



SOUNDCLOUD

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Building a fan economy with Fan-Powered Royalties

Introduction

Music streaming has helped the music industry return to growth over the past decade, but many creators feel left behind. The streaming economy has reached a point where the creator remuneration gap can no longer be ignored. It is no secret that many music artists are dissatisfied with the relationship between the consumption of their music on streaming platforms and the income they receive from it. The system determining how artists get paid (as well as how much they get paid) from streaming has also been the subject of long debate. The traditional 'pro-rata' model brings all streaming income into one pot and then distributes it based on the artist's (and associated rights holders') share of total consumption. Furthermore, every stream receives equal weight, whether the consumer is a passive listener or a superfan. The unintended consequence is that the value of an artist's fans has become a lower priority than the volume of streams that they are generating.

This has resulted in an environment where consumption is all that matters. It pits artists against each other, competing for the same pot of money, pooled together from every streaming subscriber. Artists may have a sense that some of their most active fans' subscription money ends up in someone else's bank account – but not how much. And most fans do not know this, either.

The 'pro-rata' system fuels an obsession with 'share of total streams', inadvertently incentivising all sorts of strange behaviour, including shorter and more formulaic songs (that are more likely to be consumed somewhere in the background or voted up by playlist algorithms). Music that plays endlessly in the background to generate streams is rewarded, with less consideration to a fan's engagement with an artist. At worst, this has encouraged inauthentic activity, where artists can pay to generate high volumes of streams from a handful of accounts (and get paid from the vast communal pot).

SoundCloud has a vision for a different kind of streaming environment. The company introduced a new system of Fan-Powered Royalties (FPR, also referred to as user-centric royalties) that is designed to create a fairer mechanism for artist remuneration that process as an artist's streaming income directly from their listeners. The model allows artists to focus on their fans rather than scrapping for stream counts, which, all too often, do not pay enough anyway. With FPR, every artist earns directly from their own fans.

A year into its launch, FPR has had over 118,000 artists sign up for the model. SoundCloud has been able to measure FPR directly, side-by-side with the old pro-rata system, for each and every one of these artists. Through this program, the company has been able to see how its vision matches up with reality.

Whereas most of the user-centric debate to date has been based on models and theory, SoundCloud's FPR initiative represents the first time the whole marketplace can see real-world, large-scale, user-centric data. SoundCloud asked MIDiA to help evaluate the outcomes and put together a true music-industry-first – a report summarising the outcomes for a global cohort of music artists who are being paid through FPR. MIDiA's intent with this report is to provide the wider industry with the opportunity to see this data and draw its own conclusions.

Based on data comparing FPR pay-outs to what they would have been in pro-rata, we have examined the mechanism behind FPR and uncovered the foundation of a new fan economy that 'corrects' much of the inequity and misguided incentives under the pro-rata model. FPR presents opportunities for artists of all career stages to reimagine their relationship with their fanbases – especially their most loyal fans.

Perhaps most important of all, we see FPR not as an end in itself, but the foundation stone for a new music business that is built around artists, their fans, and recognition and remuneration.



Key insights

- The majority (56%) of the 118,000-creator sample that MIDiA analysed who are currently in FPR are better off under FPR than pro-rata
- FPR has enabled more artists to move up into higher income brackets, with a 9.2% increase in artists earning over \$1,000 in the 11-month period between April 2021 and February 2022
- Artists want to be able to find fans and make a living from their music instead of chasing fame and fortune. FPR has helped 63% of artists with 100-100,000 fans earn more from their fans than pro-rata
- Artists who earned more under FPR received 42% of their income from their superfans (those who contribute more than 10¢ a month) – a category that makes up 1.9% of their total audience
- FPR incentivises and rewards artists who are not only building but also monetising their superfans
- Superstars with an audience of over 100,000 typically have the smallest share of superfans, at 1.3%. With FPR's incentives, they have the biggest opportunity to engage and grow their superfans
- FPR rewards quality of fans, not quantity of streams, catching out inauthentic bots and listeners who are paid to repeatedly stream. There is less incentive to 'game the system', thus facilitating authentic fandom
- FPR's greatest value is the insight that it provides into artists' biggest contributing fans, helping artists better monetise their fans and navigate the industry-wide shift towards fandom fragmentation. Unlocking deep fan insight opens up the opportunity to build a fan-centred music economy that is based on fandom and the audience's economic contribution

Note: Throughout this report we refer to creators, artists and / or music artists – we use these terms interchangeably referring to all artists currently distributing their music on SoundCloud.



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SoundCloud

SoundCloud is a next-generation music entertainment company, powered by an ecosystem of artists, fans and curators leading what's next in music. Founded in 2007, SoundCloud is an artist-first platform empowering artists to build and grow their careers by providing them with the most progressive tools, services, and resources. With over 300 million tracks from 30 million artists heard in 190 countries, SoundCloud is pioneering the enablement of artists to grow and connect more directly with their fans. The future of music is SoundCloud.

MIDiA Research

MIDiA Research is a market intelligence and consulting firm with longstanding expertise in the business of entertainment and digital media. We work with various companies from TV networks, streaming services and record labels to tech giants and financial organisations, providing a deep understanding of trends and innovations shaping the market and audience behaviours.

We help leaders formulate commercially actionable strategy to navigate the evolving digital content and consumption landscape. We leverage multi-country consumer data, market forecasts and other proprietary data tools to provide unrivalled insight into the rapidly-changing global digital content markets. Our coverage areas include music, video, marketing & media, games and sports.

For more details visit our website: www.midiaresearch.com

Or email us at info@midiaresearch.com

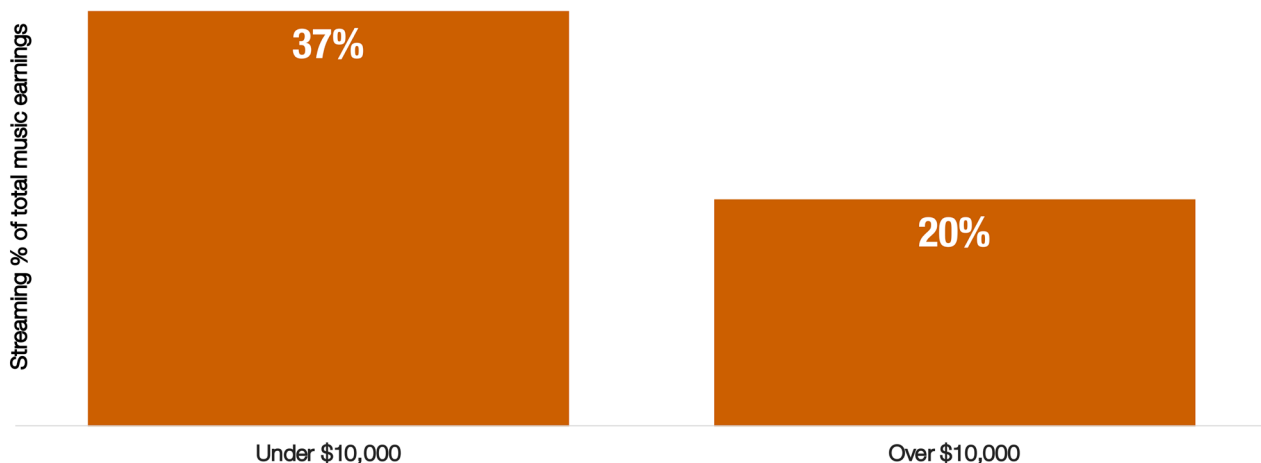
The need for fair remuneration

Streaming's core problem for creators is not monetisation as such, but remuneration, with only those operating in the top tier of mainstream success receiving meaningful income from streaming. This has created a world where many creators with smaller, but significant fanbases are unable to translate that into sustainable careers.

Figure 1

Emerging and mid-tier creators initially rely more on streaming income but turn to other sources as they earn more

Streaming as a % of total annual music earnings, Q4 2021



Source: MIDIA Research Artist Income Model 2022

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Streaming income is at odds with most creator careers: The majority of creators will not be mainstream superstars and, therefore, depend on being able to monetise niche audiences in the tens and hundreds of thousands, rather than millions. However, the pro-rata model is inherently unable to sufficiently remunerate creators who are operating at this level. These creators, i.e., the majority, require models built on fan engagement without the need for scale.

This is reflected in the professional income portfolio of music creators: streaming's share of income declines by 45% as creators cross the \$10,000 income threshold. As creators look to develop sustainable careers, they inevitably realise that streaming is unlikely to be a primary source of income and focus their efforts on other revenue streams.

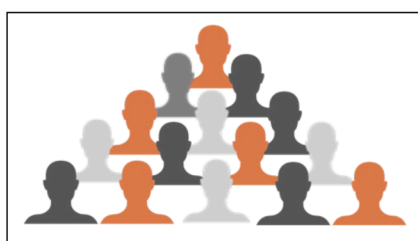
The remuneration problem has diluted streaming's cultural capital, making it less relevant as the place to connect and engage with artists and simply a place to consume music. This is unequivocally reflected in streaming's pro-rata payment model, where the value of relationships between artists and their biggest fans is lost. It is only natural for artists, who depend on capturing this value, to turn elsewhere to build their careers.

Figure 2

FPR provides the incentive for understanding and engaging the most economically valuable fans

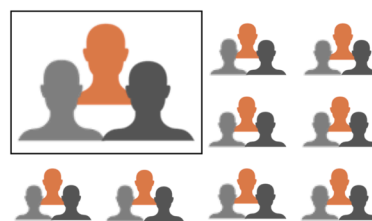
Conceptual overview of the shift in music fan audiences

Pro rata: Competing at scale



Superstars win

FPR: Unlocking niches



Superfans win

Industry shift toward fragmented fandom

Niche monetisation is better enabled through FPR, powered by understanding who the most valuable fans are

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A shift to fragmented fandom: The implication of the pro-rata model is not necessarily a decline in musical diversity, but a decline in rewarding it. This is at odds with the reality of modern music, where fandom is increasingly fragmented. In the UK, for example, BPI has tracked the share of streams that the top 100 artists have contributed between 2016 and 2020. This figure more than halved from 10.3% to 5%, demonstrating the increasing diversity of listening.

More listeners are listening to and seeking artists outside 'the mainstream'. For devoted fans, who are actively seeking the artists they love, streaming treats them indiscriminately, with someone passively listening to artists they may not even know on a playlist. There is an inability to not only economically recognise the difference between active and passive fans, but also to accurately provide insight to artists on the value of their fans. This is where the pro-rata model is falling short.

Finding fairness in Fan-Powered Royalties

There is a lack of fairness and transparency that creators experience with the pro-rata pay out model of streaming. As it stands, all streaming revenue is put into a single pot and distributed by market share. It is a simple solution, but not an elegant one. Fans end up paying artists they do not listen to, which, in the history of recorded music consumption, is an idiosyncrasy that is unique to streaming.

The viability of many creators' careers on streaming is cut-off outside the mainstream. When success requires achieving enough scale to tilt the pro-rata model in your favour, the vast majority of artists lose out. Achieving scale means playing by the platform's rules, the privilege of reaching gatekeeper curators and nudging the algorithms that generate mass consumption. At best, it creates less incentive to push the creative envelope outside the mainstream, and, at worse, it incentivises 'gaming the system' – even to the point of engaging in fraudulent streaming activity. The scale of streaming fraud under this system has created a backlash against streaming and raised concern among rightsholders and the creative community.

FPR seeks to address these challenges and fairly capture the value of the fan-artist relationship. FPR's pay-out model ensures that the money a consumer pays only goes toward the artists they listen to. While this may seem like a small change from the pro-rata model, it has deeper consequences for the way creators are paid, the way they engage their fanbases and even the nature of the content that they create.

FPR on SoundCloud

In the following sections, we will review how creator revenue is affected in this new model from the perspectives of fan engagement, creator content and music markets. We have looked at a sample of SoundCloud's FPR initiative and the data it generated for 118,000 artists between April 2021 and February 2022. A key concept for this study is the way we define fans within an artist's audience. FPR allows artists to focus on the economic value of fans and the monthly contribution they make directly through their listening behaviour. Therefore, we have segmented fans by their monthly interactions with any individual artist and the economic contribution generated from it, as seen below:

- **Passive fans:** Contribute less than 1¢ a month to an artist
- **Active fans:** Contribute between 1¢ and 10¢ a month to an artist
- **Superfans:** Contribute over 10¢ a month to an artist

Over the course of this analysis, an average of only 1.5% of an artist's interactions with fans was with those who contributed over 10¢ a month. However, on average, these interactions contributed to 29% of an artist's income, demonstrating their importance. Fans also have the potential to contribute way beyond the 10¢ threshold.

By looking at fans through this lens we can see the value of superfans to artists and FPR's ability to capture this value. We will explore how important fandom is to artists, the disproportionate value that superfans bring to artists, and how authenticity and transparency can enable most artists to benefit from this model.

The key takeaways are as follows:

- **Rewarding niche:** Creators with niche and loyal audiences are more likely to receive higher pay outs in the FPR model than what they would have in pro-rata. The majority of artists with an audience of 100-100,000 fans saw increased royalty pay outs in FPR. However, it is not simply because these creators have smaller audiences. At the centre of this are artists with 1000-10,000 listeners, who, on average, have the highest combined share of superfans and active fans.
- **Capturing the value of superfans:** Superfans make up a small slice of an artist's total audience, typically between 1% and 2%. Artists who nurture their relationships with superfans have seen the most gains in FPR. Superstars have the biggest opportunity to not only increase the proportion of superfans within their audience, but also capture more value from them.
- **Creating foundations for a fan economy:** FPR rewards artists for their fans over streams. It is a model that naturally cuts down royalties from inauthentic streaming activity and removes the incentive to engage in it. Combined with insight into different tiers of fans, FPR can enable an authentic environment for deeper fan-artist engagement.

Of course, there are caveats to this study, the most significant being SoundCloud's distinctive nature as a streaming service. The results for SoundCloud may not work out in a similar fashion for other services, particularly as SoundCloud's embedded social functionality has enabled it to function as a platform where artists and fans can connect directly. However, what this study will present is an example of how the manner in which FPR is implemented can enable a streaming service to differentiate, by offering a different type of experience for both fans and artists.

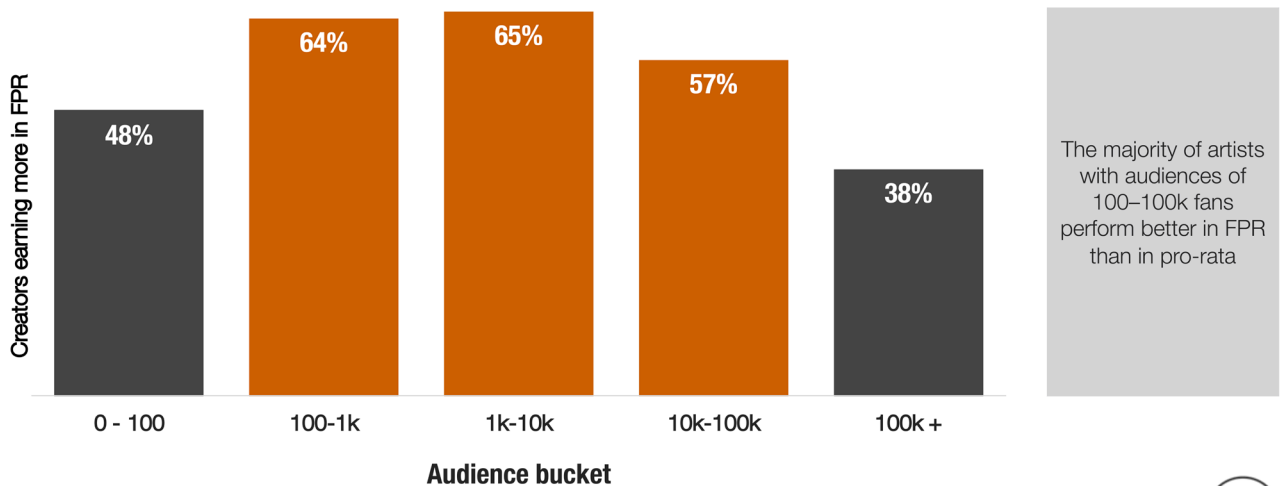
FPR rewards niche

As more artists realise the uphill battle to reach the scale that is necessary in order to earn meaningful income from streaming, they are shifting their values and definitions of success. This has typically been away from metrics of success relating to streams and followers and toward fandom-related metrics, such as engagement and revenue per fan.

Figure 3

FPR enables niche artists to be better rewarded, enabling artists to focus on fans over fame

Percentage of creators who earned more through FPR by audience bucket (i.e., size), April 2021 – February 2022



Source: SoundCloud FPR Artist Income Data, n. 118,000

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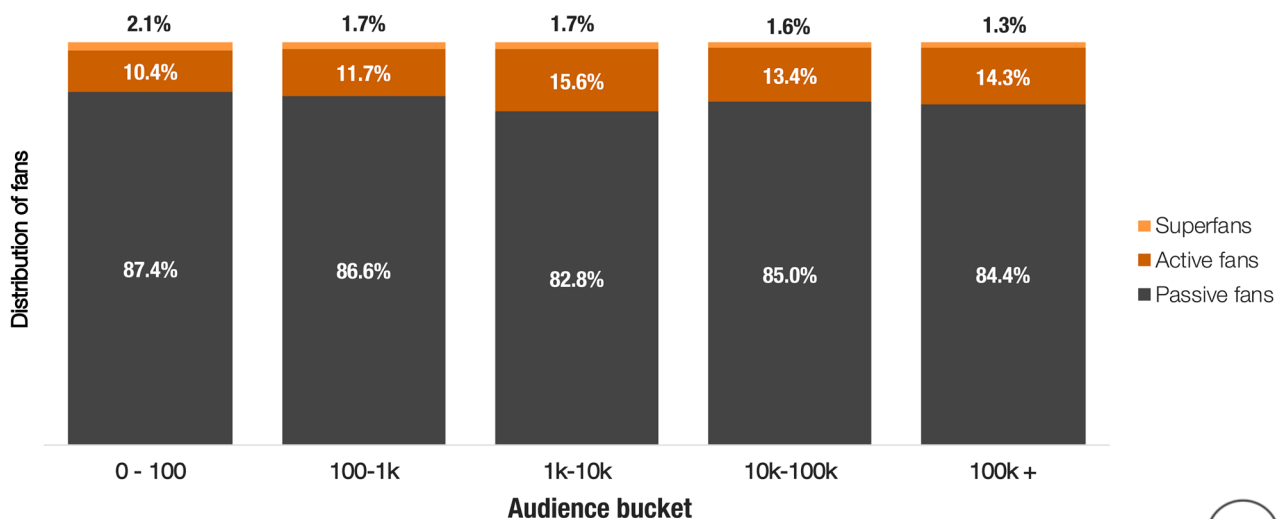
The traditional music industry model in streaming is built around scale where success is hard to find outside of millions of followers and streams. Ultimately, this leads to a monetisation through mass, but often passive, audiences. However, metrics like having millions of streams and followers are at odds with most of today's creators who are seeking remuneration and recognition within their scenes. This leads them to prioritise earning a higher amount per fan from a niche community of superfans and active fans, rather than a low amount per fan from a mass audience. As listenership continues to fragment, niches are becoming ever more relevant to artists' success.

This momentum clashes with the pro-rata model, which rewards masses, not niches. In the FPR model, however, the majority of artists with niche audiences of between 100 and 100,000 listeners perform better in FPR than they would in pro-rata. In this way, the FPR model aligns artists' priorities with their payment model.

Figure 4

The proportion of superfans decreases as fanbases grow, leaving an opportunity for superstars to build deeper fandom through FPR

Distribution of fans by audience bucket, April 2021 – February 2022



Source: SoundCloud FPR Artist Income Data, n. 118,000



Artists with niche fanbases tend to benefit from FPR because a larger share of their audience is typically more engaged. As an artist's fan portfolio grows, the proportion of superfans typically decreases. The share of active fans peaks at the 1,000-10,000-listener mark, with these artists having the smallest passive audience.

This does not mean that artists with larger fanbases cannot increase their superfan share. FPR provides an opportunity for superstars to change their strategy and build deeper fandom. Superstars tend to have more passive fanbases, not because they necessarily want to, but because it is what the pro-rata streaming model incentivises. Regardless of an artist's size, operating under the FPR model frees artists from this reliance on passive fans, instead rewarding them for focusing on building deeper fandom.

Capturing the value of superfans

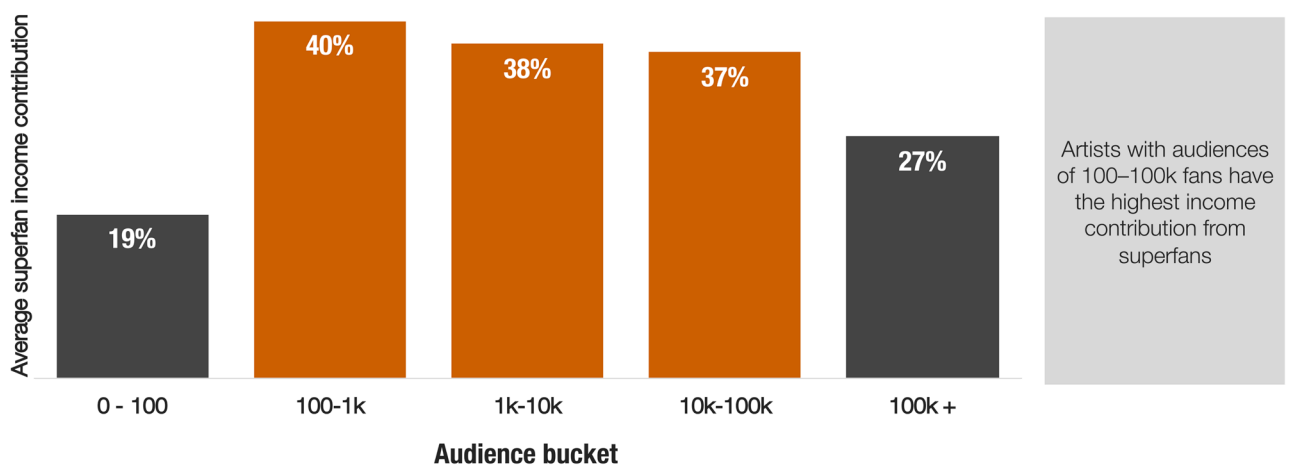
In pro-rata, the value of a stream is largely fixed, meaning that the value of a fan is not confined to their streams, but also involves what other fans are streaming and how much they are streaming. Even if a fan only listens to one artist, their subscription will be added to the pot and the artist they listen to will only receive fractions of a penny per stream.

However, FPR keeps the economic relationship confined between a fan and the artists they listen to. The result is a realignment of how income is attributed. Artists no longer have to concern themselves with their standing in the broader streaming environment and can now focus on the only thing that matters to their income – their fans. In particular, it is superfans who are contributing the most to artists in FPR.

Figure 5

FPR captures the value of superfans who are directly supporting artists with niche fanbases

Average percentage of total income from superfans by audience bucket, April 2021 – February 2022



Source: SoundCloud FPR Artist Income Data, n. 118,000

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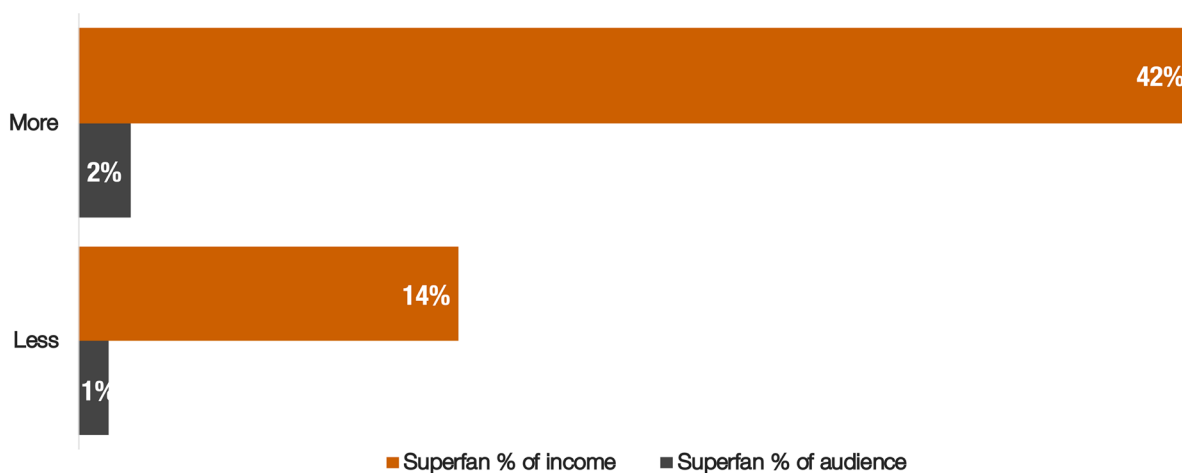
Less than 2% of fans are contributing to over a third of income for creators with 100-100,000 listeners, which means that these creators are more dependent on their most devoted fans for their income. This contribution from superfans in FPR demonstrates how valuable an artist-fan relationship can be. By providing artists with a better understanding of who their superfans are, this relationship can be nurtured and developed to enable fans to contribute even more income to their favourite artists.

Artists with over 100,000 listeners are less likely to be monetising superfans in the same way as artists with smaller audiences. However, this is partly because they have already succeeded within the environment of the pro-rata model and have built large passive audiences. What FPR incentivises these top-tier artists to do is reimagine their relationship with their audience and hone in on engaging their superfans, rather than maximising exposure to a passive audience. Although they have a smaller share of superfans, they do have more superfans in absolute terms, and a funnel of active fans with whom they can engage, which could provide them with more financial success than they experienced in the pro-rata model.

Figure 6

FPR is better at rewarding artists for having superfans than pro-rata

Superfans' contribution as percentage of total income, and superfans as percentage of audience, for artists who earned more and less in FPR versus pro-rata



Source: SoundCloud FPR Artist Income Data, n. 118,000

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When looking at artists who made more and less in FPR compared to pro-rata, the clear differentiator is not simply the number of superfans, but the proportion of income they contribute. Artists who earned more in FPR had twice as many superfans than artists who earned less, albeit, still only a percentage more. However, they gained three times as much of their income from them, indicating that they were getting more out of their superfans than the artists who earned less.

The impact of the pro-rata model lingers in the minds of many creators. Focusing on growing large audiences, regardless of how passive or active they are, has been all that has mattered, for the past several years, when it comes to growing income. The impact of FPR on artists earning less income is a reflection of the significance of passive fans on their income. Now that the incentive for engaging superfans is clear, artists have an opportunity to pivot and focus on developing more engaged, loyal, and authentic fanbases.

Foundations for an authentic fan economy

The pressure to achieve success has caused some artists to turn to inauthentic activity. Creators can pay for inauthentic streams to artificially inflate their stream count, generally by using streaming bots. This process has become industrialised, with the use of 'farms', where walls of devices stream non-stop – as seen in the late Michael K Williams' Black Market, which uncovered a farm that charged \$1500 for 100,000 streams. Because FPR rewards artists based on fans, paying for streams becomes significantly less profitable, and so a beneficial side effect of the move to FPR is the elimination of traditional inauthentic activity, although fresh attempts to game the new system are yet to be seen at the same scale.

Under the pro-rata model, income is directly determined by the number of streams, regardless of where those streams come from. The inauthentic activity from bots and farms effectively steals from other artists on the platform, since their share of the pro-rata pie is consequently reduced. Such activity also impacts the user, as algorithms may curate music that is popular by stream count but is not authentically deserving of it, and their favourite artists could even be forced to leave the industry due to their consequently reduced incomes.

Figure 7

FPR rewards artists based on authentic relationships, whereas pro-rata only factors in consumption

Streams per fan ratio of artists who saw the biggest decline in FPR versus the rest of the sample

-75% decline or more

914 streams / fan



Artists who saw the biggest declines often displayed unrealistic streaming activity (i.e., 2.5m streams between two fans)

Rest of the sample

13 streams / fan



Source: SoundCloud FPR Artist Income Data, n. 118,000

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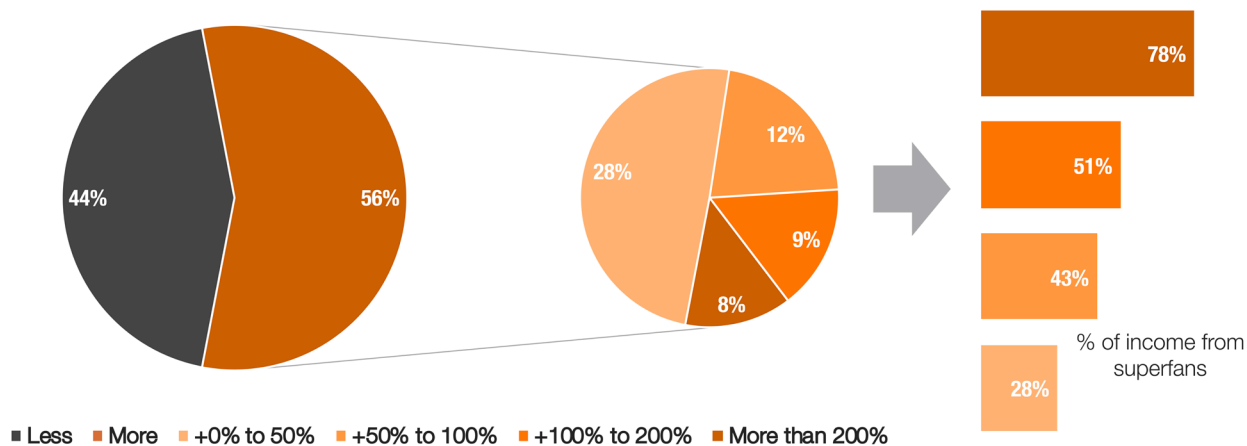
FPR's ability to tackle traditional inauthentic activity was borne out by the data. Most striking was the streams per fan ratio (simply the number of streams divided by the number of fans) of the artists who lost the most. The artists who lost more than 75% of their income in the move to FPR had an average stream to fan ratio of 914, a 6900% increase from the rest of the sample (which had an average stream to fan ratio of 13). One example of the most drastic declines was an artist with a stream to fan ratio of 3873, who lost 99.7% of their income (going from \$8400 under pro-rata to \$24 under FPR). Looking at the artist's SoundCloud page, a big difference is seen in terms of stream counts between songs, with some at tens of thousands of plays, and some at less than 100 – a big red flag for inauthentic activity.

Action against the bots does not address the root of the problem, since it does not affect the incentives that lead an artist to engage with inauthentic activity. Under pro-rata, artists who avoid the use of bots will lose out relative to those who do use them. FPR eliminates this incentive. Under FPR, a user cannot give an artist more than their listener share (their contribution to the service), no matter how much the user streams that artist's music – so the possible contribution a bot could make is capped. Artificially boosted streams will no longer give an artificially boosted slice of the total royalty pot.

Figure 8

FPR benefits the majority of creators, and artists who gain the most have higher contributions from superfans

Distribution of artists by change in income, and percentage of income from superfans for artists who earned more in FPR



Source: SoundCloud FPR Artist Income Data, n. 118,000



The majority of creators (56%) earn more from the FPR model than from pro-rata. Success is directly related to authentic fan engagement, as artists with higher contributions from superfans are most likely to benefit from the switch to FPR. Further breaking down those who benefit, 28% are earning up to 50% more in FPR than they would in pro-rata, and 28% of their income comes from superfans. For the 8% of creators who see their income jump by more than 200% under FPR, the vast majority of their income, 78%, comes from superfans.

Those who earn less under FPR are not stuck that way. By focusing on fan engagement and increasing their proportion of superfans, these artists can also benefit from FPR and increase their streaming income by deepening their relationships with fans. It is a win-win for artists and their fanbases. FPR is not the end of the journey, but rather the foundation for a new music industry model rooted in the fan economy.

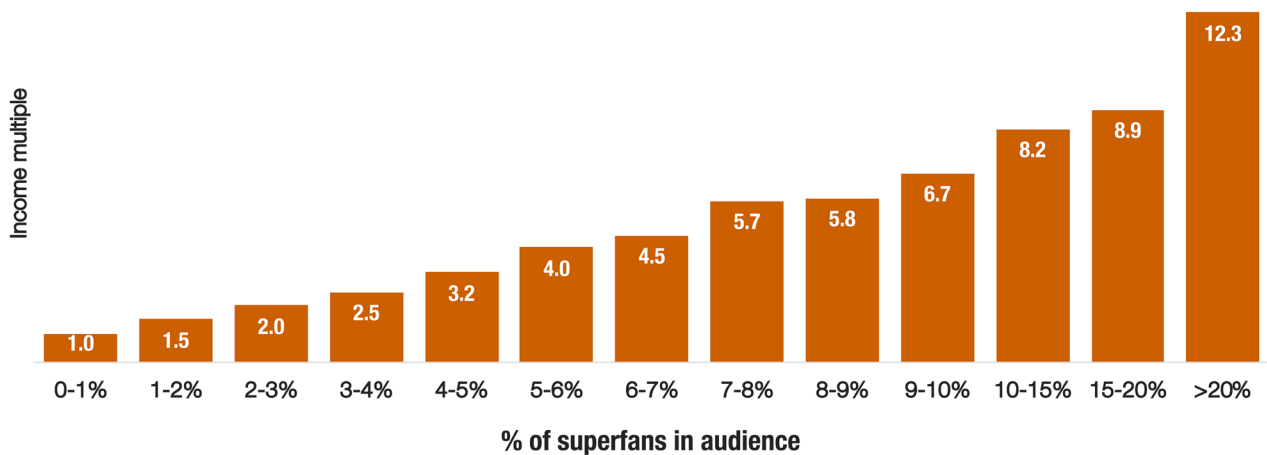
SoundCloud's future with FPR

The future of FPR is built on a foundation of authentic fan engagement. With this foundation, SoundCloud can build a platform that is driven by a fan-focused economy, to the benefit of both creators and consumers. At the core of this are the superfans.

Figure 9

The % of superfans is the key factor in determining success in the change from pro-rata to FPR

Average income multiple (FPR income divided by pro-rata income) by superfan % bucket



Source: SoundCloud FPR Artist Income Data, n. 118,000

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The share of superfans within an artist's audience is directly tied to their ability to earn more in FPR than they would in pro-rata. This removes the emphasis on the scale of audience that the pro-rata model incentivises, and instead facilitates a model that rewards engagement within a fanbase. Artists now stand to profit more from maximising the attention and engagement within their existing audience than they would from growing a passive fanbase.

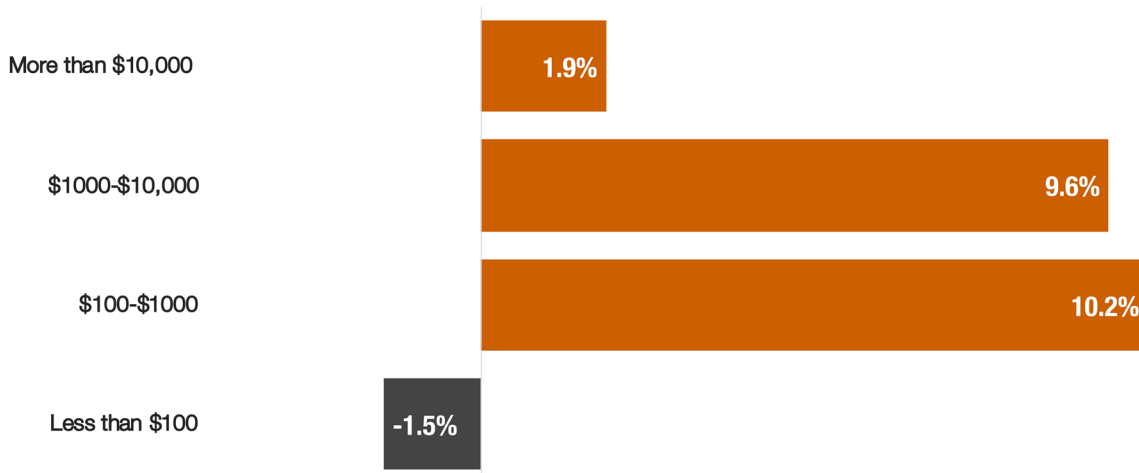
Artists building and engaging communities of fans have been unable to truly capture that value on streaming platforms. Under pro-rata, monetising streaming consumption and building engaged fanbases were two separate pursuits. Now, with FPR, artists have the potential to double their streaming income simply by building their superfan numbers to 2-3% of their audience.

Furthermore, if they can grow their superfan base to more than 20% of their audience, they stand to increase their earnings more than tenfold compared to pro-rata. The knowledge of this dynamic will unlock new strategies and methods of engagement on streaming services, centred around bringing artists and fans closer together, which would not have made financial sense in the pro-rata model.

Figure 10

More creators are moving up the long tail and into higher income brackets because of FPR

% change in number of creators in income brackets, April 2021 – February 2022



Source: SoundCloud FPR Artist Income Data, n. 118,000

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FPR is helping more artists move up the long tail into higher income brackets. The most significant increases in the number of creators are for those earning between \$100 and \$10,000. There are fewer creators in the lowest income bracket, and while they may still have a long way to go towards making a liveable income, FPR provides a foundation for increasing income even further.

Regardless of income changes, perhaps the greatest value that FPR provides is an incentive and opportunity to build and develop fanbases. MIDiA has repeatedly seen that creators value building a loyal fanbase more than receiving millions of streams. Artists know that if you can build a fanbase and consistently capture their attention, then the potential for revenue will follow. FPR helps unlock that revenue for artists by capturing the value of the artist-fan relationship in a way that the pro-rata model is unable to do.

FPR's implications for SoundCloud

FPR's results are clear — creators with niche audiences and more superfans have a better chance at building success on SoundCloud than they would under the pro-rata model. However, this is simply the start of the journey towards building a flourishing fan-centred economy on the platform. To take these results to the next stage, SoundCloud has the opportunity to make the following moves toward amplifying the impact of FPR:

Establish best practices: While the pro-rata model incentivises artists to build mass, but often passive, fanbases, the FPR model rewards artists with niche fandoms and higher proportions of superfans and active fans. SoundCloud can help establish and educate artists on the best practices for success under this model, which revolve around deepening relationships and harnessing the power of fandom. This allows artists of all levels to break free of the pressure to scale at all costs, and instead focus on what they really want: remuneration and fans.

At the moment, superstars are less likely to benefit from FPR, because they often have a lesser proportion of superfans. However, they still typically have the most superfans in absolute terms. The best practices in FPR should demonstrate the incentive of building and engaging with superfans. This can catalyse a mindset shift, where superstars act more like smaller artists — building deep relationships with fans. The opportunity is there for superstars to focus on their core community of fans and reap the rewards that the pro-rata model is unable to provide.

Building fandom beyond the streams: It is not enough to simply slap the FPR model on any streaming service. For a payment model to tie pay outs to fandom, the streaming service must be geared towards building fandom from the start. Currently, most Western streaming services offer little in the way of building and expressing fandom, and they are instead geared towards lean-back listening. SoundCloud's fandom-building tools revolve around its social aspect: fans can comment on songs, share them on their profiles, and message each other (and artists). Streaming services could take fandom one step further by, for example, allowing fans to purchase or earn digital fandom badges and physical merchandise, or giving artists the ability to instantly directly message their superfans.

SoundCloud is an optimal environment for these types of behaviours, as 48% of SoundCloud's weekly users are interested in purchasing scarce digital collectables and merchandise from their favourite artists, compared to 23% of the general population. On a platform where cultural scenes organically arise, a natural next step is to do more to make music a deeper part of a fan's identity. By using FPR to identify and connect with superfans, artists can engage in more paid, fandom-related initiatives to create additional revenue beyond the streams, enabling fans to express themselves beyond their consumption.

Address the allocator's dilemma: The growth of independent creators presents challenges as it outpaces the resources that can provide for them. For example, Universal-owned music distribution service Spinnup is removing creators and transitioning to an invite-only platform, as it is “unable to accommodate” existing users. New entrants in distribution, such as Intercept Music, charge a \$100 sign-up fee and a \$50 monthly fee that gets refunded as soon as artists cross the \$250 income threshold. These are examples of the impact that the long tail is having – vast amounts of creators earning insignificant income individually, but collectively are straining the system.

Although there are fewer artists earning \$100 in FPR, the amount of income allocated to this income bracket has increased by 34%. This is more prevalent for creators earning less than \$1, who account for 46% of creators in the sample. There was a 7% decline in the number of artists earning less than \$100. What FPR incentivises these top-tier artists to do is reimagine their relationship with their audience and hone in on engaging their superfans, rather than maximising exposure to a passive audience. Compared to pro-rata, but the income allocated to them more than doubled. Setting a threshold for income that redistributes from the long tail to the rest can become a contentious issue. Ultimately, the question we have to ask is: should extra cents for the majority come at the expense of extra dollars for the minority of creators, including those on the cusp of making a living from music? This is the allocator's dilemma and FPR will push SoundCloud to address it sooner rather than later.

The future of FPR in the fan economy

FPR has helped increase income for many creators on SoundCloud. However, the implications of FPR run far deeper than economic gains. The power of understanding the impact of superfans creates an incentive for building fandom in a way that is unmatched by the pro-rata model. The shift in the model is simply the start of a more pivotal shift in creator behaviour that is yet to come. As creators focus more on fan engagement, and if SoundCloud can build tools that facilitate it, FPR could become a catalyst for a more fulfilling and economically rewarding platform for millions of creators.



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