

The potential usages and applications of blockchain in the music industry

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Isabella Coakley

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Executive summary

Blockchain and the new wave of web 3.0 are quickly gaining traction in the finance and business industries. The new technology has the potential of creating faster transparent transactions. This implementation could be used in the music industry to solve problems such as royalty payments however with a scepticism from the general consumer base the viability of blockchain and investing in its utilisation can be seen a risk that the music industry from past events may be wary to adopt.

Introduction to Blockchain

Blockchain is part of the new Web 3.0 era and the concept was influenced by the idea of decentralisation, security, lack of central authority and transparency brought about by the financial crash of 2008. Though the concept of the Blockchain was pioneered by the Nakamoto white paper circulation in 2008 (Nakamoto, 2008) this anonymous pioneer built his concept using a previous paper released in the 90s by Haber & Stornetta (Haber & Stornetta, 1991). These theoretical papers mainly conceived the Blockchain aspect of how to know what was true in the past and how to trust the knowledge of the past without a central authority. This was solved by a time-stamped ledger that would be distributed in a way that one file could not be tampered with without disrupting the whole chain. This would be achieved by the ledgers being linked and distributed, trusting mathematical algorithms instead of a central authority.

It was with this fundamental building block that Nakamoto then adapted the concept by adding a financial incentive. This could maintain the connected ledgers with mining and proof of work or proof of stake verification. It was from this white paper that the current Blockchain market developed and although many chains vary from one to another they are all based on the same templates (Whitaker, 2019).

The emerging crypto market has seen adoption from a sub-sect of society that sees it as a new wave of banking and investments (Sarmah, 2018). This section of people has built up knowledge of how the market works. Though to an outsider, the space as a whole can be intimidating. Similar to stock trading it has its own vocabulary and its own bridges to cross to understand the fundamentals things easy to those in the know such as creating a wallet to hold your items on one chain 'rug pulls' meaning a project that drops to zero or near zero value and using an exchange like Binance to trade Fiat currency into cryptocurrencies is a large barrier of entry and with consonant negative publicity with recent scandals like the crash of the FTX exchange mean that for many casual consumers Blockchain seems more like a hassle and complicated investment that may not be worth their time and money (Conlon, et al., 2022).

Technology and the music industry

Blockchain is the new wave of innovation from the tech industry and is seen by many 'in the know' as the future of all transactions including daily tasks such as the holding of important documents and more. Although many in these Blockchain based communities believe fully in the changing of the times, many others also find the concept hard to grasp and feel it is unnecessary. This leaves industries wary of committing completely to Blockchain instead choosing to start smaller ventures to test the system. In the music industry, we specifically see examples of this with small releases of NFT collections by artist's (Johnson, 2022), few are yet to take the drive into seeing it as something that will change the tech landscape as seen today. The music industry pillars, the major record labels, have always been late to adopt new technology and have only ventured into it when all other means of exploitation have been exhausted and it has become obvious that consumers have adopted the new technology. Blockchain is currently heavily discussed within the industry but has not yet been adopted or applied to mass production. This leaves the industry in the position of lagging behind, rather than maximising new opportunities and markets, letting only a few indie companies pursue this new market (Verma, 2022).

The last monumental change in the music industry was the adoption of streaming platforms. This move took time, the music industry was hesitant, not ready for the new technology and had to be galvanised by loss of revenue from a lack of physical sales and new tech opportunists grabbing the new revenue. In the late 1990s to early 2000s the industry was seeing large revenue growth from the mass consumption of CDs. This changed as internet access became commonplace for most households and audiences. File-sharing platforms became the new way for consumers to acquire music easily and most importantly freely. This changed consumer habits almost overnight as platforms such as Napster and Limewire became the way people consumed music and the once booming CD sales fell dramatically (Sinclair & Green, 2022). Even after the American Music Industries lawsuit against Napster caused it to cease

trading, consumer minds and habits had been changed for good. No longer was music a product that should be paid for, instead, consumers could easily find a free download on the internet.

The music industry was left a shadow of its former revenues even with the start of iTunes in 2001 which gave a flat price of £9.99 for an album and £0.99 for a single with constant sales it was considerably less profit than the labels were used to from physical sales. It was at this point that streaming came alive and changed the marketplace for both music audiences and the industry forever (Wagner, et al., 2015). Spotify was at the forefront of the transition to streaming starting in Europe first, and although they faced major resistance from the music industry they soon dominated the market and in 2011 agreed on licensing deals with the majors which included giving shares in Spotify to the 4 majors in order to be able to stream worldwide.

Since that landmark point, the Music Industry has slowly rebuilt its revenue growth, though music sales are still nearly \$10 billion lower than they were at the peak of the CD era (Routley, 2018).

With this experience of how new technology could undermine an established and successful industry, it would be thought the Music Industry would be keen to be at the forefront of any new developments. However, as mentioned the industry appears to be holding back from serious investment and adaptation via Blockchain. Perhaps once again waiting for new start-up companies to pave the way and then merging with them or buying them out completely.

These start-ups who are seeking to fill the market that the large labels are yet to do are looking at how Blockchain can change the way artists are treated within the industry. If finance and copyrights are to be more beneficial for an artist they will move loyalties to the new way. In much the same way as the listening audience moved to streaming previously. If this happens the larger labels may be forced into negotiations to join these businesses to their already established platforms.

Current Blockchain applications

The current application of Blockchain we see in the music industry is limited NFT runs by different artists, first started by independent artists it is slowly growing and only seen as another subsection of merchandise. It is considered that if fully exploited it would be a much bigger revenue creator and should be a standalone division of the music industry (Fatemi, 2022).

Currently, an artist can release an NFT with pre-publicity on a website such as Opensea which host NFTs minted on the Ether chain. The first well published artist NFT release was the Canadian DJ Jacques Greene selling an NFT that went for bid also containing the publishing rights to his song "Promise" along with the visual media. Since then artists such as Grimes, Latasha and Steve Aoki have all released their own NFTs for purchase by the public. Another notable artist in this sphere being Snoop Dogg who has along with releasing his own NFTs collaborated with one of the largest project on the Ethereum market Clay Nation (Wilson, 2022).

Now there are 3rd party platforms where artists partner with companies such as PopEx in order to release limited runs of NFT that can be purchased in Fiat currency (ie: dollars or sterling) instead of crypto currencies (PopEx, 2022). This makes the transition of buying NFT's more understandable for the consumer who is unsure of the crypto market or who does not have easy access to the crypto market. Making it an easier entry point than punching something on a site like Opensea where they would have to exchange Fiat currency into a crypto currency like Ether to purchase the NFTs they wish to buy.

The issue with the chain

Previously discussed is the issue with the general market audience and their views on Blockchain platforms though this can be circumvented with platforms like PopEx which to an extent can shield the

consumer from the backend of the chain technology and sell NFT into a non-educated audience there are other issues with Blockchain.

IP protection is a large portion of the music industry as the exploitation of songs is how the industry makes most of its profits. These IP's are protected under Copyright law in each country however when you look at the Blockchain you find an easy exploitation tactic (Hein Online, 2019). Once something has been minted on a chain it is next to impossible to take it off the chain due to its functions. Meaning if someone was to mint an NFT of another person's IP without their permission the only way the original artist would have to sue for the profits made but could not stop, nor recall the product which would happen in the usual cease and desist situations.

We already see this happening in the crypto sphere with an NFT that piggybacked on the success of the Netflix series Squid Game. Where stolen images and the likeness of the series were used to promote the project which garnered over 245 ETH priced at \$776,000 at the time of the project's peak (Mohit & Johnson, n.d.). This had no ties to the original IP nor to any of the creative's involved but garnered a major profit for the project to become another rug pull. This created not only a loss of money for thousands of people who invested but also a stream of negative media coverage which though unrelated to the original Netflix project became a large part of the media coverage of media property (BBC, 2021).

Stability in the market has always been an issue much like the stock market there are highs and lows in the market though it would be considered significantly less stable than the stock market. This instability means that though most large labels will be looking at a way to integrate Blockchain into their business, key parts such as crypto currencies would be too unstable to be seen as a viable integration at the time being. The next step would be for a stable crypto coin to come onto the market which could evidence stability in the market place of Blockchain (Mandeng, 2019). There has been an effort to stabilise a coin that can self-regulate without its value being pegged to a Fiat currency, to enable major outside investment and consumerism the need for a stable coin is pivotal to the establishment of crypto-based currencies and their the long term future.

All of the pressing issues culminate with the main concern of using Blockchain regulation. In a similar situation to the early pirating platforms of the 2000's without regulation, the market is currently working without any guidelines or oversight and though part of the concept of Blockchain is to work without external influences due to its scale most who are active in the industry agree it's a necessary step for the web 3.0 era to continue (Yeoh, n.d.). This means that the consumer will be better protected when investing, the key points of regulation would be; constructive engagement, classification, consumer and investor protection, cryptography and technology and consistency. This regulation will lead to transparency in the industry, hopefully stability and the minimisation of fraud and money laundering. All of these would make web 3.0 not only easier for consumers to use but a safer market for industries to invest in.

Future Blockchain applications

The smaller music start-ups that are venturing into the Blockchain and web 3.0 market seem to all have one goal in mind, real time royalty rates. Historically artists have had to wait for royalty payments anywhere from 1-3 months after they are collected, and then a further 1-3 months from that for the actual payment to be made. This six month or more delay causes many problems around interest, legalities and contractual issues. Also the large wait time can cause artist disillusionment, dissatisfaction and financial hardship. With the real time royalty rate, an artist would be able to instantly receive payment for the exploitation of their IP. This would be a huge shake up in the industry, directly benefitting the artist, although the move to receiving payments in unstable crypto currencies could cause hesitation from artists.

Further future benefits from using Blockchain are that piracy could be eradicated. Rather than lengthy, costly court cases around ownership and artistic rights the security of the original file would be incontestable. Ticket fraud, the mass 'bot' purchasing and then overselling of concert tickets or the simple faking of tickets cause revenue loss and unhappy audiences. To incorporate Blockchain tech like NFT's into ticketing would give security, better revenue results and consumer trust. The large festival in the USA Coachella is experimenting with FTX to give fans a Blockchain security in a life time pass.. Lastly platforms such as Decent and Audius use a crowd funding model to give consumers direct access to artists. Cutting out the industry management means the artist receives all the payments, not just a small percentage. This is detrimental to the industry as a whole as the companies lose money so must find ways of incorporating this into their own services.

Conclusion

The implementation of Blockchain in the music industry would cause a major shift in the industry from real-time royalty rates to clear IP protection. However the technology is still just in the development stage with little regulation. Standards in the industry along with a volatile financial market means large change and expansion in the industry seem to be far in the future. The industry would need to wait until the general consumer audience has become more versed in the topic of Blockchain and its uses to adopt it completely. This general consumer adoption hangs in the balance of regulation and the simplification of the Blockchain technology, although it is clear governments and those in the Blockchain sectors are working towards this goal.

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