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Kobalt

Kobalt changed the rules of the music industry using data -- and saved it

By **KEVIN GRAY**

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Sonny Moore, AKA Skrillex, music producer, DJ and songwriter

Credit **F Scott Schafer**

Gallery: Kobalt changed the rules of the music industry using data -- and saved it

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On a winter's afternoon, in a 23rd-floor office overlooking midtown Manhattan, Willard Ahdritz flops on a low leather sofa and opens his Dell laptop. Ahdritz is a tall, pale fellow with ice-blue eyes -- a Scandinavian phenotype befitting his native Sweden. He keeps a metal Viking helmet and a sheathed sword on his window sill. "Musicians say there is no money in streaming," says Ahdritz, the founder and CEO of Kobalt Music Group, the most important music company you've never heard of. Squatting mantis-like, arms between his knees, he reaches over to the coffee table and taps on his laptop. "That's what you know, isn't it?" he says. "Well, that's wrong." He pauses, staring out from his frameless glasses. "You see, someone has lied to them." With that, Ahdritz brings up the most remarkable web portal in music-business history. It allows songwriters to view every single instance when their work is streamed on Deezer or Spotify, broadcast on radio, sold as a CD, featured in a film, played in a pub, pirated by a fan in a YouTube video, sampled in a TV show or included in a Champions League ad. That's just

about everywhere on the planet -- totalling 700,000 separate revenue streams for a single song. Ahdritz believes that such “transparency and accountability” will empower artists. This dashboard grants artists access to the notorious “black box” of record label revenues and shows them where their music is played, who is paying -- and how much. ″The portal is insane,″ says Sonny Moore, the 27-year-old DJ and producer better known as Skrillex. ″The activity feed gives me awesome feedback -- I can see that in Scandinavia they love a hardcore sound of mine. Or ′Raise Your Weapon′, a song I wrote with deadmau5 five years ago, is suddenly huge in Australia.″

The portal also acts as a clearing house for synchronisation rights, a piece of music’s use in films, TV shows or ads. ″The other day, there was a request for my song ‘Bangerang’ from a French movie producer,″ says Moore, who approved the usage in the time it takes to download a song. ″It shows the money offered and I just okayed it right there. It’s happening in real time. You used to get this ugly PDF and it took months to okay.″

Kobalt, founded in 2001 is the music industry′s back office. Its publishing arm collects royalties -- sometimes in micro-payments of less than a fraction of a penny -- for 8,000 artists around the world, generating revenues from 600,000 songs and collecting in 100 territories. Its clients include Kelly Clarkson, Grimes, Nick Cave, Gwen Stefani and songwriter/producer Dr Luke. It does the same for other music publishers -- those holding copyrights to music and lyrics. Today, the company is the top independent music publisher in the UK and the second overall (to Sony/ATV) in the US.

Its spectacular track record and growth, plus Ahdritz’s infectious passion and belief, have attracted the attention of some of the world’s leading VCs. In February, Google Ventures’ London office made Kobalt its first investment, leading a $60 million (£39m) series C round. ″We like investing in companies that transform traditional industries for the better,″ says Google Ventures president and founder Bill Maris. ″Nest, Uber and Foundation Medicine are good examples of other companies we have invested in that are similarly disruptive in that they are tackling problems or inefficiencies which are not otherwise addressed. Kobalt and Willard are changing the way artists are treated in the music business, particularly when it comes to providing trust and transparency and compensating creators for their work.″

Since launching the company, Ahdritz has been Viking-like in his assault on the big music labels, publishers and collection societies whose job -- after each taking its cut, of course -- is to gather and distribute royalties. He cheerfully tells songwriters how these entities have been ripping them off for decades. ″The music industry is historically opaque. And it still is. There is a lot of fear among artists that they’re not getting paid. I tell them, ′You are right. You’re getting screwed.′″

Here’s why: songwriters signed to big music publishers often wait up to two years to get their money after it’s been collected. They end up paying out half their gross royalties to the middle men – collection societies. And if they ask to see the books, they’re handed computer printouts that list a bulk number and little else. It’s not the kind of thing that can easily be understood -- or even audited. ″They are told, ′Don’t worry about it,′″ says Ahdritz. ″′You keep making music. We’ll handle this.′″

Ahdritz says all this is not because the labels and publishers are devious -- it′s because they are inept. Since its heyday in the early 2000s, when the music industry enjoyed $45 billion in sales, profits have plunged to a third of that. Initially, Napster took its huge, pirate bite. Then iTunes cannibalised the CD by selling individual tracks. Now, who needs to buy anything when it’s free on Spotify?

A generation of artists like Moore embrace the streaming model and, oddly, even the sharing of pirated downloads. ″My philosophy is get the music out to as many people as possible,″ Moore says. ″I spend a big part of

my career onstage. That's why I make records, to get people to shows, because I DJ. When people hear me, they want to be there."

In November 2014, Taylor Swift lashed out at the streaming model. She yanked her entire catalogue, including her newly released album *1989*, from Spotify because of the platform's razor-thin payments. (It pays about £0.005 per stream.) "I'm not willing to contribute my life's work to an experiment," Swift said.

A few days later, Ahdritz put out a press release saying Kobalt's Spotify revenue in Europe had overtaken income from iTunes downloads. Spotify's royalty payments to artists had outpaced the digital download service by 13 per cent in the first quarter last year -- suggesting there's real money in streaming. "Of course there's money in streaming," says Mark Beaven, founder and CEO of Advanced Alternative Media. His clients include Dr Luke and songwriter Noel Zancanella, who co-produced Swift's 1989 song "Welcome to New York". "The problem, is we don't have an economy with transparency."

The way Ahdritz sees it, the music industry needs an entirely new structure, not merely to survive, but also to thrive. "The industry is suffering a slow death and in order to live it must change," he says. Kobalt's technology and logic are airtight, and he has nothing less than world domination in his sights. "If you are going to track those billions of transactions on a global scale, with efficiency, you need new pipes," he says. "And right now, the pipes are broken."

Ahdritz's mission, since way before he started his company, way before iTunes and streaming, and way before YouTube, has been to fix these broken pipes. It started back in the 80s, when he helped midwife a very Swedish phenomenon: a dance-pop music craze that ended up conquering Europe.

In 1987, he launched Telegram Records, a Stockholm-based music label. His background as an accomplished jazz saxophonist and his previous work as a coder for the Swedish army made him a good fit for signing creative types and navigating the music industry's back rooms. By the early 90s, his discoveries -- including Rob'n'Raz feat. Leila K ("Got To Get") -- were helping to propel the Swedish pop/dance movement. But the good times didn't trickle down to the artists. Or, rather, the proceeds were merely a trickle. "You waited two or three years for your money," Ahdritz says. "And you could not understand the financial statements they sent. You were screwed." Eventually Clive Davis, founder of Arista, signed every one of Ahdritz's bands and took their music global.

Fed up, Ahdritz quit the business in 1993 and sold his label to Warner Music Sweden. He swapped Scandinavia and the music industry for graduate school, at New York University's Stern School of Business. After earning an MBA, he worked for seven years at LEK Consulting, a mergers and acquisitions giant. But it was while working on its British Airways account, drawing up the business plan for its low-cost carrier Go, that his own mental turntable began to spin again. "I saw how BA used tiered pricing, selling different seats for different prices, using an enormous database, and I said 'A-ha',: says Ahdritz. "We should do this with music.'"

This was at the height of Napster's peer-to-peer filesharing popularity, and although Napster did not charge for its service, Ahdritz could see a day when it, or something similar to it, would. But rather than launch his own version, Ahdritz went after the back office space. He wanted to fix the industry problems he had seen at Telegram to prevent artists having to wait years to get their money, and to let them know who was paying what.

From the start, his mantra was "accountability and transparency", a phrase he repeats often, and one that can ring hollow unless you understand the complexity of the music industry's vast ecosystem.

Let's start with a global hit -- Taylor Swift's "Shake It Off": Swift and her co-writer on the track, Max Martin, make most of their money not when she performs the song, but through publishing royalties. A major source of publishing revenues is mechanicals: CD sales, iTunes downloads or streaming (Spotify payments vary depending on whether a song is streamed on its paid version or its ad-funded free service).

Now take into account the outfits that collect these fees, and take their cuts, both domestically and internationally. Collection societies -- such as PRS for Music in the UK and BMI and Ascap in the US -- collect licensing fees for songwriters, composers and music publishers whenever their material is publicly performed or broadcast. That means on TV, radio, in pubs (there are 60,000 alone in the UK, each paying a monthly licensing fee), on podcasts, ringtones, and most recently on music and video players including Vevo, YouTube and Spotify.

After deducting their operating costs, they distribute the remaining money as royalties to the big publishing houses and the record companies, such as Universal, that have publishing arms.

Back to "Shake It Off". That song was heavily rotated on radio and in pubs. It's been covered in YouTube fan videos and parodies and played over the PA at Wembley Stadium. It's carried by more than 200 digital service providers around the globe and has been streamed on Vevo 568 million times. Vevo's streams then appear as a single revenue line in the collection society's accounting report. There are more 700,000 distinct revenue sources today. Vevo's total comprises just one single line.

When Kobalt collects royalties for an artist, it tracks thousands of data points. For a single global hit that pulled in £4.8 million in sales last year (Kobalt's confidentiality agreements prevent us naming the song), it uses up to 60 pieces of metadata -- crucial identifiers to make sure the right people get paid. These include industry codes for the song's five writers, five publishers, nine lead musicians and session musicians, 11 officially recorded versions of the song and eight official remixes. Royalties flowed in from 100 territories worldwide.

Spotify streamed it 170 million times to 3.2 million listeners before it was pulled. Kobalt collected micro-payments on each of these uses directly from these platforms, putting it up on its portal line by line in real-time. With the traditional model, the collection societies and territorial publishers gather these royalties and then pay it to the labels or artists' publishers. When they in turn pass on the artist's share, the digital heap may only appear as a single revenue line. It's not that the labels or publishers are acting dishonestly; it's that they don't possess the tools to track it and break the usage down. Money can fall through the gaps. "What would you do if you had a company putting money in the bank for you and then the bank won't tell you have much you have, or the names of the people who deposited it?" Mark Beaven says. "They only give you a bunch of accounting codes and say, 'Don't worry about it.'"

Transparency is something that the music industry has tried to dodge throughout the digital upheaval. It wasn't until September 3, 2010 -- when Eminem forced a US federal court to deal with it -- that the big labels and their artists gained some clarity. That day an appeals court decision launched dozens of artist-versus-label lawsuits seeking fairness. Eminem's production team, Mark and Jeff Bass, had sued Universal Music Group for failing to pay appropriate royalties on digital downloads of his songs. The appeals court ruled that digital downloads, on sites like iTunes, counted as licences of songs, which carry higher royalty payments than sales. Eminem's contract supplied him with 50 per cent for licence royalties versus 12 per cent for sales. Universal Music Group settled with the producers for an undisclosed sum. (One of the producers has estimated the rights to be worth up to £13.3 million, but has said they could increase over the next ten years to as much as £33.3 million.) "Historically, when you have a royalty problem with labels, you negotiate and settle," says Ahdritz. "Very few people can write that cheque to cover legal expenses. But our platform is directly integrated to the data. There are no secrets."

Kobalt collects royalty money directly from services such as Spotify, iTunes, YouTube and dozens of collection societies, cutting out the middlemen in many cases, and claiming to earn clients, on average, some 30 per cent more than they would have normally received. As a result, the portal has attracted so many of pop music's reigning royalty and hitmakers, that it can often lay claim to shares in up to half of the songs in the US and UK's weekly singles charts. "Kobalt took the position nobody wanted to take -- showing what's behind the door," says Beaven. "That's why they've gone from nowhere to number one in administration and publishing."

Nothing illustrates kobalt's power better than an experiment set up by Joel Martin. He is the manager of Eminem's former production team, FBT Productions, the company behind the Universal lawsuit. In 2002 Eminem had just released "Lose Yourself", from his movie 8 Mile, that would go on to win an Oscar. The song's writers included Eminem, Jeff Bass and Luis Resto.

Martin split collection among three outfits: Eminem stayed with his publisher, Famous Music; Bass was represented by Universal; and Resto by Kobalt. With three accounts collecting on the same song in every territory, Martin sat back and watched. "We saw in real time what was going on," he says. "When we collected money in Greece, say, we expected to see the same shares show up at the same time. That didn't happen."

What did happen was that the big publishers took twice as long to report money they collected and pay the artist, in every territory. "We would get money a full year ahead of all the major publishers through Kobalt because they

were
collecting and reporting it immediately," Martin says. "The others were sitting on it. We're talking millions of dollars here. What were they doing with it? Why were they sitting on it? They wouldn't say."

Multiply those millions across hundreds of artist deals and it starts to add up. But the damning part is that the uncollected royalties give the labels unfair leverage over artists. "If an artist needs money, he goes to the publisher for an advance," Martin says. "And the publisher says, 'OK, we'll give you an advance, but you have to re-sign with us for another three years or whatever.' But the artist's own money is sitting there in the pipeline. And the publishers are playing this game. It happens all the time. No exception."

With Kobalt, artists see money gathered in real time at the point at which it's collected -- and their account is immediately credited. Ahdritz has set it up like a cashpoint machine. "You go into the pipeline yourself, this thing you were never even allowed to see before," he says, "and deduct your money, no strings attached."

Embracing the streaming model takes a certain amount of blind faith for songwriters, not only in the ability of Kobalt to collect billions of micro-payments worth a fraction of a penny, but also in the listening habits of fans. And that may come down to a generational understanding of how the internet changes markets. "Some 12-year-old kid listening on YouTube or SoundCloud is not going to buy my records," Moore says. "If I took my stuff off, it's going to alienate my fans. They're not going to say, 'Oh crap, he's not on Spotify, I'd better go somewhere else.' They will say, 'There's other stuff on here. I'll just grab that instead.' An artist such as Swift, however, is different. Her fanbase consists of CD buyers and iTunes downloaders. "I don't look at it as missing out on record sales," Moore
says. "I look at it as a different marketplace."

In such a marketplace, the customer will decide where and how they listen to music. "Some kid does a piano cover of one my songs and gets a million views, or puts some baby lip-syncing to it, or a fan uploads my music to his *Call of Duty* video," Moore says. "Taking their shit down is just a dinosaur way of thinking. You can monetise with ads. It's good money and it promotes my music."

The only glitch with that model is that artists tend not to see their full earnings. That's because the major labels long ago demanded huge upfront fees from the streaming services -- and took equity stakes -- in exchange for access to their catalogues. "The major labels are not concerned about point of sales or access to music," says Casey Hunter, a professor at Georgetown University's Communications Culture and Technology graduate school. "They want to make money from distribution. They want cash advances or equity stakes. There are all kinds of ways to make money before music ever gets played. The problem with non-play-related income is that money is never itemised." In fact, the big three -- Sony Music, Universal Music and Warner Music -- collectively own 18 per cent of Spotify. So when it goes public, it will give a huge payday to the labels, not artists.

In December 2011, Ahdritz bought Sheffield-based startup Artists Without a Label (AWAL), a digital distribution and label services company founded in 1997. This put Kobalt in direct competition with the major labels: AWAL offers artists not only direct distribution through outlets such as iTunes, Rhapsody and Spotify, but also provides them with advanced data analytics. Clients including Beck, Moby and Karen O use the data to learn where and when their songs are playing, and plan marketing and tours around the results. It's yet another level of transparency that can boost income and allow artists to drill deeper into data that's never been accessible. Even if an artist doesn't use it, the point is it's there for all to see, and that creates deep trust. "It's not just about the portal," Beaven says. "It's about the openness and sharing and integrity of the data everywhere. You can look at this and say, 'I had five radio plays on the BBC last night,' or, 'My goodness, they played the movie I have that song in in Latvia.' You can get as specific and detailed as you want. The point is you have a trusted third party that manages the flow of the business and the payments that go along with it."

It's a model that has attracted some heavy-hitting converts, including Dave Grohl and Paul McCartney, whose near-life-size images on Kobalt marketing posters adorn the otherwise plain walls of Ahdritz's office. The business has also lured a host of savvy investors, including Michael Dell, founder and CEO of Dell computers. But Kobalt attracts criticism from its rivals for undercutting their commissions. The establishment players gripe that Ahdritz lands his clients by acting as a music-industry equivalent of Lidl or Aldi, charging a thin five per cent administration fee, far below the normal market rates of 20 to 30 per cent.

Ahdritz is a believer in the high-volume, low-price approach. Consider the success of Spotify in its home country of Sweden. It has managed to convert pirates to payers (cheap payers, to be sure: premium listeners pay just £6 a month for the privilege of hearing music without ads). So much so that piracy there has plummeted by 80 per cent since the service launched in 2009.

Of course, it's an uphill battle: the big record labels remain addicted to the wider income margins offered by the pressing, distribution and selling of CDs, the sales of which remain robust in some territories. The problem, though, is the generational shift in consuming music, particularly via mobile. "My kids don't want to buy CDs," says Ahdritz, who has three sons between the ages of seven and 16. "So many people dream that it was better before with CD sales. But kids will not buy a CD. And if people hide from that fact, and musicians withdraw their music from Spotify, you will just drive people back to a dark place again, back to piracy. Is that really good for our business?"

Ahdritz will tell anyone who will listen that he thinks the industry can bounce back from its current low of £7.8 billion a year in global sales revenue and double that figure within a few years. But it will only work, he says, by tracking down and retrieving every penny in the system, and then using "transparency and accountability" in dealing with the artists.

One of Kobalt's secret weapons in the streaming war is the proprietary software that runs ProKlaim, an online music-detection technology that sniffs out unclaimed songs in the wild west of user-generated videos on YouTube. Kobalt's program now identifies -- and monetises -- up to 1.5 billion video plays per month on the platform. Every day, data identifiers for 400,000 copyrights are programmed into ProKlaim. The algorithm then searches YouTube's database for matches. If it detects any commercial matches -- an advertising agency using a tune without permission, for example -- Kobalt goes after those responsible. If it's a fan video, YouTube often pays up. The software is so effective that it tags up to 1.5 million new videos every month.

As a result, Kobalt makes money from 400 million people. "We think in three years we can monetise one billion," says Ahdritz. "And by doing that we can double the size of the music industry: all thanks to transparency."

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