We also wanted to gather in one place a menu of the many different services a music distribution partner may now offer, and to explain the different ways different rights-holders might access those services, and the pros and cons of the different approaches now regularly employed.

In doing so, we can help rights-holders make more informed decisions when choosing a partner, by ensuring that they ask the right questions and consider all the key factors.

Finally, AIM wanted to identify what issues have been posed by the evolution of music distribution, to help inform debate within the independent music community - between both rights-holders and distribution partners - as to how individual artists, labels and distributors, and the community at large, can deal with those challenges.

THE DIGITAL MUSIC SUPPLY CHAIN

Between the artists who make the music and the fans who consume it are a number of entities who together make up the digital music supply chain. The main three entities involved in this process are the rights-holders, distribution partners and digital music service providers (or DSPs).

The **rights-holder** is the entity which controls the copyright in any one sound recording. It may own the copyright or alternatively represent it on behalf of the actual owner. This group includes what we traditionally call record companies or record labels, but also artists releasing their own recordings, possibly in partnership with their producer or manager, via a 'single-artist-label'.

The **distribution partner** sits between the rights-holder and the DSP and is the main focus of this report. The key role of the distribution partner is the delivery of music to the DSP and the processing of the money and the data that flows back.

But the distribution partner may also provide a wide range of other services to the rights-holder. Depending on what services they offer, these companies may be variously called an aggregator, a distributor, a label services provider or an artist services provider.

The **digital music service providers** are the consumer facing digital music platforms, including download stores and streaming services. There are various different kinds of DSPs with different business models and consumer offerings.

Today streaming services generally have by far the biggest user-numbers, while premium streaming platforms bring in the most money.

EVOLUTION OF DIGITAL DISTRIBUTION

The first digital distributors appeared in the very early days of the digital music market.

In many ways they were the digital version of the physical product distributors that already existed, although the initial digital distribution companies tended to be start-up enterprises. The physical distribution companies subsequently moved into digital distribution, while some of the new digital distributors added physical product services as their businesses grew.

When the first digital music services came to market they generally wanted to secure as much content as possible by doing as few a deals as possible. This gave the major record companies an advantage as they could bring bigger catalogues to the negotiating table.

This in turn provided a gap in the market for companies which aggregated the catalogues of independent labels and which, as a result of that aggregation, had sufficiently sized catalogues to be of interest to the digital start-ups.

Though aggregation wasn't the only approach for protecting the interests of independent music businesses in a digital market where the DSPs wanted to do as few deals as possible. Some indies came together to collectively negotiate deals meaning that, while each label was in theory securing a direct deal with the DSP, they could command better terms by bringing a much bigger catalogue to the deal-making process.

This approach ultimately led to the creation of Merlin, a more formal globally focused organisation that now negotiates DSP deals on behalf of 800+ labels and distributors.

DIGITAL DISTRIBUTION TODAY

Today a rights-holder basically has three options when seeking to make their music available via the digital music services.

They can seek to negotiate direct deals with each DSP. Whether they can do that – and secure favourable terms – will still often depend on the size of their catalogue.

Even if a rights-holder can negotiate a direct deal, there is then the challenge of providing content according to each DSP's requirements and processing the money and data that is returned. Many rights-holders who do secure direct deals will still look for a distribution partner to help with that process.

The other two options are the modern equivalents of the two main approaches that emerged in the 2000s. Which is to say, become a member of Merlin and utilise the deals it has negotiated with each DSP (and probably again hire the services of a distribution partner to facilitate content delivery).

Or sign up with an aggregator, or what we'd know more likely call a distributor. This company may have its own direct deals or may be utilising a Merlin deal. Either way, it will have systems in place to deliver the content and process the money and data.

EXPANSION OF SERVICES & CLIENTS

The key trend in the music distribution sector over the last two decades is that the range of services distributors offer has increased. Partly to deal with new tasks that have emerged as the digital market has matured. But also in a way that sees distributors increasingly undertaking tasks that previously would have been handled by the label itself or a specialist agency.

This expansion of services has partly occurred because of the evolution of digital music, partly because labels have requested additional services, and partly because of music distribution becoming an incredibly competitive market place.

With the majors expanding their distribution divisions and a number of well-funded start-ups entering the sector, rights-holders have often sought more favourable financial arrangements with their distribution partners. One way that distributors have sought to justify keeping their existing rates in place is by providing other services. Or, if a distributor needs to be more competively priced when offering basic distribution, it can get involved and share in other related revenue streams.

In addition to distributors offering more services, another key change has been in the range of clients. Whereas many distribution companies previously worked primarily for traditional record labels, many now also work for self-releasing artists and their single-artist-labels. Some distributors have made the latter type of client their primary concern.

This has started to blur the lines between labels and distributors, and might mean that a rights-holder's trusted business partner is also potentially a competitor.

THE MENU OF SERVICES

Many distributors now offer an extensive menu of services, usually with some kind of pick and mix flexibility. You can organise these services into four main groups

Arguably not all of those services are strictly 'distribution', and once distribution partners start providing them they could be said to be operating more in the label or artist services domain.

The four groups of services are as follows:

AGGREGATION:

DSP deals, content delivery, content checking, content identifiers, data feeds, payment processing.

DISTRIBUTION:

Sales and B2B marketing, analytics.

MARKETING SERVICES:

Consumer marketing, creative and content services.

ADDITIONAL SERVICES:

Physical distribution, direct-to-fan, catalogue management, channel management, neighbouring rights management, royalty administration, sync, anti-piracy activity.

CHOOSING A PARTNER

Through this research we have identified twelve criteria that rights-holders should consider before choosing a distribution partner:

- Price.
- Advance.
- Commitment and reach.
- Platform or portal.
- Range of services.
- DSP deal specifics.
- Genre or regional expertise.
- B2B marketing abilities.
- Physical distribution abilities.
- Scale.
- Independence.
- Key people.

CHALLENGES & ISSUES

Through this research we have also identified eight specific challenges and issues for the rights-holder community to consider and tackle:

- Transparency issues around DSP deals.
- Questions around the sharing of value from DSP deals.
- Balancing upfront and long-term benefits of each approach.
- The allure of the advance.
- The need for a clear exit strategy.
- The risk of distribution partners becoming competitors.
- The short and long term impact of new competition in the market.

CONCLUSION & RECOMMENDATIONS

Finally, based on the research we have made three main recommendations, including that the independent music community should:

- Agree on codes of practice for distribution partnerships.
- Identify the whole digital supply chain.
- Promote a distribution checklist.

The digital music supply chain begins with the artists, songwriters, musicians, record producers and sound engineers who make recorded music and ends with the music fans who consume their recordings.

In between there are a number of businesses involved in the delivery of the music from artist to fan. The exact number of businesses will vary from artist to artist and release to release, though there are three key categories of partners involved in the process.

1.1 BREAKING DOWN THE SUPPLY CHAIN

As a starting point, we will briefly introduce each of these three categories of businesses that sit between the artist and the fan.

THE RIGHTS-HOLDER

The rights-holder is the entity which controls the copyright in any one sound recording. This entity probably won't control the accompanying song copyright (ie the lyrical and musical copyrights) and, in most markets, the song rights are usually licensed separately from this supply chain.

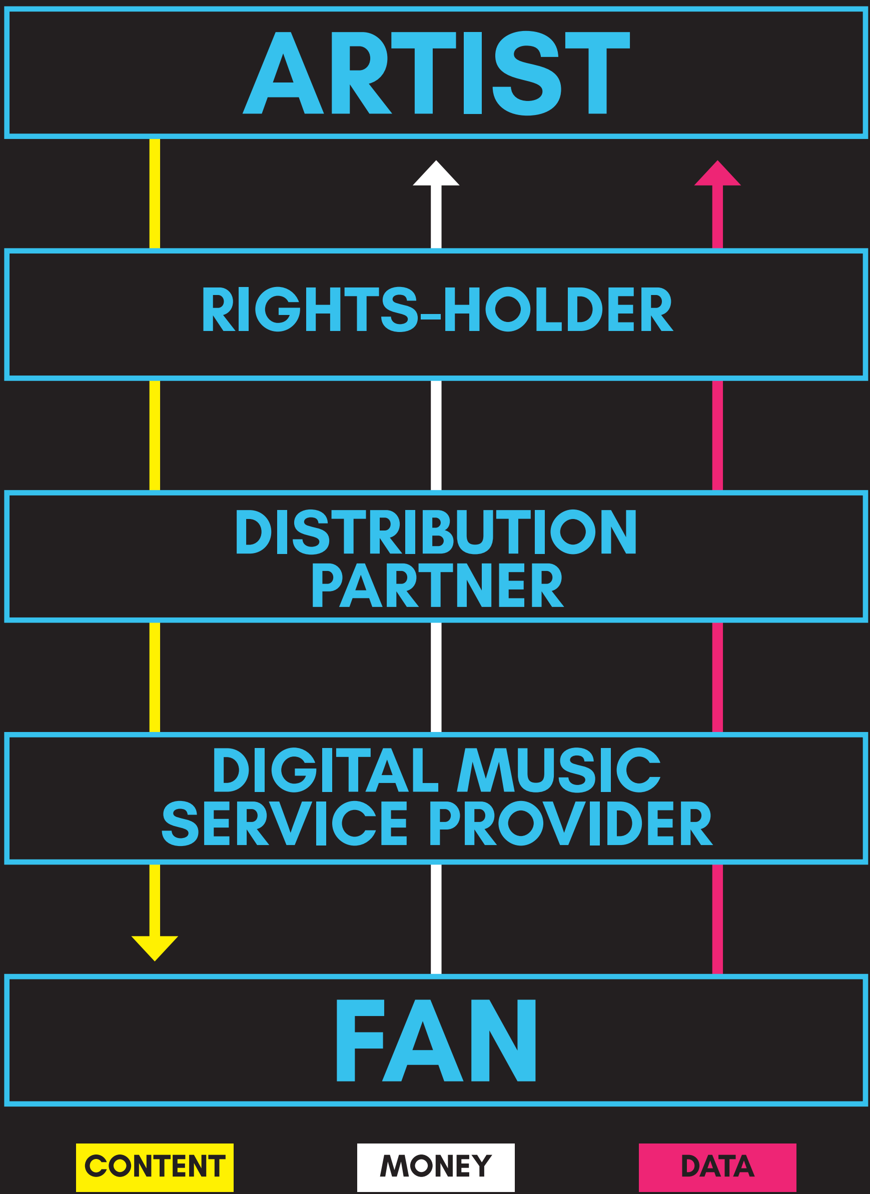
The rights-holder may actually own the copyright in any one recording. This may be because this entity is the default owner of the sound recording copyright according to the default or presumed ownership rules of the local copyright system. So, in the UK, that would mean that the rights-holder organised the studio session where the recording was created. Alternatively, it may have been assigned the copyright through an assignment deal. In that case the default, or another previous, owner transfers ownership of the copyright to the rights-holder through contract.

Alternatively, the rights-holder may control a sound recording copyright on behalf of the actual owner via a licence agreement. Licensing agreements of this kind often have a lot in common with the aforementioned assignment deals, except ownership of the copyright isn't actually transferred. Nevertheless, the rights-holder will often act as if it is the copyright owner until the point at which its licensing agreement with the actual owner expires.

In the music industry we would traditionally call this kind of rights-holder a **record company** or a **record label**, and in many cases that term is still used.

Though the rights-holder might also be an artist who has chosen to self-release their music. Depending on their level, they may do this on their own, or in partnership with a producer or artist manager, or a studio

KEY STAGES ON THE DIGITAL SUPPLY CHAIN



or artist management company. As part of this process they may formally or informally set up a standalone **single-artist-label** that their recordings will be released under.

When it comes to record labels, it is common to distinguish between major labels and independent labels. Today, the term 'major' usually refers to any record label majority owned by one of the big three music rights groups:

- Sony Music (owned by Sony Corp).
- Warner Music (owned by Access Industries).
- Universal Music (owned by Vivendi).

The independent labels are everyone else. As a result, the independent label community includes a very diverse range of companies from global players with hundreds of employees to single person operations. Self-releasing artists and their single-artist-labels would also often be included in this independent label community.

For the purposes of this report we will use 'rights-holder' as a neutral term for all of the above. Where we say 'label' we specifically mean a company which works with and releases music from multiple artists. We will refer to 'single-artist-labels' where we specifically mean artists releasing their own music, with or without the support of a producer, manager, studio or management company.

THE DISTRIBUTION PARTNERS

Between the rights-holder and the digital music service provider, or DSP, there are often distribution partners. These are the companies that are the main focus of this report.

The digital music distribution process involves brokering DSP deals, content checking and delivery, managing data feeds, payment processing, B2B marketing and analytics. A rights-holder may undertake some or all of these activities itself, but most will rely on a distribution partner to handle at least some of these tasks. The distribution partner may also provide other services to the rights-holder, all of which we will discuss later.

There may be a single distribution partner undertaking all of this work on behalf of any one rights-holder or there may be multiple partners involved in the distribution process. This may be because a rights-holder appoints different partners for different tasks or because one primary distribution partner outsources some of the work to others.

As for what we call this distribution partner, the terms **aggregator**, **distributor**, **label services provider** and **artist services provider** have all been variously used.

These terms are not necessarily synonyms, but instead describe different categories of distribution partner or different categories of services that a distribution partner might provide. However, there isn't really an industry-wide consensus on how these terms should be used, which we will come back to later.

THE DIGITAL SERVICE PROVIDERS

The DSP is the consumer-facing digital music platform. There are a number of different kinds of DSPs, though a common distinction is made between the **download platforms** – like the iTunes Store and Beatport – that allow users to download permanent copies of a track, and the **streaming platforms** – like Spotify and Apple Music – that provide access to tracks that can be streamed.

Streaming services can be further broken down by a number of different criteria including…

- Whether the service offers fully on-demand access to tracks (eg Spotify, Apple Music) versus a personalised radio experience (eg Pandora, iHeartRadio).
- Whether users pay to access music (eg Spotify Premium) versus access being free to the user paid for by advertising (eg Spotify Free).
- Whether the service offers a wide ranging catalogue of tens of millions of tracks (eg Amazon Music Unlimited) versus a smaller catalogue curated in some way (eg Amazon Prime Music).
- Whether the service only carries music content provided by labels and distributors (eg Spotify, Apple Music) versus those that encourage user-generated content (eg Soundcloud, YouTube), whether that UGC be music and mixes uploaded by amateur artists and DJs, or music that soundtracks other video content.

In the 2000s, download platforms generated the most digital music revenues, with Apple's iTunes Store dominating, especially in markets like the UK. In more recent years download platforms have generally gone into decline while streaming services have experienced significant growth, so that since 2016 – on a global basis – streaming revenues have out-performed download revenues (according to figures from the International Federation Of The Phonographic Industry).

Streaming alone became the global record industry's single biggest revenue steam in 2017 and now accounts for about half of the recorded music sector's combined income.

In most countries fully on-demand streaming platforms dominate, both in terms of users and revenue. The main exception is the US where Pandora and iHeartRadio's personalised radio services are also major players, particularly in terms of user numbers.

In most markets the free-to-access streaming services have more users but the premium streaming services generate the most revenue. On a global basis, premium streaming generated 37% of total recorded music revenues in 2018, compared to 10% from free services.

1.2 THE SHIFT TO DIGITAL

The shift to digital resulted in a number of significant changes for rights-holders.

First, traditionally rights-holders generated most of their income by directly exploiting their recording copyrights through the process of pressing and selling physical product like vinyl records, cassettes and CDs. In the digital domain, they have become licensing entities, granting permission to DSPs which then exploit various elements of the sound recording copyright in order to deliver the music to the fan.

Second, with the shift to streaming, the recorded music business has moved from a sales model to a consumption model. In the physical market rights-holders received whatever the consumer paid for their physical product (minus any costs of sale). In digital, they share in a DSP's revenue based on how much of total consumption their catalogue accounts for. This also means that rights-holders earn tiny micro-payments every time their recordings are streamed, rather than a one-off but larger payment whenever a copy of one of their recordings is sold to a fan.

Everyone in the wider music community is still adapting to the challenges that these changes have created. This includes the various supply chain challenges this report discusses.

Before reviewing the digital supply chain in detail, it is worth considering the physical product supply chain that preceded it, and which is still part of the recorded music business today.

As explained in Section One, in the traditional record industry, rights-holders would usually directly exploit their sound recording rights by pressing physical copies of their master recordings. In making these copies the rights-holder would also exploit the song copyright that is contained in any one recording. It didn't usually control these rights, so would secure a licence from whoever did, usually via the collective licensing system at industry standard rates.

The rights-holders would then rely on music retailers to sell their discs. Getting the discs from pressing plant to each individual record shop was no small task. It required a network of warehouses – some run by the rights-holders and their distribution partners, some by the retailers and their suppliers – and a considerable logistics operation moving product around the network. In addition to all that, someone had to persuade each retailer to stock each release, every record shop having relatively limited shelf and storage space.

The major record companies often built their own distribution networks, even if they were ultimately utilising the warehouses and logistics expertise of third parties along the way. They would also employ sales teams to persuade retailers to stock their releases.

For most independent record labels building a network of this kind was not feasible. Instead they would rely on distribution partners to provide a network for them.

The major record companies – keen to justify the investments they had made in building their own networks – would often set up bespoke independent distribution divisions to sell distribution services to other rights-holders. Meanwhile a number of truly independent distribution networks were also built.

These physical distribution networks became all the more complex once you go global. Separate networks were built in each key market and these were then linked up by distributors in one territory forming alliances with their counterparts in other territories. Some distributors – including the majors – had their own networks in multiple countries, but most would rely on third parties in at least some parts of the world.

As an individual rights-holder, you could:

- Lock into one distribution network in your home market and utilise any international partnerships that distributor had entered into.
- Do separate deals with different regional distributors in each market where you wished to sell your music.
- License your recordings to another

rights-holder in another territory and utilise whatever distribution partnerships it already had in place.

Of course, the sale of physical discs is still a sizeable revenue generator for the record industry today, accounting for 25% of global recorded music revenues in 2018. And while it is true that the German and especially Japanese markets – where physical sales have remained particularly strong – skew the global figures to an extent, physical also accounted for nearly 23% of UK revenues last year, according to figures from the BPI and the Official Charts Company.

The vast majority of these physical sales remain compact disc. Although, of course, while CD sales have been in decline for nearly two decades, vinyl sales have seen significant growth in the last ten years.

The extent of the so called **vinyl revival** is often exaggerated, but many independent labels and record shops were the first to capitalise on renewed consumer interest in this format, and the labels and shops that did so have been key beneficiaries of the growing vinyl revenue stream.

There are a lot less specialist music retailers in the UK today, of course, and Amazon's mail-order operation accounts for a not insignificant amount of physical music sales.

Nevertheless, there remain significant numbers of high street retailers stocking both CD and vinyl overall, and Amazon and other mail-order operations also make use of the music industry's physical distribution networks.

In addition to these high street and mail-order retail operations, it is also worth mentioning the steady growth of direct-to-consumer – or **direct-to-fan** – sales of physical product by both labels and artists over the last two decades.

This is where labels and artists sell product directly to fans via their own online stores, often built on third party platforms. Depending on the platform a label or artist uses for these direct-to-fan transactions, these sales may or may not be counted in chart data and official record industry stats. Where labels and artists are selling direct-to-fan they may set up their own logistics operation to fulfil sales, or they may also rely on the traditional physical distribution network.

Either way, the complicated global network of local physical distribution networks joined up through alliances that we described above continues to operate today.

Though the steep decline in CD sales and the number of specialist retailers in the 2000s resulted in a significant contraction of the physical distribution market, with some distributors going out of business, others merging, and others outsourcing increasing amounts of fulfilment to another player in the market.

This contraction and consolidation has resulted in a trend in many markets where just one single significant player still exists, with most other distributors then utilising that player's network. Even the majors have started to outsource some or all of the work to this 'last man standing' in some countries.

It is tempting to see digital distribution as a natural evolution of the physical distribution sector described above. After all, there are a number of parallels between the physical and digital distribution businesses.

Plus, many physical distribution companies moved into digital distribution as the digital music sector grew, while many digital distributors subsequently started offering physical distribution as an add-on service. However, the digital distribution sector originally evolved in isolation from the world of physical distribution. The first players emerged in the late 1990s when the initial digital music platforms started to come to market and were therefore seeking content from the record industry.

Between 1995 and 2005 there were a plethora of start-up businesses trying to capitalise on the opportunities created by the growth in mainstream internet usage and the potential that created for providing and monetising music downloads and streams.

In the first part of that ten year period there was some push back from the record industry – and the major record companies in particular – which were still in the midst of the CD boom and saw digital music as a threat to that revenue stream. The push back only increased after Napster launched in 1999 – followed by a long line of other popular file-sharing networks – meaning the digital music conversation increasingly focused on piracy.

However, plenty of people in the music industry – and especially the independent sector – saw the opportunities digital music created. Meanwhile others recognised that the shift from physical product to digital services was inevitable even if they didn't particularly welcome the change.

Many of the early digital music start-ups were founded by tech entrepreneurs who struggled with the complexities of securing content.

Even when services involved former record label executives in their businesses, those people didn't necessarily understand the ins and outs of the kinds of licensing deals that would be required to launch a download or streaming platform. After all, most labels at this point were primarily in the business of pressing and selling discs, not negotiating catalogue-wide licensing deals.

Either way, it quickly became clear that most digital music start-ups were keen to secure as much content as possible by negotiating as few deals as possible. This wasn't just laziness.

Because of the complexities of these deals there were considerable legal and admin costs associated with them. Rights-holders would also incur these costs, and as the digital market evolved they would sometimes seek to pass their own set-up expenditure onto the DSPs, especially with new services. Which made the DSPs even keener to secure as much content as possible from each deal they did.

This created a challenge for the independent labels, because DSPs seeking as much content as possible via as few a deals as possible would often start with the major record companies.

That said, in the very early days the independents had an edge simply by being more receptive to digital music start-ups. The majors were also investigating launching their own download stores at this stage. But as the wider record industry began to embrace digital, the DSPs tended to start their licensing journey by negotiating deals with the major record companies.

Once the majors were on board, a DSP would then often circulate a template 'done deal' contract for independent labels which wished to make their music available via its platform. This was not ideal.

In this challenge, though, lay an opportunity. And two different approaches emerged to meet this challenge and capitalise on that opportunity.

3.1 AGGREGATION

The first approach was aggregation. New businesses launched that would aggregate the catalogues of multiple independent labels and then approach the DSPs to negotiate deals.

The logic was simple, by performing the role of an aggregator, these companies were helping the DSPs achieve their aim of securing as much content as possible via as few deals as possible.

Therefore, the DSPs would generally be willing to sit down with these aggregators and negotiate a deal that would then apply to all the catalogues the aggregator had aggregated.

These aggregator companies then built platforms via which each client label could upload their individual catalogues to a central server. The aggregator could then provide this content to each DSP through one 'pipe' according to each service's requirements.

3.2 COLLECTIVE DEAL-MAKING

The second approach was collective deal-making. Independent labels would come together and form a committee which would then seek to negotiate deals with the DSPs on behalf of all the members of that committee. The aim of this approach was to get more bespoke deals that were better than the standard terms a DSP may have already circulated to the independents.

Persuading the DSPs to negotiate such a deal generally required the involvement of rights-holders that controlled certain key releases from certain key artists. The collective might also try to exploit the fact that many digital music start-ups presented themselves as being 'indie in spirit', and therefore didn't necessarily want the spotlight to fall on the fact they had mainly prioritised doing deals with major corporate rights owners first.

Once a deal of this kind had been negotiated by the committee, participating labels would usually sign individual agreements and have a direct relationship with the DSP. Those labels would then need to provide their content to the DSP. Most labels couldn't afford to build their own platform to do this, which provided an opportunity for another new a set of businesses to provide content delivery, similar to what the aggregators were doing but as a standalone service.

These two different approaches employed in the early days of digital music had a big impact on how the digital distribution market subsequently evolved.

Today there are three main approaches that a rights-holder can employ for their digital distribution.

OPTION ONE: DIRECT DEALS

A rights-holder can try to secure a deal directly with each DSP and then build or buy in a platform to deliver the content and process the usage and royalties data feeds the DSP returns. However, there are several questions to consider regarding this approach.

WILL YOU GET A DEAL?

Although DSPs today are generally much better equipped to negotiate and manage rights-holder relationships than in the early days of digital music, most platforms would still like to secure as much content as possible by negotiating as few deals as possible. Therefore a DSP might suggest or insist that smaller rights-holders employ an alternative approach in order to get their content onto its service.

WOULD YOU WANT THE DEAL?

Some DSPs will have an off-the-shelf template deal that they will offer to smaller rights-holders that don't have a sufficiently large catalogue to justify the cost and time involved in negotiating a bespoke arrangement.

It is generally assumed that these off-the-shelf template deals will be less favourable to the rights-holder than something negotiated bespoke. And as bigger rights-holders will have negotiated bespoke deals, that gives them an advantage.

That said, some of these off-the-shelf template deals have their origins in the collective deal-making of the 2000s and, where that is the case, are generally considered to be fairer to smaller rights-holders. Though any rights-holder relying on these arrangements needs to closely monitor any changes that are made by the DSP, especially when they launch new services.

This is particularly true if the new service is very different and therefore the nature of the deal is very different too. For example, there was a short-lived but highly public stand-off between the independent label community and Apple over some of the terms it added to existing iTunes agreements when it was first preparing to launch the Apple Music streaming service.

CAN YOU DELIVER THE CONTENT?

Once you negotiate a bespoke deal or opt in to an off-the-shelf template deal, you then need to start delivering content to the DSP according to their specific requirements. Most DSPs are very particular about the way they receive content and accompanying meta-data, and will often be wary of a new rights-holder's abilities to meet these specifications when entering into a deal.

To this end most rights-holders on direct deals will utilise a third-party platform to deliver content to most – if not all – of the DSPs they work with. Where content delivery of this kind is provided to a rights-holder as a stand-alone service, they will usually be charged a fix fee based on the quantity of recordings they are delivering.

Some DSPs might provide rights-holders some kind of browser or app-based tool via which they can deliver content directly without having to build or buy in a delivery platform. This is particularly true for those streaming services that grew out of or exist as part of user-upload platforms like YouTube and SoundCloud. For a time Spotify was also developing a direct-upload tool of this kind, although after a beta test it decided not to proceed with this service.

Even where such tools are available – and if more such tools were to be developed by DSPs in the future – as rights-holders generally want their music to appear on all platforms, it is much easier and therefore more attractive if a single system can deliver content to multiple services.

As the costs of developing such a system are high, for individual rights-holders it makes sense to utilise a third-party delivery service that offers this flexibility.

OPTION TWO: MERLIN DEALS

In 2007 the independent music community came together to form an organisation called Merlin. In many ways this grew out of and was informed by the collective deal-making of the mid-2000s, and especially initiatives of this kind led by the UK independent community.

THE PURPOSE OF MERLIN

Merlin, which has sometimes been referred to as the "virtual fourth major", sought to secure better deals for independent rights-holders – seeking more parity with the deals secured by the majors – by negotiating on behalf of a large group of labels and distributors.

Having a more formalised and global approach to collective deal-making was attractive to the DSPs because it created an efficient single point for licensing, reporting and processing payments in relation to a large combined catalogue of recordings. By offering these increased efficiencies to the DSPs, Merlin could secure better terms for its members.

The need for collective deal-making – and a more formalised and global approach to that process – had become ever more important as the 2000s progressed in no small part because the deals being made between the DSPs and the music industry were getting more complex.

In addition to core revenue share arrangements, the majors started to insert other elements into the deals such as minimum guarantees, cash advances and – with start-up services – equity in the DSP's business. The indies rightly argued that it was unfair if the independents were not offered these additional kick-backs as well.

Especially the equity arrangements. Because successful DSPs would build their businesses in part on the back of the value of the independent community's catalogue. If and when that DSP was sold or listed on a stock exchange, the majors – ie the independent community's competitors – would profit from that sale, and therefore from the value of the independent repertoire.

By stepping up the collective deal-making approach through the creation of Merlin, more parity was achieved between the deals offered to the major record companies and the independent rights-holders.

MERLIN'S OPERATIONS TODAY

Today Merlin represents a membership of over 800 labels and distributors. To date it has paid over $1.5 billion in licensing revenues to its members.

It has also generated value for its members in other ways too. Sometimes as a result of the other elements of the DSP deals described above, for example by successfully securing and selling shares in Spotify.

And sometimes via other initiatives. For example, delivering tens of millions of dollars to the independent community via infringement actions. And facilitating the return of a sizeable catalogue to the independent sector by brokering a deal, alongside pan-European trade group IMPALA, with Warner Music.

Merlin negotiates template deals on behalf of its members, exploiting both the size and significance of its members' combined catalogue and the efficiencies it can offer DSPs to secure competitive terms. Once the deal is finalised, Merlin members can opt in on a deal-by-deal basis. Where a Merlin deal is employed, the DSP will report usage and royalties to Merlin, which passes that information back to the individual rights-holders.

Royalties also flow through Merlin on which it charges a commission. This commission covers the costs of running the organisation. The current commission rate is 1.5% for members of AIM and other independent sector trade bodies and 3% for other parties. Any excess monies generated through these commissions over and above the organisation's running costs are returned to the members via rebates, so that the effective commission rate is actually lower than 1.5%.

Merlin doesn't get involved in content delivery. Therefore, as with most direct deals, a rights-holder would need to build or buy-in a delivery platform. A number of companies now provide delivery as a standalone service, with CI and FUGA the main providers of this service to Merlin members in the UK. As before, the companies providing this standalone delivery service would likely charge the rights-holder a fixed fee based on the quantity of recordings they are delivering.

OPTION THREE: AGGREGATOR DEALS

Finally, a rights-holder can appoint a distribution partner to handle all of their digital distribution.

This partner would have pre-existing deals with all the DSPs (though these may actually be Merlin-negotiated deals) and would then deliver the content and process the usage and royalty data that the DSP returns.

Each DSP's deal would be with the distribution partner not the rights-holder, and the DSP would pay the partner which would then pay the rights-holder. These partners often work on a revenue share basis and take their commission as the monies flow through the system.

Some of the big distribution partners today have evolved from the original aggregators that emerged in the late 1990s and early 2000s. Most have expanded the services they offer and, as such, would no longer describe themselves as aggregators, and would instead refer to themselves as being distributors or providers of label or artist services. However, part of the service they provide their clients is still basic aggregation.

Some of the old physical distributors have also moved into digital distribution, while a wide assortment of new players have entered the business over the last two decades.

You can organise the digital distributors on the market today in a number of different ways. This would include the following classifications…

- **MAJOR-OWNED DISTRIBUTORS**
  All three major record companies provide digital distribution, usually through a standalone distribution or label services division. The main divisions of this kind are The Orchard (Sony Music), ADA (Warner Music) and Caroline and Ingrooves (Universal Music). All three majors have expanded the distribution sides of their businesses in recent years, often through acquisition, with Sony being most aggressive in this domain.

- **INDEPENDENT DISTRIBUTORS**
  There are then the large global independent distributors which are not allied to one of the major music rights groups, but which also operate in multiple territories around the world, and usually work with a wide range of clients.

- **REGION OR GENRE SPECIALISTS**
  There are also smaller independent distributors that will usually specialise, either on the markets in which they distribute, and/or on certain genres of music. These companies may have alliances with a major-owned or bigger independent distributor in order to have access to a larger infrastructure.

DIGITAL DISTRIBUTION OPTIONS

	OPTION ONE: DIRECT DEAL	OPTION TWO: MERLIN DEAL	OPTION THREE: AGGREGATOR DEAL
DSP DEALS	Rights-holder negotiates its own deals	Rights-holder opts in to a deal negotiated by Merlin	Distributor negotiates deal or opts into a deal negotiated by Merlin
CONTENT DELIVERY	Rights-holder builds or buys-in a delivery platform	Rights-holder builds or buys-in a delivery platform	Distributor delivers content
ROYALTIES & DATA	Rights-holder processes royalties and data	Merlin processes royalties and data - passes onto rights-holder	Distributor processes royalties and data - passes onto rights-holder
OTHER SERVICES	Rights-holder buys in any extra services it needs	Rights-holder buys in any extra services it needs	Distributor may provide (many) other services depending on the deal
	COSTS: Cost of negotiating deals (legal, admin etc), and delivering content and other activities.	**COSTS:** Merlin's 1.5-3% commission, cost of delivering content and other activities.	**COSTS:** Distributor's commission and/or fees (commonly 10-30%, or possibly higher if involved in marketing).

- **DIY DISTRIBUTORS**
  And then there are those distributors that predominantly work with very small labels and single-artist-labels. These companies are usually distinct in that they will provide services to any rights-holders, whereas the others will usually only work with clients that meet certain creative or commerical criteria. Some companies operate a DIY distribution service alongside a more extensive service offering for selected clients, with the former providing an entry point for grass-roots rights-holders who might ultimately move up to latter. Two of the majors also have separate divisions offering DIY distribution.

MIXING UP THE OPTIONS

It is worth noting that a rights-holder does not have to pick a single option for its entire catalogue. Some rights-holders might have some direct deals and use some Merlin deals. Or they may use direct or Merlin deals in certain markets and a distributor in others. So there is some flexibility in how a rights-holder organises things.

Below is a selection of widely recognised independent businesses that are involved in distribution at the time of publication: Above Board Distribution, Absolute Label Services, AWAL, Beatchain, Believe Distribution, Cargo, CD Baby, Cygnus Music, Discovery Music Distribution, Ditto, EmuBands, FUGA, IDOL, K7!, Kartel, Kudos, Kycker, Label Worx, Landr, MTX Music, [PIAS], Proper Music, Redeye Worldwide, Republic Of Music, Secretly Distribution, Sequence, State 51, TuneCore, and Zebralution.

AIM has a comprehensive, up-to-date, directory of businesses in its community offering distribution services at: www.aim.org.uk/#/resources/aim-distribution-directory

Over the years most digital distributors have expanded the range of services they offer to rights-holders so that, in addition to negotiating deals with DSPs and then delivering the content, they now routinely support their clients in an assortment of other ways too.

Most distributors say that this expansion of services was in response to requests by rights-holders. First, as the digital music market evolved, it became apparent that there were extra tasks involved in releasing music digitally, and rights-holders often looked to their distribution partners to undertake these tasks. But beyond that, some rights-holders also began to ask their distributors for support in other areas of their businesses, such as marketing and promotions, or the management of performing or neighbouring rights.

This is likely true to an extent, even though – especially for things like marketing and promotions – there are many established third-party agencies within the music industry able to offer these services to those rights-holders that can't justify hiring in-house expertise. From a rights-holder's perspective, it can be attractive to involve a distributor in these other areas, rather than hiring a specialist agency, principally for cash flow reasons.

As a rights-holder, most of the costs associated with releasing new recordings are incurred upfront before release. But, even if a record sells well around initial release, it can take months to see the financial return. With the shift to streaming – where monies come in per play overtime rather than through sales around release – it can now take years to see that financial return.

This creates a cash flow challenge for the rights-holder. Many distributors help labels meet this challenge by providing their services without charging any up-front fees and then recouping their costs by taking monies out of future income. This makes taking additional services from a distributor attractive to the rights-holder.

That said, there has been another motivation for distributors to expand their service offerings other than meeting client demand. Music distribution has become very competitive in recent years, with the majors competing more aggressively in the space and a small number of well-funded new players operating in the sector working hard to build market share. In such a competitive market, many distributors have had to offer much better revenue share deals to the rights-holders for the provision of the core aggregation services.

One way to deal with the impact of increased competition driving down the going rate for aggregation is to diversify and offer extra services. The distributor may charge additional fees for this work – often recoupable out of subsequent income – or simply use the extra service offering to justify taking a bigger cut of revenue overall.

Or, where the extra work sees the distributor get involved in another of the rights-holder's revenue streams, there is another source of income of which the distributor can take a share. So, providing these extra services means additional revenue streams for the distributor beyond the monies made from aggregation.

These extra services include tasks closely linked to the distribution of digital content, like playlist pitching and analytics tools for understanding usage data. It's providing these extra services that arguably moves a company from being merely in 'aggregation' to being involved in full-on 'distribution' – so a 'distributor' rather than an 'aggregator'.

But, as noted above, the expansion of services has also seen distributors taking on – or at least funding – some or all of the marketing and promotional tasks associated with a new release, ie work that would traditionally be undertaken by the rights-holder or by a specialist agency paid by the rights-holder.

And finally some distributors also provide additional services to rights-holders beyond activity around specific releases, which might include things like neighbouring rights management, royalty administration and the pitching of catalogue to potential sync clients.

We mentioned earlier that, with this further expansion of services, some distribution companies have started to adopt the term 'label services' or 'artist services'.

In some cases distributors prefer to identify their businesses using these terms, mainly to communicate that they offer clients a wider range of services than those traditionally associated with aggregation or, even, distribution. Other companies might use the terms label services or artist services to describe those teams within their businesses providing these extra services, or those clients who opt to receive a wider service offering.

There is no real industry-consensus as to what extra services are still part of distribution and what extra services constitute label or artist services. Though many would probably agree that the more consumer-facing marketing activity takes a company or project beyond distribution.

Where a distribution partner is providing all of these extra services to a client, it is actually undertaking the majority of the tasks traditionally associated with a record label. The main area of the label's operations excluded from this list is A&R, so the signing of new talent, artist development, and overseeing the creative process of producing new recorded music.

Where a rights-holder takes as many services as possible from a distributor, you basically have a situation where the label is in essence an A&R operation that then plugs into a distributor's infrastructure for everything else. There are parallels to this approach in music publishing, where a small publisher is principally an A&R outfit, with a bigger publisher actually handling all the rights management and administration.

A small number of distributors have now even started offering extra services which arguably take them into the A&R domain, by helping to support the recording process.

Concurrent to this expansion of services, many distributors have also expanded the range of clients they work with. In particular, by working with more self-releasing artists via their single-artist-labels. For the DIY distributors we described above this is the primary client base.However, some distributors whose clients are traditionally labels now also routinely work directly with artists – though these are likely more established artists who run their single-artist-label in partnership with a producer or manager, or studio or artist management company.

Once a distributor is regularly working with single-artist-labels we can again reconsider the definitions of label services and artist services. Is 'label services' when the client is a label and 'artist services' when the client is an artist? Or, in fact, is 'label services' about providing the services of a label to an artist, and therefore it should apply more to single-artist-label clients?

Again there is no industry-wide consensus on this and, in many ways, it's mere semantics, ie precise definitions do not matter, providing a rights-holder understands that different distributors and different distribution deals may involve a very different service proposition.

When it comes to distributors offering a much wider range of services to single-artist-label clients, it's worth noting that some labels also partner with artists in this way as an alternative to a more traditional record deal. In this scenario a label – which is often also concurrently signing other artists to more conventional record deals – would provide many but not all of the services of a traditional deal. The artist would then expect more favourable terms when it comes to rights ownership and revenue share.

You could argue that distributors offering more services than normal and labels offering fewer services than normal results in a similar proposition from an artist perspective. This is particularly true if and when a distributor starts to provide A&R-like services, as some have, at which point the line between distributor and label really starts to blur. Either way, for more established artists, especially heritage acts, this option of forming a single-artist-label which is actually run day-to-day by a producer or manager, and then hiring a distributor to do much of the actual work, has created an attractive alternative to signing a more traditional record deal with a more traditional record label.

This evolution of the music distributor in terms of services offered and client base – and the blurring of the line between label and distributor – creates an interesting challenge. Because it means that some distributors are now in essence competing with their own label clients. We will discuss this challenge – and what it means for both labels and distributors – in Section Eight.

In this section we outline in a little more detail the range of services a distribution partner may now offer a rights-holder.

We organise these services into four groups: those provided by the original aggregators; the additional services involved in full distribution; the extra marketing and promotional services some companies now also offer; and other ways a distribution partner might work with a rights-holder.

6.1 AGGREGATION

These services relate to getting music onto the digital platforms in line with each DSP's requirements.

DSP DEALS

The distributor has deals with all the key DSPs, which the rights-holders can then participate in, meaning that the rights-holder doesn't need to negotiate or manage deals itself. The distributor may have negotiated these deals with the DSPs directly, or it may be a Merlin member and therefore utilise Merlin-negotiated deals for some or most services.

As outlined above, DSP deals – especially in the streaming domain – have a number of elements to them. The core deal is revenue share based on what percentage of overall listening in any one month was accounted for by a rights-holder or distributor's catalogue.

Though there may well be minimum guarantees, advances, equity and fees included in the deal too, the size of which may be reliant on the scale and popularity of the rights-holder or distributor's overall catalogue.

CONTENT DELIVERY

The distributor delivers the digital content to the DSP. To do this it will build – or buy-in – a platform that facilitates this process. The rights-holder will upload recordings and accompanying images and meta-data to this platform, which will then automatically push that content into each DSP according to that DSP's requirements and specifications.

In the early days of digital music, some distributors would have been more hands-on in the actual content upload process if working with rights-holders who were more used to releasing physical product and who were therefore still adapting to the digital world. Most rights-holders also had to undertake the task of digitising back catalogue.

Though these days most distributors are assuming that rights-holders are able to manage the upload process via their platforms, especially for new releases, which will today be put together with digital delivery in mind.

MENU OF SERVICES

AGGREGATION

- DSP DEALS
- CONTENT DELIVERY
- CONTENT CHECKING
- CONTENT IDENTIFIERS
- DATA FEEDS
- PAYMENT PROCESSING

DISTRIBUTION

- B2B MARKETING
- ANALYTICS

MARKETING SERVICES

- CONSUMER MARKETING
- CREATIVE /CONTENT

OTHER SERVICES

- PHYSICAL DISTRIBUTION
- DIRECT-TO-FAN
- CATALOGUE
- CHANNEL MANAGEMENT
- NEIGHBOURING RIGHTS
- ROYALTY ADMIN
- SYNC
- ANTI-PIRACY ACTIVITY

CONTENT CHECKING

As part of the content delivery process, the distributor needs to check that the content provided by the rights-holder – including the audio file and accompanying visuals and meta-data – meet the requirements of the DSP. Most DSPs take these requirements very seriously and, to that end, might rank distribution partners based on their adherence to said requirements.

Part of this process is also having checks in place to confirm that the rights-holder is indeed the rights-holder, ie they own or control the sound recording rights in the files they are uploading. DSPs increasingly look to their distribution partners to ensure that people do not use their systems to infringe copyright.

There have been a number of high profile cases where unofficial (and therefore illegal) uploads have occurred and this issue is currently subject to litigation in the US, with lawsuits claiming that the problem is much bigger than previously acknowledged.

Some DSPs now publicly rank or certify distributors, and these content checking processes – including anti-piracy measures – are key criteria for securing a top ranking.

CONTENT IDENTIFIERS

When recordings are delivered to DSPs, an assortment of meta-data must also be provided. Some of this will be displayed by the DSP on its platform, some will be used to enable search and discovery functionality, and some will be used for payment purposes.

Among the key data points are some unique identifiers used by the record industry. These include the International Sound Recording Code, or ISRC, which is the unique identifier for the track. Single and album releases often also have a Universal Product Code, or UPC.

Rights-holders may be in a position to issue these code themselves or they may need their distributor to provide these identifiers for them.

DATA FEEDS

Once a rights-holder's music is streaming, the DSP will return both usage data (how often tracks were streamed) and royalty data (how much money tracks have generated). The former is provided on a very regular basis (commonly daily) while the latter will come in monthly. The distributor needs to work out how to pass this information onto the rights-holder.

Most distributors will provide some kind of portal via which rights-holders can access, utilise and understand this data. Bigger rights-holders may also want this data in its raw form and will then build their own platforms for processing it. Smaller rights-holders will likely want as much help as possible from their distributors in handling this information.

PAYMENT PROCESSING

Once a rights-holder's music is streaming, the DSP will also start making payments for its exploitation of each recording. These payments will be made to the distributor according to the terms in the distributor's deal with the DSP. The distributor then needs to report this income to the rights-holder and pass the money on minus its commission and fees.

It's generally important to the distributor that this money passes through its bank account, as – assuming it is charging a commission for its services – this is how it both knows what commissions it is due and ensures those payments are made.

As part of the payment process, rights-holders will need to know what specific recordings any payments it receives relate to. Because it may also have to account to other beneficiaries of the recording, principally the main artists who appear on it.

6.2 DISTRIBUTION

These services are also directly linked to the rights-holder's relationship with the DSPs, although they involve the distribution partner going one or two steps further. So, not just getting content onto the platforms, but working with the platforms to drive sales and streams. And not just passing on DSP data, but helping rights-holders make sense of that information.

SALES & B2B MARKETING

This is probably the key activity that moves a company from being a simple aggregator to actually becoming a distributor. Rather than simply providing a DSP with content, it tries to persuade that DSP to place the content in a prominent position on its platform.

This kind of activity was also a key part of physical distribution and was generally referred to as 'sales'. In the physical domain, a key challenge was persuading a high street retailer – with its limited shelf and storage space – to even stock a release.

Although a retailer could always order a specific release at the request of a customer, having a record actually on display would greatly increase sales. Beyond having a release stocked at all, the other sales challenge was having it stocked in a prominent position in the store – eg by the entrance or tills – as this would increase exposure for the release and lead to all important impulse buy purchases. This was usually referred to in the record industry as 'racking'.

With the shift to digital, stocking ceased to be an issue, because digital platforms can in theory stock everything. However, prominence within a digital store was even more important, given the increased choice for the consumer.

In the download space this meant securing positions on home pages and genre home pages, ensuring a track was correctly categorised so that it would appear in appropriate genre charts, and getting featured in any editorial or direct marketing a DSP produced.

In the streaming space this may also mean being featured on home pages or in direct marketing activity. For those streaming services that also carry advertising, a distributor may also have access to advertising slots as part of its deal. Though increasingly the most important thing in this domain is getting releases featured on relevant playlists on the streaming platforms.

Playlists are incredibly important for driving listening and discovery in the streaming domain. On most streaming platforms anyone can set up a publicly available playlist. Many distributors have set up their own playlists which they can use to promote and test new releases. Though with the DSPs that are biggest in Europe, the playlists curated by the DSPs themselves have the most prominence and, in most cases, by far the most subscribers and plays.

Rights-holders are therefore now constantly pitching music to the people who curate these playlists at the DSPs. A relatively small number of people compile these playlists and they obviously have a limited amount of time available to be pitched to. Therefore those rights-holders with existing relationship with these curators have a real advantage. Many smaller rights-holders increasingly rely on their distributors having those relationships.

As this activity has shifted away from stocking and racking – or the digital equivalent – and into the playlist pitching domain, which has closer parallels with how the music industry has always pitched music to radio, what was traditionally called 'sales' is now sometimes referred to instead as 'B2B marketing'. The latter term correctly implies that playlist pitching needs to sit closer to other marketing activity than perhaps the sales function traditionally did.

ANALYTICS

This is another enhanced service that arguably moves an aggregator into distribution. A distributor has to pass on usage and royalty data that it receives from the DSPs to its rights-holder clients. Many distributors have built – or bought in – an online portal via which to share this data. Some distributors have then also developed and evolved these portals to help rights-holders better process, understand and utilise the data they are receiving.

The music industry now has significantly more data at its disposal about fans and consumption, with data from social media, ticketing and other direct-to-fan channels on top of that which is provided by the DSPs. Everyone has struggled to cope with this influx of insights – which data really matters and what should you do with it? Therefore it is helpful to rights-holders if their distributors can provide tools and portals to help with this process.

Where the rights-holder is a label, they may also want or need to share some or all of this information with each artist and their management teams. Although some

DSPs now provide usage data directly to artists and managers via their own popular artist-centric analytics platforms, such as Spotify For Artists and Apple Music For Artists. Through these services, the DSPs are circumventing the distributor and rights-holder when it comes to the delivery of usage data.

That said, there is still significant value in a distributor providing a rights-holder – and/or artists – with tools to receive, crunch and utilise streaming data, because the DSP's own platforms always provide a relatively narrow view, being limited to the data of one service. This will become more of a limitation as the streaming market matures and, in many countries, no one service dominates. If a distributor provided analytics platform can pull in the other fan data too – especially downloads and physical sales, but also other stats – it becomes even more valuable.

Although some distributors – and rights-holders – have invested heavily in developing analytics tools, it does feel like there is still much more potential in this domain. It's also important to note that a number of start-ups have emerged in recent years that specifically offer this as standalone service to rights-holders and artists, pulling in data from a variety of sources.

6.3 MARKETING SERVICES

This group sees the distribution partner getting much more actively involved in the marketing of artists and records. This work is what arguably takes a distributor beyond distribution and into what might be called label or artist services.

CONSUMER MARKETING

If a distributor gets involved in consumer marketing it means it is helping to promote the release to existing and potential fans, rather than just pitching it to decision makers at the DSPs.

The distributor may do this by advancing monies to help pay external marketing agencies or by employing its own teams of marketers and making them available to a rights-holder. Some physical distributors had already started to offer marketing as an added value service before the rise of digital, but many digital distributors have made such services a core part of their offer.

The record industry traditionally splits its consumer marketing activity into a number of strands.

- The marketing team oversees budgets and strategy, commissions creative materials used in the campaign, and likely manages any advertising, promotional events and/or mailing list activity.
- The press team pitches releases to editors and journalists at blogs, websites and music magazines, and other newspapers and magazines where appropriate.
- The promotions team pitches releases to DJs, producers and heads of music

at radio, TV and clubs, seeking to get new releases played.
- The digital or social team manage online activity, usually utilising the social channels of both the artist and the label.

Many distributors offering consumer marketing will organise teams and activity according to this traditional structure for record industry marketing campaigns.

CREATIVE / CONTENT

This could be seen as part of the consumer marketing operation, though it is increasingly important so is worth mentioning separately.

Social channels constantly eat content, while in the streaming age the music industry needs to keep new releases in both the media and people's social feeds for much longer. As a result, a large quantity of marketing content is now required for each release. So whereas in the CD era a new release would be accompanied by a band photo, album artwork and promo videos for each single, today a constant supply of visuals is required.

Those distributors seeking to help rights-holders with marketing may get involved in this process, becoming generators of marketing content.

6.4 ADDITIONAL SERVICES

In addition to aggregation, distribution and marketing, many distribution partners will also help rights-holders further monetise their releases and catalogues, and manage their data and channels, by providing additional services.

Some companies may see some of these extras as actually being part of the core distribution proposition, while others will consider them to be added-value activity that goes beyond distribution.

Some distributors may also have separate divisions working in some of these areas, possibly signing their own clients.

PHYSICAL DISTRIBUTION

Of course, for traditional distributors this was the core service. However, many digital distributors have also added physical distribution into the mix, this time as an add-on service.

For some rights-holders, physical is no longer much of a concern beyond possible direct-to-fan activity. Though for others physical is still very much part of the business. This may mean the continued release of CD versions of new albums, and/or further capitalising on the vinyl revival.

Some rights-holders see physical and digital distribution as two different things and are therefore happy to work with different partners for each side of the business, perhaps keen to ensure that neither physical nor digital is seen as an add-on to the other.

Bigger rights-holders may also work with different physical distributors in different territories or on different releases, as described in Section Two.

However, some rights-holders would prefer to have all of their distribution in one place. Some digital distributors have substantial physical distribution operations of their own, possibly because they began as a physical distributor, or because they acquired a physical distributor, or because they have invested in this side of the business. Others actually outsource most of the heavy lifting involved in physical distribution, but may keep the sales activity in-house.

DIRECT-TO-FAN

Beyond the download and subsequent streaming revolution, another key change in the music industry caused by the rise of digital is that artists now have a direct connection with core fanbase. This means artists can communicate to core fanbase directly and then seek to commercialise this relationship by selling products and services direct-to-fan. Artists and their business partners are still learning how to capitalise on the potential of these direct relationships.

Although some labels initially saw direct-to-fan as a competitor – the narrative being that D2F channels would allow artists to cut out labels – in fact these channels create another retail partner for all rights-holders. Though, with the shift away from downloads to streams, these channels probably offer more potential for selling physical and merch rather than digital product.

Nevertheless, some rights-holders now utilise these channels, and therefore some distributors have been looking at ways they can facilitate this process. This may mean providing tools and platforms to help with the e-commerce side, or helping manage D2F stores and campaigns built on third party platforms, and/or doing the fulfilment on sales.

CATALOGUE MANAGEMENT

In addition to the distribution and marketing of new releases, a distributor may also get involved in helping a rights-holder get more out of their back catalogue. And the shift to digital, and especially streaming, has opened up new opportunities for exploiting a rights-holder's wider catalogue of recordings.

Whereas catalogue activity in the past largely involved re-releasing an album – and basically treating it as if it were a new release, often with bonus content or in different formats – in the streaming space exploiting catalogue is more about staging new marketing campaigns. Some distributors are now getting into this space too. They would already be likely providing basic distribution services on this catalogue anyway, but they might now offer the extra marketing services in relation to catalogue as well as new releases.

CHANNEL MANAGEMENT

While artists will usually have their own 'channels' on most DSPs where their various releases are collated, these channels are more important on certain platforms.

They are perhaps most important on the user-upload platforms like YouTube and SoundCloud, where each creator's individual profiles are much more proactively pushed by the platform. Rights-holders may, therefore, want to put more effort into managing these channels.

Some distributors can assist in this process. And while that activity might centre on new releases, again this work is often done on an ongoing basis and often sees distributors getting more involved in marketing a rights-holder's catalogue.

NEIGHBOURING RIGHTS MANAGEMENT

When the record industry talks about 'neighbouring rights', these days they are usually referring to the monies paid to rights-holders by radio and TV stations, and pubs, clubs, cafes, gyms and any public space that plays recorded music. In copyright terms, these people are exploiting either the 'public performance' or 'communication to the public' controls of the copyright.

Royalties of this kind have always been due to the record industry (in most countries), but became much more important in the 2000s as CD sales slumped and new digital revenue streams were yet to compensate for this decline.

It's worth noting that this revenue stream also works differently to all the other revenue streams in that, in most countries, artists have a statutory right to share in this income at industry-standard rates.

So any artists who appear on a recording are due a cut of neighbouring rights money, even when they are not the copyright owner and/or have no royalty share agreement with the rights-holder. This artist payment is often referred to as 'performer equitable remuneration'.

Neighbouring rights are usually administered by the collective licensing system and therefore collected in first instance by a collecting society, sometimes called a performing rights organisation (PRO) or a collective management organisation (CMO).

The CMO for the record industry in the UK is PPL. Because of the way this money is shared out between rights-holders and artists, in some countries there will be one society for the rights-holders and another for the performers. However, in the UK PPL represents both groups. Although where an artist is both the rights-holder and the performer they basically join the society twice, so that PPL is able to pay them both the rights-holder and performer share of the money.

As neighbouring rights have become an ever more important revenue stream, many distributors have started to help rights-holders with this side of their businesses too.

At a basic level, this will mean ensuring that all the appropriate data is submitted to the relevant CMOs when any new recording is released. This includes data about both the copyright owner and the performers. Where distributors take responsibility for this, it's important that they do so as an agent of the actual rights-holder, and not by claiming to be the rights-holder themselves.

Distributors taking responsibility for logging recordings with the CMOs is now so common, that you could argue doing so is part of basic distribution, rather than an added value service. However, there is a more advanced way in which a distributor may be involved in neighbouring rights which goes beyond the basic role of a distributor.

Each CMO generally only collects royalties in its local market. A rights-holder can either join every society around the world to collect its royalties or allow its local society to represent its rights globally. In which case that society will – in theory at least – collect royalties from its counterparts across the globe whenever the rights-holder's music is used.

As this revenue stream has become more important, a market has emerged for neighbouring rights agents which allow rights-holders to connect directly to all societies around the world through a single access point. In theory appointing your local society to represent your rights globally achieves the same, though these agents argue that they can get rights-holders paid their global neighbouring right royalties faster and more accurately.

A number of distributors have also set themselves up as neighbouring rights agents and therefore can provide this more advanced level of neighbouring rights management as an extra service.

ROYALTY ADMINISTRATION

Another service now offered by some distributors is royalty administration, which is to say helping rights-holders calculate what monies are due to the artists a label works with, and then reporting those calculations to the artists and their managers and accountants.

Royalty administration of this kind is a considerable task for rights-holders and bad royalty reporting can often damage artist/label relationships. The shift to streaming and the high number of micro-payments this involves has only increased the royalty administration task. Therefore many rights-holders look for people and platforms to help with the process.

SYNC

Another revenue stream that became increasingly important as CD sales slumped in the 2000s was sync, ie the synchronisation of music into TV, film, games and ads.

Like the vinyl revival, the sync market can sometimes be exaggerated. Overall sync accounts for just 2% of global recorded music revenues (though that figure excludes most TV sync income, which in most countries sits with neighbouring rights).

That said, for some rights-holders, sync is a more important revenue stream, and accounts for considerably more than 2% of income. This is true of certain independents who have a catalogue that is particularly suitable for synchronisation and/or have made particular efforts to secure sync deals.

The music supervisors who curate and license music for the TV, film, gaming and advertising sectors are another small group of decision makers who are being pitched a lot of music by a lot of people. Like with playlist pitching, personal relationships with these people gives you an advantage, and many smaller rights-holders will struggle to form and maintain such relationships successfully.

To that end, many rely on third party agents to represent their catalogues in the sync domain, and some distributors have seen this as another opportunity to again expand the services they offer their rights-holder clients.

Once a distributor is offering sync licensing services, there is possibly the opportunity to expand this even further by looking for other licensing opportunities and/or negotiating brand partnership deals that go beyond just sync. It feels like it's early days for distributors moving into those areas, but we would expect a further expansion of services in this domain in the years ahead.

ANTI-PIRACY ACTIVITY

In addition to ensuring that their platforms are not being used to upload music onto the streaming services without the permission of the copyright owner, some distributors may also offer their clients a wider range of anti-piracy services.

This usually involves providing tools for monitoring the distribution of music on unlicensed or semi-licensed online platforms, so that the rights-holder can see when their recordings have been uploaded by third parties to blogs, websites, digital lockers, file-sharing networks, social media, user-upload platforms and similar services.

These tools then usually simplify the process of issuing takedown demands against these platforms. Some platforms respond to such demands, others do not. Even where they do, often when recordings are removed at the rights-holder's request, the same recordings quickly reappear, requiring another takedown to be issued. Hence why rights-holders need tools to help them manage this process.

Where a platform does not respond to a takedown request, it is then for the rights-holder to decide whether they wish to take further action to enforce their copyrights.

6.5 PICK & MIX

All distributors will offer at least some of these services. Aggregation is a given and the other distribution services are also increasingly the norm.

Even the DIY distributors usually offer some sort of analytics platform, even if they can't realistically offer anything other than occasional B2B marketing support with such a large number of clients. Of the other services, the exact menu varies greatly from distributor to distributor.

Many distributors will allow clients to pick and mix from their menu of services or offer various tiered packages. When working directly with artists or single-artist-labels, this flexibility will be pitched as a unique selling point over doing a more traditional deal with a record label. Because a label would usually assume it is going to provide all of these services and therefore won't necessarily be used to negotiating on royalty rates by reducing the number of services it provides.

Quite how a rights-holder picks from this menu of services will be influenced by which of the above described distribution options they have gone for – ie the direct deal approach, the Merlin deal approach or the aggregator approach.

OPTION ONE: DIRECT DEALS

Those rights-holders with direct deals with the DSPs but without the resource or expertise to build their own content delivery platform may be looking for just content delivery and/or data feed services. Some companies specialise in offering just these services on a standalone basis. In the UK that would include CI for content delivery and Entertainment Intelligence for processing data. Some distributors will also offer these services standalone, which in the UK would include FUGA.

The rights-holder may also want help with marketing, though would probably be more likely to hire the services of specialist marketing, press, promotions and/or digital agencies rather than using a distributor for this work. There are now also some agencies that will offer B2B marketing – especially playlist pitching – as a standalone service.

A rights-holder with direct deals may also need help with things like rights administration, neighbouring rights and sync. Again there are specialist agencies that provide these services on a standalone basis. Though a rights-holder may nevertheless choose to work with a distributor in these areas – especially neighbouring rights – even if they don't work with that distributor on actual distribution.

OPTION TWO: MERLIN DEALS

Those rights-holders utilising Merlin-negotiated deals for some or most of their DSP relationships will also need to at least build or buy in a content delivery platform. Merlin, of course, provides the deal, and also handles data feeds and payments.

As with those who have direct deals, rights-holders utilising Merlin-negotiated deals may still need help with B2B marketing, analytics, consumer marketing and so on. Again they are probably more likely to hire specialist agencies to undertake most of this work, although might work with distributors as well, especially in areas like neighbouring rights.

OPTION THREE: AGGREGATOR DEALS

These are rights-holders who rely on a distributor for the full aggregation process, so DSP deals; content delivery, checking and identifiers; data feeds; and payment processing. But many will also utilise other services offered by the distributor, with B2B marketing and analytics often a given, and the other services also attractive.

It is much easier for rights-holders employing this option to utilise the distributors' other services. As discussed above, one of the reasons why it is attractive for rights-holders to take these extra services from a distributor is that doing so often reduces the up-front costs of releasing new music. Because the distributor will cover its costs down the line from monies generated by the recording, either by recouping specific budgets or simply taking a higher commission.

In order to offer this option, the distributor needs to be in control of the payment processing on digital income, which is to say the DSPs need to pay the distributor first, so that it can deduct its fees and commissions from that income before passing monies onto the rights-holder. And once a distributor is in control of payment processing, it might be attractive for a rights-holder to take more services so to further reduce its upfront costs.

There are various criteria rights-holders could and should consider when deciding which distribution partners to work with.

Obviously those utilising direct DSP deals or Merlin-negotiated deals will only need the content delivery component of the core aggregation process, and possibly assistance on B2B marketing and analytics. They will therefore probably focus on those companies that provide these as standalone services, usually on a fee basis.

For those looking to utilise the DSP deals of a distributor, and therefore at least all six elements of the aggregation process – and probably other services too – there will be a much greater range of companies to choose from. The criteria they employ when choosing a partner may include some or all of the following.

PRICE

A distributor will commonly have a core revenue share deal with a rights-holder that will see it take a commission off any revenue streams it is involved in. The exception is the DIY distribution model. Some, though not all, DIY distributors charge the client a modest upfront fee and then pass on 100% of all subsequent income it receives. There are various manifestations of this approach, with one-off charges, per-release charges and annual charges all employed in different ways.

But for higher level distribution (and some DIY distribution) the commission model is more common. The exact rate will vary depending on the level of services offered and the status of the artist and likely revenue they will generate. That said, commissions of between 10-30% are common, and possibly higher once consumer marketing services are being provided. Additionally, the distributor may also seek to recoup certain defined costs or fees relating to specific services from total income and/or the rights-holder's share, in addition to taking its standard commission.

As already mentioned, digital distribution is a very competitive market place. Major record companies expanding their operations in this domain and the arrival of a number of well-funded start-ups seeking to build market share has seen commission levels pushed downwards. Certain distributors may also develop ways to automate previously labour-intensive tasks, allowing them to offer a lower commission rate without affecting their profit margin.

Recorded music has traditionally been perceived as a famously risky business. Though most independent record companies have become experts at managing this risk, as evidenced by many such labels having been in business for 20-40 years.

That said, there is still a significant level of risk management required whenever releasing new music, and especially when working with new artists, with large upfront costs and few guarantees any one release will be profitable in the long-term. Many independent labels also operate on low profit margins and as a result experience frequent cash flow challenges.

Steep revenue declines across the record industry in the 2000s and the challenge of shifting to a new streaming model in the 2010s both increased the risk associated with the business. Although the global record industry has now been back in growth for five years.

But either way, given the continued risk for labels, a distribution sector increasingly competing on price has arguably been advantageous for rights-holders, even if price wars tend to give bigger players an advantage and can ultimately drive smaller players out of business (or force them to sell to a bigger player – likely a major record company) reducing overall choice.

That said, most smaller distributors – especially when criticising bigger or newer rivals – often say rights-holders should remember the mantra that, generally speaking, "you get what you pay for".

Which is to say that, even with the most tech-savvy distributors, only so much of the work can automated, and quality manpower costs money. And while representing a larger catalogue can be an advantage when it comes to negotiating DSP deals or investing in infrastructure, it can be a disadvantage too. Particularly when it comes to more labour intensive activity or if a distributor is pitching music – for example for playlists – where realistically you can only ever pitch a small number of releases at any one time.

Though, sometimes a major or newly launched distributor with access to cash chooses to pursue a loss-leading market share growth strategy. Either because of the aforementioned advantages of scale, or to impress investors and potential clients, particularly where the distributor gets a big name client to add to its roster. Where a larger or newer distributor is pursuing such a strategy, it may in fact be able to offer the rights-holder considerably more than they are really paying for, in the short term at least.

But, of course, that isn't necessarily for the long-term good of the market, given that loss-leading market share building can only ever be a short-term strategy. So rights-holders will only enjoy the benefit of that strategy for a time, meanwhile other good independent distributors may struggle to compete. Which can result in it being acquired by a bigger rival or major record company.

As referenced above, increased competition pushing down the price of core distribution services is also one of the motivating factors for distributors diversifying their range of services. Adding in marketing and such like can justify retaining a higher commission, while moving into things like neighbouring rights

- [ ] What commissions and fees will the distributor charge you and how long are you committed?
- [ ] Will they advance any money? Are you relying on a cash advance?
- [ ] Do they have a good portal for providing assets – and accessing and understanding data?
- [ ] What services can they offer? And which ones do you actually need?
- [ ] What DSPs do they work with – and do they use direct, Merlin or partner company deals?
- [ ] Do they offer relevant genre expertise? Do they offer expertise in your priority markets?
- [ ] What level of playlist pitching and other B2B marketing support can they offer?
- [ ] Is physical distribution important to you - and if so can they provide it?
- [ ] Are they a big or small distributor - and what best suits your needs?
- [ ] Are they and their entire supply chain independent - and does that matter to you?
- [ ] Who are the key people working there – and can you work with them?

management allows distributors to share in another revenue stream.

When rights-holders are negotiating distribution deals, price must, of course, always be balanced with quality of service. A distributor unable to compete on price, but which offers a more hands-on service and/or particular expertise, may be able to deliver a more successful release campaign, so that the rights-holder is ultimately better off, even though the distributor took a bigger cut.

ADVANCE

In addition to price point, the other financial element of any deal between a distributor and a rights-holder relates to whether the former will advance monies to the latter. These advances may be to cover specific costs the rights-holder will incur around a release or be a general cash advance on future income. Advances may relate to whole label or artist accounts or to specific releases.

Cash advances are also common in deals between labels and artists. Therefore, when a distributor works with single-artist-labels, the artist may well be banking on a cash advance to make a deal feasible. Meanwhile more conventional labels may well look to their distributor to provide an advance so that they are in a position to in turn advance monies to the artist, as well as cover other upfront costs associated with a release.

On top of that, in the digital domain, distributors – and rights-holders with direct deals – may in turn look to the DSPs to advance them money. So in some ways this advancing of monies works its way down the digital supply chain: ie the DSP advances to the distributor who advances to the label who advances to the artist.

Of course more recently, in a small number of cases, Spotify has started paying advances directly to single-artist-labels, in essence cutting out the middle men. If this becomes a more common trend, it could make things tricky for any distributors or labels using the payment of a cash advance as the key negotiating tool when signing rights-holders and artists.

Nevertheless, for any rights-holders navigating the financial challenges of the recorded music business described above – especially smaller rights-holders who can't draw on their own cash reserves or credit facilities – cash advances from distributors are attractive.

Advances are, of course, often used as a negotiating tactic that benefits the advance giver down the line in return for offering a short-term cashflow benefit to the advance-receiver.

Which might mean the rights-holders – and any beneficiaries of those rights – seeing lower ongoing payments in the future. Therefore the short term benefits of advances always need to be considered in the context of the long-term costs.

COMMITMENT & REACH

Other key elements of any distribution

deal will cover exclusivity, geographical reach and time period. Which is to say, what music is the distributor distributing on what basis in which countries for how long?

A general trend in the music rights business is that the time periods that deals run for have come down in recent years. So, traditional label and publishing deals with artists and songwriters do not last as long as they used to, in terms of the number of recordings/songs the artist/writer is obliged to deliver, and how long the label/publisher will control the rights in that work.

In both recordings and publishing 'life-of-copyright' assignment deals were once the norm, giving the label or publisher control over the rights they acquired for decades. In the record industry life-of-copyright assignment deals are still regularly signed, especially by new talent. Though over the last two decades independents in particular have generally become much more flexible on this point, and may compete against a bigger rival by offering a shorter fixed-term assignment. Or even a fixed-term licence, which it is generally agreed is even more favourable to the artist.

This general move in the music rights industry to shorter term deals has also impacted to an extent on distribution deals as well. And, indeed, some DIY distributors offer deals with no time commitments, where a rights-holder can leave by giving as little as a month's notice.

In theory, rights-holders will want to be locked in to any one deal for as short a time as possible, while distributors who incur various upfront costs will want to share in any revenues generated by the rights-holder's catalogue for as long as possible. Though realistically a rights-holder doesn't want to be switching distribution partners too often either.

Because another issue for rights-holders to consider is how easy it is to change distribution partners logistically speaking. Even if the rights-holder is only contractually obliged to work with a distributor for a relatively short period of time, the logistical headache and risks of switching partner can result in rights-holders sticking with a distributor beyond the original deal period.

This issue has been raised numerous times by labels in recent years, with the logistical issues related to switching distributor sometimes seen as "invisible hand cuffs" that can lock a rights-holder to a distributor even when they have no contractual obligations and are not entirely happy with the services they are receiving. It is also felt that some distributors exacerbate this problem by deliberately making it harder to move away from their platform in order to retain business.

To avoid this, rights-holders should consider exit strategy when negotiating any deal, and ensure they have access to their content, meta-data and DSP usage data should they wish to switch distribution partners down the line.

The independent label community should also develop a code of conduct with the distributors, so that those who do not seek to exploit the stress of exiting in order to win competitive advantage can be championed. We discuss this further in Section Eight.

PLATFORM OR PORTAL

Once a deal is done, a rights-holder will likely be connected to the distributor day-to-day via an online platform or portal through which they provide content, assets and meta-data and access usage and royalty data. This portal may also include any analytics tools the distributor provides to help the rights-holder process, understand and utilise the flood of streaming stats.

Many digital distributors have invested heavily in their portals. Rights-holders should consider how easy these portals are to use and what kind of data and analytics they provide against the commission level being paid. They might also want to consider whether these portals can help with their own reporting to any beneficiaries of the rights which they control, such as artists and their managers.

RANGE OF SERVICES

We discussed the range of services a distributor may offer in Section Six.

For some rights-holders, this range of services may be factor in deciding which distributor they work with, with the more services available the better. This is most true for those rights-holders interested in outsourcing lots of activities to their distributor, most likely to reduce the upfront costs associated with new releases.

Other rights-holders might actually prefer distributors that offer a smaller range of services, assuming that this will mean their distribution partner is more focused on the core elements of aggregation and distribution.

Some rights-holders say they sometimes feel their distributors are forcing services onto them – possibly in a bid to justify a higher commission or to enable them to share in another revenue stream – when they'd rather hire specialist agencies to do that work or have decided they don't need said services at all.

Most distributors insist that they operate a very flexible approach when it comes to rights-holders choosing services. And in some cases there are logistical as well commercial reasons why a distributor wants to lock certain services together. That said, it may also be in the distributor's financial interest for as many services as possible to be utilised.

DSP DEAL SPECIFICS

Each deal done between a DSP and a rights-holder or distributor is different. The basic structure of each deal is usually the same, but the exact revenue share percentage may be slightly different (DSPs in the UK usually pay between 50% to 60% of revenues to recording rightholders). There may also be differences in any minimum guarantee agreements. And both of these may be influenced by any advances that the rights-holder or distributor received.

Where a rights-holder is relying on a distributor's deal, therefore, the month-to-month payments they receive from any one DSP will depend on the specifics of the deal they are benefiting from. And while in terms of percentages or average per-play rates the differences between deals may be only slight, when that is applied across an entire catalogue over a few years, the total financial difference might be significant.

One challenge here, though, is that most deals between DSPs and the music industry are confidential, and a distributor may not be able to share key information about its deals with rights-holders because of non-disclosure agreements or competition law concerns. This hinders a rights-holder's ability to choose a distributor based on the specifics of its DSP deals.

Some distributors argue that, ultimately, across all the different DSP deals, things probably even out. Though some bigger rights-holders who have worked with multiple distributors at the same time have been able to crunch the figures across the board and see which of their distribution partners seem to have better deals with which DSPs.

Either way, distributors should be willing to explain the structure of their deals, even if they are not allowed to share the specifics. And they should also make a commitment to always prioritise the interests of the clients – rather than the distributor's own business or any parent company's business – when negotiating any new DSP agreements.

Again, we will return to this issue in Section Eight.

GENRE OR REGIONAL EXPERTISE

Some rights-holders may be drawn to a distributor because they have particular expertise in a specific genre of music.

Although there is generally less genre specialism in the digital domain than there was with physical – in that most DSPs cover most genres – nevertheless there are still some niche DSPs for certain kinds of music. And when it comes to playlist pitching and marketing, knowledge of and contacts in a particular genre can be very valuable. Also, some rights-holders simply like working with people who have a passion for the same sorts of music as they do.

Regional expertise can also be key. Although – unlike with physical distribution – it is relatively easy for smaller distributors to upload music into DSPs worldwide, it nevertheless remains valuable for a distributor to have specific knowledge of and contacts within any markets that are particularly important to a rights-holder. It should also be noted that some markets are harder than others to manage from abroad and therefore require substantial local expertise.

We should also note that, while services like Spotify, Apple Music, Amazon and YouTube dominate on a global scale – there are still other services that are key in certain territories.

That includes Pandora and iHeartRadio in the US, the Tencent services and NetEase Cloud Music in China, Yandex.Music and VK Music in Russia, JioSavvn and Ganna in India, Anghami in the Middle East, and Boomplay in Sub-Saharran Africa. Local distributors will usually have stronger relationships with these regional services.

And even the global DSPs also have regional playlisting teams, so local contacts can be important with those companies too.

B2B MARKETING ABILITIES

Although every rights-holder obviously has their own priorities, pitching music to the curators of streaming service playlists has become such an important part of the music marketing mix that this has become a key service distributors provide. Especially for smaller rights-holders not able to afford to build up their own in-house playlist teams.

Most distributors have put a lot of effort into building this service in particular. As previously noted, this is an area where smaller and genre specialist distributors have an advantage over bigger distributors, and especially the DIY distributors.

This is because, even if you have a B2B marketing team that regularly speaks to playlisters at the streaming services, realistically you can only ever pitch a few new tracks at a time. For distributors distributing hundreds – if not thousands – of tracks each week, clearly it is going to be difficult to provide solid support in this area for all clients.

In addition to pitching to the curators of playlists at the streaming services – or the owners of third party playlists that have a decent audience on services like Spotify and Apple Music – many distributors operate their own playlists on most of the key platforms. These may or may not command big audiences, but can be useful for both testing and seeding new releases. And curators at the streaming platforms may also be influenced by how tracks perform on these playlists.

Distributors who set up their own playlists on the streaming platforms early on are generally at an advantage here, because there was a time when the DSPs pushed third-party playlists much more proactively, whereas they now tend to mainly push their own playlist brands.

PHYSICAL DISTRIBUTION ABILITIES

We mentioned above that for some rights-holders physical distribution remains important, for now at least. Where this is the case, the rights-holder needs to decide whether it wants a single distributor for both physical and digital or if it is happy to have different partners.

Utilising different distributors for physical and digital is pretty common, because many distributors have particular strengths in one or the other, but often not both. This is especially true when you go global. Working with different distributors in different regions is also more common with physical than digital distribution.

When you have one distributor working on both, it might actually be relying on a third party to deliver either the physical or the digital part of the distribution. When that is the case, some labels may feel that they might as well work directly with whoever is actually doing the work.

However, there are advantages to having both sides of distribution handled by one distributor. This is particularly true if the distributor is involved in marketing activity, because they will be fully informed about the full release campaign and incentivised to promote each element with equal vigour.

SCALE

There are, of course, pros and cons to working with big distributors versus small distributors, in just the same where there are pros and cons in artists working with big labels versus small labels.

Bigger distributors generally have more weight when negotiating deals and will likely have on-the-ground personnel and expertise in multiple markets, which remains important for some rights-holders.

Smaller distributors can offer a more focused and dedicated service and, as we have said several times now, are more likely to be able to include any one right-holder's tracks when speaking to playlist curators.

Smaller distributors may actually be outsourcing some of the work to or utilising the platforms of another distributor. This isn't necessarily a problem, indeed it might allow a rights-holder to have the benefits of a smaller distributor while also having access to some of the scale of a bigger distributor. Though rights-holders should know whose servers their content and data sits on, and who has sight of that data and how it is used as it flows from DSP to rights-holder.

INDEPENDENCE

Related to scale is the issue of whether or not a distributor is owned by one of the three major music rights groups, ie Sony Music, Warner Music or Universal Music. Or whether their independent distributor is outsourcing some of the work to a major-owned distributor.

Again, there are pros and cons to working with the majors, either directly or indirectly. But some independent rights-holders are very proud of their independence and of the independent music community – and/or may want to publicly express any concerns they may have with the majors – and therefore might not want to work with a distributor owned or allied with a major.

There is also the issue that, when it comes to negotiating some elements of the DSP deals, market share can become a factor.

When negotiating their deals, majors will include the recordings they distribute in their market-share.

Therefore an independent rights-holder might be helping a competitor secure a more preferential deal with a DSP. That independent rights-holder will, of course, benefit from at least some elements of the deal in the short-term, but not necessarily all elements, and not if and when they switch to another distributor down the line.

As mentioned above, the majors – and specially Sony Music – have been growing their distribution business in recent years, often via acquisition. Meanwhile distributors which outsource some of the work will inevitably switch suppliers from time to time.

Therefore rights-holders who have issues with working with the majors need to consider what happens (ie what is written in the contract) if an existing distributor is acquired by or starts working with a major.

KEY PEOPLE

Finally, although it's a cliché to say so, the music industry is a people business. Artists often pick labels to work with because they like the people who work there. Likewise, when picking a distribution partner, rights-holders might be swayed by its people.

There is nothing wrong with this, as a distributor will become a close partner of a rights-holder – especially if they are providing a wide range of services – so a good working relationship between both parties is important. Though, of course, people move on and up, so it isn't guaranteed those people will remain the rights-holder's main contacts throughout the duration of the deal.

The evolution of the distribution sector, and the growth in the number of services distributors provide, has greatly increased the choice available to artists and labels. But these changes have also created some challenges and issues for the independent music community.

DSP DEALS – TRANSPARENCY ISSUES

As mentioned above, the distributor's deal with each DSP will have various elements to it. With streaming services, the core deal is likely to be revenue share based on consumption share. But there may be advances and minimum guarantees as well, plus equity and fees in first deals with start-up DSPs.

Every DSP deal is different and most are covered by non-disclosure agreements, which may mean the distributor cannot share the specifics of any one deal.

Distributors often argue that the differences between the deals are not significant, but – as referenced above – they may become so across a large catalogue and a decent period of time. Also there tends to be more variation in minimum guarantee arrangements than revenue share splits (though arguably the minimum guarantees become less relevant as any one service gains momentum in a market).

As also noted above, certain bigger rights-holders who have worked with multiple distributors and who have been able to crunch the figures have noticed some significant differences in different distributor's deals and have then used that information in part to inform their decision making. But this information is generally not available to smaller rights-holders.

DSP DEALS – SHARING THE VALUE

Although day-to-day, for a rights-holder, the revenue share agreement between the distributor and the DSP – and any minimum guarantees directly linked to plays – are most crucial, the other elements of the deal are important too.

In particular, there is the question as to what happens if a distributor receives an advance from a DSP which is recoupable but not returnable, and then it is not recouped within the agreed time period. So a distributor is advanced $1 million for a calendar year, but during that year only generates $900,000 under its revenue share agreement with the DSP.

Under most deals the distributor would get to keep the remaining $100,000. These unallocated advances have been somewhat confusingly referred to as 'breakage' by the music industry (for historical reasons related to physical product).

Additionally, there is the question as to what happens if a distributor secures equity in a DSP and then subsequently sells that equity for profit.

In both scenarios, the question is: does the distributor share the profits from its advance and equity with the rights-holders whose recordings it was representing at the point it negotiated its deal.

It is mainly the majors who are profiting from unallocated advances and equity sales in this way, usually from deals that involved both their own rights and those of the rights-holders they distribute. To that end, questions around breakage and equity sale profits are relevant to major-label signed artists but also to those rights-holders utilising a major's distribution services.

This has been a big topic of conversation in recent years, initially in the artist community, and then subsequently among independent labels distributed by the majors. Some commitments have been made by distributors to share some of these additional profits, though the commitments vary from major to major, and have generally been more favourable to directly-signed artists than to distributed labels.

COST BENEFITS AND CONTROL

Above we described the various options rights-holders have when considering distribution, ie whether to seek direct deals with DSPs; or opt-in to Merlin deals, and then probably buy-in content delivery and data support; or whether to work with a distributor on the entire aggregation and distribution process. Beyond that, there is the option to then work with that distributor on wider marketing activities, and/or utilise other services the distributor offers.

As referenced above, for rights-holders tackling the financial challenges of meeting the upfront costs of a new release, it can be attractive to take a range of services off a distributor which will be paid for by future income, therefore reducing upfront expenditure.

Whether or not this approach works out more expensive in the long-run depends on a number of variables, not least how successful the release is, especially if the distributor is recouping all of its costs out of its commission, rather than initially recouping certain upfront expenditure out of all monies or the rights-holder's share of income.

But, if a rights-holder has the ability and resource to manage most of the distribution and marketing process, then it is likely more profitable in the long-run to operate under direct or Merlin-negotiated deals. Even if that means paying a Merlin commission as well as fees to a content delivery platform and possibly for data and analytics support.

Unless, of course, a distributor is offering an incredibly good deal on its commission, which some market-share building distributors have been doing in recent years for the reasons outlined above.

That said, whether or not the direct or Merlin deal approach is more cost efficient in the long run also depends on what other marketing or admin services the rights-holder has to buy in, and also the sometimes hidden resource costs of internal teams undertaking marketing and other work.

Even if the cost benefits of the different approaches are hard to assess, because of all the variables, it is true that by keeping as much work as possible in-house – or relying more on specialist agencies for marketing, who tend to work on a project basis rather than retainer – the rights-holder has more control over its business.

Which is to say its success isn't reliant on a single supplier, which may cease to be so competitive on future deals as the market evolves, and which could potentially become a competitor down the line (more on which below).

THE ALLURE OF THE ADVANCE

Most people in the music industry like cash advances, and there are plenty of deals that have been won by a label or distributor simply offering to advance the most money.

There is sometimes an assumption that a label or distributor that has advanced a lot of money has more of a vested interest in that artist or rights-holder's recordings doing well, and so will therefore work harder. Which may or may not be true.

If the bigger advance enables the rights-holder to invest in, for example, a bigger marketing campaign, then there can be sound business rationale to choosing the deal that provides that level of upfront money. Though if the bigger advance is being sought to deal with unrelated cash flow crises or simply because of a gut instinct that the bigger the advance the better, then choosing a distribution partner based on advance alone is probably less wise.

Though we should acknowledge the financial challenges faced by many rights-holders, both self-releasing artists and independent labels (especially smaller lables), which may result in primarily pursuing a big advance from a distributor rather than focussing on the longer term potential or wider benefit of a deal.

For most labels, a small percentage of catalogue will account for a significant portion of income. Meanwhile many smaller rights-holders are still to put out what will become their 'cash-cow' release. Some who have got such releases in their catalogue nevertheless struggle to work out how to use a sudden influx of money to ensure the long-term future of the label overall.

But if, when they do secure that release, a rights-holder can invest that income wisely and, as a result, advances become less important when negotiating distribution deals, the rights-holder will have a greater choice of distribution partners to work with. And will be in a better position to select the services they take in order to retain control.

EXIT STRATEGY

As previously noted, one key issue a number of labels have raised is the logistical and administrative challenge of moving from one distributor to another. Some rights-holders fear that such a move may result in losing content, assets or data, or in problems occurring on the streaming platforms, like tracks or stats associated with them disappearing.

So much so, the work and risks involved in moving suppliers can result in a rights-holder sticking with a distribution partner even if they are not entirely happy with the services they are receiving.

It was also felt that some distributors have exploited this issue to keep the business of unhappy rights-holders. Though, in some cases, this may instead simply be due to a lack of competence on a distributors' part when it comes helping a client exit (ie rather than a deliberate attempt to hinder the process).

Obviously if a rights-holder parts company with a distributor even on good terms, that distributor may not be hugely motivated to go out of its way to help with the transfer of content, data and services to a competitor. Though future business, word of mouth and professional pride should be drivers to encourage distributors to help a rights-holder exit in as clean and efficient a way as possible.

There are, however, things the rights-holder can do to make moving distributors an easier process. First, and most importantly, is that rights-holders should never treat a distributor as its archive for recordings and assets, and should always store copies of all these things on its own server, preferably backed up in the cloud.

Second, rights-holders should ensure a well thought-out exit strategy is included in any deal along with suitable sanctions if it is not followed, and that any tasks they will need their outgoing distributor to undertake when moving suppliers are contractual obligations of that distributor. Such contact terms should also be clear on whether the outgoing distributor is allowed to charge fees for this work.

Some labels and distributors have suggested that this is an area where some kind of industry standard could be developed, to both manage the expectations of and to provide some security for rights-holders.

PARTNERS AS COMPETITORS

This is another key issue raised by rights-holders. As noted above, as distributors have expanded their range of services, and have started to increasingly work with self-releasing artists – usually via single-artist-labels – they have started to compete with their more conventional label clients.

Plus, of course, it has always been the case that some distributors are one part of a business that also operates more conventional labels.

It's not uncommon in the music industry for companies to collaborate on one project and then compete on another, and this need not be a problem. Though rights-holders would understandably be frustrated if their distribution partner actively sought to work directly with their artists as soon as any contractual commitments to the rights-holder are completed.

Concerns in this area have arguably increased with the shift to digital. Distributors are now usually in possession of much more detailed information about the businesses of the artists they distribute, and even more so if they are involved in marketing and other activities.

This information could then be used by the distributor or a sister label to try to secure a deal with an artist who previously worked with a rights-holder client.

Obviously in an open and competitive market place for talent, there is only so much you can do to counter this issue. And arguably more competition – and a greater variety of deals on offer – is good for the artist community.

Though rights-holders and artists should give some consideration to who has access to any data relating to their recordings and fans as it passes down the supply chain. This should also apply to any other third parties that the distributor outsources work to.

NEW COMPETITION

As mentioned several times already, music distribution is a fiercely competitive market.

Physical distributors have obviously had to deal with 20 years of significant decline in the sale of physical music products. As discussed in Section Two, this side of the market has downsized considerably – through closures, liquidations and mergers – so that we are getting to a stage where there is one main last-man-standing physical distributor in each market, to which pretty much everyone else outsources the work.

Some physical distributors successfully moved into digital distribution, though that too has proven to be a very competitive market, with majors and certain well-funded start-ups competing aggressively to build market-share. Meanwhile artists have the option to use a DIY distributor which, although in theory aimed more at grass roots talent, have sometimes also been used by more established artists who prefer the business model.

This has often forced other distributors to become more competitive on price which in turns hits their margins. This likely forces them to take on a bigger client base and/or offer more services, which then creates challenges around fulfilment. For many smaller and middle-sized distributors, this makes merging with a bigger player more attractive.

Also, as noted, distributors who diversify their range of services – and especially those who start working with lots of single-artist-labels – also need to consider to what extent they will begin competing with their label clients, and whether that might damage future relations.

Another recent talking point has been the possibility of streaming services offering more direct-upload tools to artists, allowing those artists to circumvent both labels and distributors. Some platforms have offered this option for years, but it was Spotify's aforementioned experiment with a direct-upload tool that kick-started a much bigger debate about this approach possibly becoming the norm.

There are, however, various issues with the idea that every DSP would ultimately offer a direct-upload tool. And Spotify's decision to not pursue its direct-upload product after a beta trial perhaps suggests that those issues mean that such a practice will not, in fact, be widely adopted.

The biggest issue in that domain is that artists and labels really need to have their music available on as many DSPs as possible. Yes, there was period when some artists were doing exclusivity deals with single platforms. But those were generally superstar artists agreeing to be limited to one DSP in return for a substantial upfront payment. And, in the main, it was felt such exclusivity deals were counterproductive, even for the biggest name acts.

Therefore, in the main, a rights-holder needs their music to be streaming on all the key platforms. Having to deal with and manage separate uploading systems for each and every platform would be time-consuming and impractical. Therefore the idea of having a single delivery point – as a distributor offers – is very attractive indeed.

The platforms that are most notable for having always provided direct-upload options are YouTube and SoundCloud. But these platforms are also marketing channels and therefore managing these separately may make sense for marketing reasons. But with most of the other services, there are no real benefits for the extra work platform-specific-delivery would require.

All that said, it is inevitable that in the years ahead distributors will see some of the services they currently provide automated and commoditised – by competitors, start-ups or the DSPs – so that they no longer command the same value for rights-holders. To this end, distributors need to constantly consider the range of services they offer and how they can continue to add maximum value to the rights-holders they work with.

The music distribution market has evolved dramatically over the last two decades, with the rise of digital distribution and the consolidation of the physical distributors.

Today music distribution companies are offering more services to a wider variety of clients, to the extent that in some cases the line is blurring between the distributor and the label.Meanwhile, new competition in the market, from major players and well-funded start-ups, has resulted in commission rates being pushed down and the amount of extra services being provided going up.

This evolution has changed the rights-holder/distributor relationship. Competition in the market has enabled many rightsholders to secure more favourable deals. Though too fierce a price-war will result in further consolidation of the market, reducing the choice of suppliers for rights-holders long-term. And where a distributor is offering an extremely good deal to a rights-holder in terms of fees or commission, that rights-holder should consider if the distribution partner can really provide a quality service at that price.

The widening range of services provided by distributors has also proven attractive to rights-holders. Especially smaller independents and single-artist-labels that find it easier to work with fewer partners overall, and who like being able to secure extra services upfront paid for by a share of revenue down the line.

Though rights-holders need to assess whether their distributor really is the best partner to provide all these services, rather than using a bespoke agency or hiring in-house expertise. Plus, as distributors start to offer pretty much all the services of a label, and work directly with artists, rights-holders face the challenge of their distributor partners becoming competitors.

These are all factors rights-holders should be considering when choosing a distribution partner, selecting which services to take and negotiating on price point.

The rights-holder should also be thinking long-term and ensuring that their distribution agreement provides a workable, efficient and enforceable exit strategy, so that they do not end up locked to an under-performing distributor for logistical reasons.

Based on the research behind this report, we would also recommend that the independent music community consider the following actions.

- Agree on codes of practice for distribution partnerships.
- Identify the whole digital supply chain.
- Promote a distribution checklist.

1. Agree on codes of practice for distribution partnerships

Rights-holders and their distribution partners together should agree some basic working standards for both to follow.

AIM supports the '5 Cast Iron Commitments' cited by Simon Wills of Absolute Label Services in a 2017 opinion-editorial piece for Music Business Worldwide, and see these as a sound starting point from which a wider code of conduct can be developed.

In his piece, Simon set out his belief in the importance of distributors ensuring that the client has access to all their assets and data, that profits of unallocated advances or equity from the DSPs is shared with the client base, and that the clients' interests should always come first when negotiating DSP deals.

One other area that has been identified by AIM members as of particular significance and which currently creates friction between rights-holders and distributors – and which would be suitable for alleviating via a code of conduct – is exit strategies. Therefore any code of conduct should include specific exit strategy obligations.

2. Identify the whole digital supply chain

We have discussed above how distributors may actually outsource some of the services they offer to the client to another company. Also, the distributor may have their own directly negotiated DSP deals, or use Merlin deals, or they may utilise the deal of a parent, partner or external business.

All these things can be to the benefit of the rights-holder, who wants to access the best services and the best deals through a single access point. But rightsholders should be able to choose who they work with and – even more importantly in the modern music industry – who has access to and use of their data.

To achieve that, there should be full transparency of the deals and partnerships the distributor has in place, so a rights-holder – and, where the rights-holder is a label, the artists they work with – can understand the full digital supply chain from artist to fan.

It would be useful for AIM and its community to fully map the digital supply chain, but in an ever-changing landscape of deals and acquisitions, this would fast be out of date and would likely knock its head against commercial confidentiality issues. AIM can however encourage distributors in this area to help enable more transparency and inform rights-holders so that they can identify every entity involved in their own process.

3. Promote a distribution checklist

Based on this research we have been able to compile a music distribution checklist, helping rights-holders get to grips with what is now on offer, and guiding them as to what they should be considering when choosing a distribution partner and negotiating a distribution deal.

As part of its remit to educate and inform the independent music community, AIM will be sharing this checklist with its members, and especially newer labels, self-releasing artists and other businesses releasing music.

It will also share this knowledge via its other activities, including via its 'AIM Academy' training and conference programme through the year, so that everyone is asking the right questions and fully understands the challenges and opportunities of distributing music in the digital age.

Next steps

To stay updated with AIM's future work on the issues raised in 'Distribution Revolution' – including follow-up activity and related training, events, conferences, networking and more – sign up to AIM's newsletter and other bulletins.

You can do this at bit.ly/aimupdate.

Key developments will also be promoted via AIM's social media as follows:
Twitter: @AIM_UK
Facebook: @aim.music
Instagram: @aim_insta_uk

CMU will also report on this future activity via its media: the CMU Daily bulletin and Setlist podcast. You can sign up to both for free at cmusignup.com.

‘Distribution Revolution’ is a major new report from the Association of Independent Music (AIM) and CMU Insights.

It explores how the role of the music distributor has evolved over the last two decades as distribution companies have expanded the ways that they work with independent music businesses, increasingly moving into so called artist and label services.

It then explains the options now available to those independent music businesses – including self-releasing artists – who are seeking a new distributor, outlining essential knowledge required before selecting any new partner, for distribution and more.

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