Is the music industry's future on the blockchain?

One big knock on cryptocurrencies is that they're a technology in search of a problem. Venture capitalists want to put everything on the blockchain and generate big returns, but why not just use a database instead? To skeptics, everything else in the space looks like noise — a bunch of grifters and try-hards changing their Twitter profile pictures to pixelated punks and apes in an effort to eventually flip those NFTs to a greater fool.

But even as my mentions and direct messages fill up with readers fulminating about crypto — last week, after this piece, a paid subscriber wrote to me telling me he hopes that I die! — good and useful new things keep revealing themselves. Like a video game that pays you to play it. Or a series of free NFTs that are now assembling themselves, based on the wishes of their various owners, into movies and games.

Skepticism is still warranted, as a group of thousands of people found out this week when they attempted to buy the Constitution and found themselves at a structural disadvantage. (They had to convert all their contributions from Ethereum to dollars before the auction began; the winning billionaire simply outbid them after it started.) The fact that ConstitutionDAO participants largely lost their intended refunds to network fees is worth noting, too — promising though it might be, Ethereum is so slow and expensive that I have come to think of it as the world's worst computer.

But like I said: good and useful new things keep revealing themselves. Today let's talk about another of them: a startup called Royal that hopes to upend the traditional relationship

between music labels and artists, with potentially significant implications for the kind of culture that gets created.

Why everybody hates record labels

If you know anything about the relationship between record labels and artists, you know artists typically get the worse end of the deal. Mega-stars are rare, and so record labels hold on to as much of their earnings as possible to finance all the swings they take and miss. (Also, to maximize their profits.) This is a reliable source of frustration for lots of people, but especially the mega-stars, some of whom become famous in part due to their friction with labels: Prince wrote "slave" on his face to protest his treatment at the hands of Warner Bros.; Taylor Swift is now re-recording all her old albums after her former label sold the material out from underneath her.

Before the year 2000 or so, labels had all the leverage here. They controlled the production and distribution of records and CDs; they had the money and relationships needed for promotion. Occasionally, an alternative artist would strike out on their own and start an independent label. But for the most part, the major record labels controlled the industry.

Then came the internet. At first, it seemed that file-sharing services like Napster might kill off the major record labels altogether. But the labels were saved by the rise of streaming services like Spotify, which helped them make their existing back catalogs more profitable than ever before. That was great news for the record labels, but the fundamental tensions with artists remained. Most artists make almost no money from streaming, while the majors are reporting record profits.

The internet knows a vulnerable middleman when it sees one — "your margin is my opportunity" and all that — and few middlemen look more vulnerable, from this perspective, than record labels.

Royal comes for the royalties

Before Justin Blau set out to upend the record industry, he learned how to navigate it as an artist. Recording and producing electronic dance music under the name 3LAU — pronounced "blau," like his surname — he produced original tracks and remixes for artists including Rihanna, Katy Perry, and Ariana Grande, among others.

In 2016 he launched his own record label, Blume Records. But a couple years earlier he had met the Winklevoss twins, of *The Social Network* fame, who had successfully reinvented themselves as crypto evangelists. (They love dance music. Also they're billionaires now.)

Blau had studied finance in college, and had became enchanted by the vision the twins shared with other crypto backers: a means for creating a frictionless transfer of value anywhere in the world. But it wasn't until 2017, when Ethereum began its rise, that he began to consider the implications for music. Ethereum's "smart contracts," which can automatically execute transactions without the need for an intermediary, felt like they could be a building block for something new.

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Earlier this year, Blau put it into practice. In February, he sold various NFTs of his album *Ultraviolet* in an auction. To almost everyone's surprise, the auction generated $11.7 million in sales. This offered an early hint of how the blockchain could uniquely change the music industry: by eliminating the record labels and selling ownership of his music directly to fans, Blau generated far more than any record label would have paid him.

That planted the seeds for Royal, a startup whose name hints at its core purpose. After Blau's success with selling his own album, investors lined up to throw money at him. In August,

while still at the seed stage, he raised an eyebrow-raising $16 million for a platform that would let other artists sell ownership stakes to their fans. Here's how Danny Nelson described the process at *CoinDesk*:

> *Limited digital assets, or LDAs, are the backbone of the system, Blau explained in a call.*
>
> *An artist decides how much of his or her royalty share to reserve for LDA-holding fans and how many "official editions" to mint for a given song. Royal then facilitates the sale of those LDA tokens, generating cash for the artist and the possibility of future income from the song owners.*
>
> *A song with 100 "official editions" might entitle each holder to 0.5% of the royalties it generates, Blau said.*

The idea is to take the traditional record industry model, in which the label might keep 80 percent of all future royalties, and flip it to one where the artist keeps 80 percent. (Royal takes a cut of primary sales that is under 10 percent, the company said, as well as a cut of secondary sales.)

This summer, Blau tested the platform by giving away 333 NFTs representing half the streaming ownership in his new single. Those songs have now generated more than $600,000 in sales and are worth more than $6 million.

And so just four months after Royal raised its seed round, investors are even more excited. On Monday, Blau announced that Royal had raised another $55 million, with new investors including The Chainsmokers, Nas, and Kygo.

"I really do think we're scratching the surface here," Blau told me in an interview this week. (In true rock 'n' roll fashion, he Zoomed in from a boat.) "Creativity always leads culture in a lot of ways. And we're starting to see creatives really buy into this."

The future of music

Royal is so early in its life — the core product is still in private beta — that it's basically impossible to guess at its chances. It isn't alone in its space, either: competitors with a similar take include Royalty Exchange and SongVest.

But it doesn't feel too early to ask what might happen in a world where artists keep more or even most of the value that they create. This is personally relevant to me, of course, as a creative type who also stepped away from a "major" — a staff job at a big publication — in favor of selling my work directly to readers. But the larger cultural consequences could be significant.

On Tuesday morning, I Zoomed with Blau (on his boat) and Fred Ehrsam (in an office) about the possibilities. Ehrsam, who sits on Royal's board, is the co-founder of the crypto VC firm Paradigm. (He previously co-founded Coinbase, and served as its president until leaving in 2017 to be start Paradigm with Matt Huang.)

The potential for more consumer applications of crypto have been apparent since Ethereum was created, Ehrsam told me. But they have only recently begun to come into view, with NFT-based projects like Blau's leading the way.

"I've sort of been waiting for this moment for years now, and we're finally here," Ehrsam said.

Here are some of the possibilities that Blau and Ehrsam see if more artists use crypto tools to sell their work:

Artists own their own businesses on the internet. Maybe the most obvious implication, and on one level, not all that new. (Many artists already create businesses of various sorts to publish albums, organize tours, and so on.) What's new is that the record label doesn't necessarily need to be a part of it at all. This is important for a lot of reasons, but perhaps

the most important one is that …

You incentivize the creation of different kinds of music. Stories abound of record labels not recognizing the genius of their talent. (*I Am Trying to Break Your Heart*, one of my favorite music documentaries, chronicles the rejection of Wilco's masterpiece *Yankee Hotel Foxtrot* and the band's struggles to release it anyway.) So do stories about the consolidation of the terrestrial radio industry dramatically limiting the music that gets airplay.

One idea suggested by Royal is the label's opinion – and the radio station's – is about to matter a lot less. All of a sudden, if you can grow a big enough social following, you can make a living off whatever music makes you happiest. This is somewhat true today, of course, but primarily to musicians who can live off touring and streaming revenue – a very small number of people, at least compared to the number of creators who make a living off (for example) YouTube and TikTok.

"We've seen this with other new internet platforms in the past – and YouTube is a great example – where you end up getting all these creators, and all this novel content, that you never would have gotten without the platform," Ehrsam told me. "And I think something similar can happen here."

You promote remix culture. Some of my favorite music of the past couple decades involves remixes that are at best tolerated by music labels. Think of *The Grey Album*, Danger Mouse's inspired 2004 mashup of the Beatles' *White Album* with Jay-Z's *Black Album*. Or take Girl Talk, who managed to eke out a career throwing dozens of songs into a blender and stitching them together into spectacular new tracks.

But those were the exceptions: for the most part, record labels have never embraced this kind of remixing. (It's legally difficult, given byzantine copyright arrangements; also; where are the profits?)

Now imagine what might happen if an artist could effectively buy into a song by purchasing some of its tokens on Royal or another platform, and then profit directly from the success of the remix. Suddenly, all the right incentives are aligned. The creators can create, and the owners get paid. (Also, they are the same people.)

You reinvent the music "collection." Blau pointed out to me that music collections were once a source of pride for lots of people. (They still are, to vinyl collectors.) Royal's model encourages music fans to think of themselves more like art collectors, Blau said.

"One of our new hires at the company, when I was interviewing him, said something that was so powerful to me, which was we all have the same music collection — and then he held up his phone," Blau said. "And [he's] right. There's nothing special about that. […] What you own is an expression of yourself. And we're about to see that scale in a really big way, with Royal being the music end of that."

Fans become marketers. Today's internet has created its share of big fandoms, who mostly work in exchange for likes, comments, and shares. About the best you can hope for is that your favorite artist replies to you, or shares one of your posts.

One question Royal raises: What happens if every song has its own stans who benefit financially the more it is played?

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"Your fans become your biggest promoters and your distribution," Ehrsam said. "We've seen that with Bitcoin in the past. When you own it, you want to evangelize it. I think we'll see that with music in a similar way."

Ehrsam also predicted we will eventually see new kinds of creative work coming from fans. Fine art, video pieces, mixed

media — who knows? To the extent it becomes valuable, fans with ownership would benefit from its growth in value.

“I suspect that now that people have ownership over this IP, they’ll probably figure out other things to do with it, too,” he said.

Crypto enters the mainstream. Ehrsam is a crypto maximalist, as you might imagine, and believes that in 10 years or so, almost everyone will own at least one NFT. Music rights might be one of the things that gets us there, he says.

“Crypto is becoming culture, and culture and investing are becoming one of the same,” Ehrsam said. He said this year’s mania for GameStop and other meme stocks was as much about building fun online communities as it was about financial gain.

“When you look at what Royal and Web3 are doing broadly, it’s exactly that,” he said. “It’s packaging entertainment, community and economics into a single thing. And that, I think, will be extremely powerful.”

Of course, you could take a more pessimistic view of all this, too. I keep imagining trying to pitch Royal to the Sex Pistols in 1975, only to have Johnny Rotten punch me in the face. What could be less punk rock than giving every song, in effect, its own homeowners association?

But it’s clear that today’s record industry isn’t working for the vast majority of artists. And even if companies like Royal are only able to nudge labels into offering more lucrative deals, it still may all have been worth it.

In the meantime, Blau says he’s courting major artists to begin selling on Royal.

“Our enemy at Royal is the bad record deal,” he said. “And not every record deal is bad. But many of them are.”

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