diffuse*tap*
Virtual Event Series

Content Royalties 3.0

Guest Speaker:

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DiffuseTap: Content Royalties 3.0

Last time on DiffuseTap, Genevieve Thiers, Co-Founder & CEO of Entertainmint, Inc., talked to us about the new and exciting ways that web3 is accelerating the content creator industry, how NFTs can help solve distribution and intellectual property headaches that exist today, and how web3 is redefining how content is made from ideation to release.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)... straight from your armchair like a boss.

Meet the Speaker

GENEVIEVE THIERS is the CEO and Co-Founder of Entertainmint, a web3 one-stop-shop for indie content creators that challenges the traditional streaming model with a community funding and collaborative world-building approach. Prior to this, Gen founded Sittercity, the first caregiving online marketplace in the U.S.

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KENNY ESTES: Gen, do you want to tell the folks a little bit about your background and what you're up to over at Entertainmint?

GENEVIEVE THIERS: Sure. Thank you. Well, I'll introduce myself first. Hi everyone, I'm Genevieve Thiers. I've been a marketplace builder for 20 years. I have a colleague on the call, AJ Salmen. He's our head of distribution over at Entertainmint. I'll quickly explain where it comes from. Oh and I also see Mark Vadik on the call… he is our Director of Networking! This is a great group.

Out of college, I ended up bringing childcare into web2 with Sittercity.com. We became the Match.com of childcare, raising over $56 million (with some venture debt on top) and serving 10 million users and thousands of companies before selling to Bright Horizons in 2020. I feel like I've run this race before, and I've built into a crash before. But I'm very excited to be back this time in web3, or I would say web 2.5 in the entertainment space.

Entertainmint is a collaborative storytelling platform that is decentralizing the making of long form video and content. I think of us like Netflix meets OpenSea, meets Kickstarter and Patreon. This is just the beginning. We're helping creators sell tickets into the making of their work, be it a game, a video, a series, etc.

We're also building out our own film hub so we can aid with distribution as well. You'll see that in Q3 of this year. At the heart of everything, we're essentially rebuilding ticketing. There has been a lot of talk about NFTs and what they're good for. Nowadays there is this house of cards around NFTs that we all saw, where they were being used just to bid up the value of theoretical assets.

We think there's a much bigger use for NFTs. We think that not only do they stand wonderfully as tickets with club base, tiers, and levels, but we also think that they stand as a wonderful way to package up rights and royalties. I'm very excited to talk more to you about this today. Kenny, it might make sense if I explain a little more about the situation creators are in right now, especially in long form video.

KENNY: Look at that. I don't even have to ask questions. That's the best type of Q&A. Yeah, go for it. And you could also dig on the history of royalties to give a little bit of context for the folks who aren't knee deep in that space.

GENEVIEVE: Right. So, I'm a creator. And after Sittercity, I stepped up to the board level. It was an 18-year play. It was very long. I ended up working in TV for a little while, and I've had shows on Amazon Prime. I have also experimented with funding movies and shows alongside some luminaries like Bill Macy, and learned a ton about just how much production costs have gone down and how headaches around getting something "landed" have come up. So, I've definitely lived a crazy circuit.

One of the things I realized right away as a creator is that it's awful out there. It was never great. But there was a heyday especially when Netflix, Hulu, and others were coming up where you could actually make some money.

But things have tightened and have really gotten bad, particularly post-pandemic, when we saw that 35% stock hit earlier this year. Netflix and other platforms have just gone from bad to worse for creators. What we're looking at in this industry is essentially a very polarized space. It reminds me of when I dealt with Sittercity 20 years ago. I walked in with Sittercity in the childcare world, at a time where you had to either pay $2,000 for a nanny agency, or fly your college campus pregnant on foot. There was nothing in the middle, and there was 80% of whitespace. So, we built a match.com model for 40 bucks. We connected moms to caregivers, and it was so easy. It was the majority of the space.

The same thing is going on right now with creators particularly in the video area, where we're starting. On TikTok, you have to cross this desert to get to the five top streamers: Netflix, Amazon, Hulu, HBO and Disney Plus. It's very top-down, gatekeeper-oriented right now in this streamer world. What we have is this polarized situation where creators have to make it through the desert. Hundreds and thousands of them are dying in this desert, where they might have 50,000 followers and this amazing story, but they can't put them together.

But even if they make it through the desert from TikTok or Twitch, you're in a situation where you're offered cost of production plus 30%, which means breakeven is nothing. You're thrown off your own project. You can't even visit your own set. You live with an axe over you of being canceled, and it often happens. It's a world where (theoretically)you can be paid $20,000 for your script and the studio can make 80 million, but there's no upside for the creator past that initial fee paid. That's why we're in this space and redesigning now.

KENNY: Fascinating. Okay, so you definitely have a strong web3 angle. Web3, at the end of the day, is just a technology, right? It's a ledger. It's on-chain. So, how does web3 allow for opening up and moving away from the more stratified, traditional model you were describing?

GENEVIEVE: Yeah. There are a million reasons why we're convinced that web3 is the way to do this. But the first thing that I'd say is the nature of web3 itself being decentralized, flipping things on its head. There is no reason you can't bring your content directly to fans, and why there can't be a hybrid model in the middle where there's a bridge between TikTok and Netflix. That's essentially what we're doing.

When creators come to us, we first start by offering them a development grant in exchange for equity. And then, we move them onto our platform and we aid them in selling tickets to the making of their work. This can be in tiers. We have a full multi-tiered mounting platform with follow functionality and whitelist capabilities, backend Ethereum. It's launching in 10 days, and it's gorgeous.

We also have the best of the best advising us. Under LOI for our upcoming board as well we have Loni Mahanta, the VP of tech policy for OpenSea and one of the co-founders of Netflix. I'm excited because they designed this. We make backend profit from every ticket sold as well.

But what we're looking at over here is really the backend implications of why web3 for this, and why we are better than Kickstarter. There are a lot of reasons why. Obviously, there are things like the transparency of the blockchain, the ability to add tiers, the ability to add a club-like atmosphere around ticketing, etc. But the biggest thing is rights and royalty transfer.

Thanks to smart contracts that can use an Oracle to interact with the blockchain, we might be able to transfer ownership of rights and ownership of avatars and entities across different characters, and frankly, across the world.

On the backend, we see ourselves as an IP marketplace, where we're helping creators extend all aspects of their IP. If you have just a show these days, frankly, you're kind of lazy. You're leaving IP on the table. Because right now, a show should be paired to an NFT drop, a merch drop, a gaming extension, and possibly a 3D metaverse extension. That's where the money is, and that's where we're seeing the real value.

KENNY: Fascinating. It reminds me of the 80s with the Teenage Mutant Ninja Turtles and all of the merch and IP around that. It wasn't the show itself, which we all loved, but it was the other things. Now, in virtually every crypto conversation, we talk about regulation. Is what you're doing a security? What does the regulatory environment look like with royalties in general and job creation?

GENEVIEVE: We have been examining this for nine months. Our team has done this all before. We've been all over this with a team of four lawyers, and we're learning a lot of things. First and foremost, we are selling a fan collectible.. We are not a security. One of the things we've learned early on is that a lot of creators are examining Reg CF and Reg A+. Reg CF seems to be winning the crowdfunding regulation where there is some KYC and some regulations, but it's not too expensive to do.

For builders like me, I'd say go for Reg A+, for which precedent hasn't been established yet. It's more like a million dollars to get started on that, versus last night, I heard from a founder who is using Reg CF, and he said it was about 200,000 to build that up with legal regulations and filings.

It's a lot to think about how to protect yourself, especially when we're not a security. But this is a big argument right now along the lines of rights and royalty regulations. I'm sure a lot of you probably know that Bored Ape and Yuga Labs have been approached by the SEC, and there's a real issue there. One of the things we're studying here at length is the idea of rights management across characters.

Because in our world, we want people not just to sell tickets into the making of their show when they've already got a script. In my dream, we have a big-time creator come onto our site in six months, and they says, “Hi, everyone. I'm making a world. Here's my character. Here's a couple of rules of the world. And here's 30-question boxes. Come on, make a character alongside me and we’ll co-create a story together.” That's what we're dreaming of. And we're not the only ones.

There is an experiment called Adimverse by the guy who did “It's Always Sunny in Philadelphia'', and they were funded 5 million by a16z, where they have 100 writers in a writers room all creating their own OG characters. And then, 10% of the writers room is spinning off to make their own sub characters of the world. The entire experiment is how we manage rights management across these characters. I think this experiment is amazing and we are watching it very carefully.

It turns out that the SEC sees Bored Ape as a security. I think we all know the story of how Bored Ape thought they gave IP rights to different holders in their terms of use. And then it turns out, it's not so clear. They straddle a line where they're not just a collectible and a membership. And then, they tried to say "we're selling securities. We're selling business prospects. We'll transfer your property, and you can make a derivative IP." However, copyright law doesn't actually facilitate that process right now. You need to have a signature according to law, or a license to transfer rights in that way. The exchanges don't provide for a real signature in their process.

Not only is it true that Bored Ape is maybe not what it says, but these rights may not have been transferred. And frankly, they're changing their Terms of Use right now over this. But also, what is a contract now? I mean, theoretically, they could be a security...? Everyone's trying to figure it out.

KENNY: Fascinating. Picking up a thread from the chat with Andy Harrison here, let's talk about data. Is data part of the IP? And then, what are you enabling? Or what do you see as the future for content producers, and how they can use their data in an effective way?

GENEVIEVE: it's a little more, I would say. Before you talk about data and the actual wording of contracts, you have to talk about how things are recorded on the blockchain and the fact that we truly are decentralized for the first time. It's wild because all the way back to cavemen times, we've always had a centralized ledger. There's this idea of "I have collected X amount of nuts and berries", and there was always somebody in the cave figuring out "how many nuts and berries do we have? Can we survive?"

This is truly the first time we've ever experimented with true decentralization, and it's wild. So, something we've been studying over here is the Ricardian contract. It's the idea of what a smart contract is, essentially. It's not really a contract with words that are legally executable. It's an execution handle based on an Oracle. A smart contract is essentially a trigger.

It says if this happens, then transfer this, or do this, or cut this off. It's not a human-readable, court-interpretable contract. It's an execution-handled trigger by an Oracle and the blockchain. Can rights be implied? Yes. But can you actually track this thing? It's unclear. In the end, the issue that we're dealing with is tax. For any material amount of funds transferred as a royalty, you still have to deal with the fact that we have governments, and we have literal country limits. And taxes.

So, in terms of data, one of the problems that we're seeing in rights and royalties data collection, is the fact that in the end, you do have to report a transfer of rights and funds if it is a security. You have to record that this transaction happened, and that it happened within these limits, and that it didn't go to human trafficking, or ISIS, or anything like that. And that it happened here with the transfer from X to Y. This is the real issue because it doesn't work very well with Blockchain.

This was something that I've been talking to Josh Lawler at Zuber Lawler about. He has a book coming out on IP rights, royalty, transmission, etc. across smart contracts. I urge you to buy it when it's out. He's been talking about rights and royalty in terms of a pure state data collection, but not data collection, including who owns what, and the characteristics of a character that's a secondary function. For us to actually be able to track rights and royalties like that, the data needs to be in a pure state. This doesn't exist yet.

But we need some kind of profit or nonprofit organization that can do global KYC every 30 days, and can whitelist wallets for people and know who you are, and know your social security number, but not broadcast your ID. Essentially, to do a zero knowledge proof, where we know this person's okay. We know they're not trafficking with ISIS. But we also are not going to broadcast their identity.

And then, to track that data of who transfers to who within which limits, that has to be tracked as well before we can truly track royalties in any of that. We've got to actually figure out this zero knowledge proof and whether it's on-chain. It's hard because by nature, Blockchain is permissionless. This would be more of a permission-based system. Somebody's going to knock this out from a data perspective. And until that's done, we can't really move ahead with the rest of the data that we need to transfer, which is the right side and the royalty side.

It's hard. Web3 is really beautiful in all the innovation it brings, but I think that the next generation of builders need to "back it into" the real world to make sure it can survive. You just can't ignore country limits and taxes. You just can't ignore that some funds might be going to trafficking and ISIS. The existing rules are there for a reason, and we need to make sure to weave web3 into them to make sure it can eventually balance out.

KENNY: Fascinating. You talked a little bit about how it's hard and that you need to have a permission system in this new world paradigm you're envisioning or trying to create. What are some of the other risks? What are the potential pitfalls that the industry and the content owners have to watch out for?

GENEVIEVE: Well, I would say that as a CEO, what keeps me and our team up at night is the SEC. Yes, we're worried about the SEC. We're very worried about them pointing fingers and deciding that this is a security, even though we are NOT, and that's the hardest thing. We truly are a fan collectible right now. We are not doing fractionalization yet. We will do fractionalization where you can all co-own a part of the next "Stranger Things". We will do that, but we're not doing it yet. That's an ax hanging over everyone's head.

We're all shuffling around trying to figure out how to avoid that...here's an example. We're halfway through a tokenomics plan with a dual incorporation and BVI, and we're still not sure if that's the protection we need or Reg CF. We don't know. It's very hard to build right now.

But I'd say the other thing everyone's worried about is fraud and protection. When you deal with building in this way, one of the problems you deal with is what's called gold dust.

For example, let's say we have a creator come on to our site, and they are trying to raise for a project. They want to make a pilot and they want to raise $80,000. And so, we put together multi-tier ticketing, but they don't make it. Like Kickstarter, we have to have a process where they set their goal, but then they set their percentage success rate. They might say we need this, but at 85% we can make it, and then I'll run this for three months. That is their draw period.

But if they don't make it, we have to build out a cancellation procedure that goes through and allows you to get refunds for your NFT sale as a fan, and we are certain that only 5% of fans will ever collect their refunds. I mean, people are just lazy like that. So, the problem is you have to build up procedures so that that gold dust can't be mined later through fraud. Certain hackers have become amazing at entering websites and platforms using this tactic.

Also, if we had a $5 million movie, how do we stop someone from coming on and using us to literally do a rug pull? We have to set up gates so that we release tranches of money at different times through a QA procedure, so that no one can game it. It's exhausting. You have to think about every way someone could break this and get ahead of them from the start. But we're good at this. We have been using QA for years to make sure that childcare transferred effectively from web1 to web2. So at least our team has seen everything and done it before.

I hope everyone here can head to Entertainmint.com and see the site when it goes live on December 15th. It's gorgeous :) Thanks for having me, everyone!

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Corporate Director, CME Group

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CEO & Founder, LionShare Media

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Raj Mukherjee J.D.

VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. Read on

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