



UNDERGROUNDHIPHOP.COM

As Undergroundhiphop.com (UGHH) approached its 10th anniversary, company founder Adam Walder felt he had reached a crossroads. Although UGHH was the leading source of independent hip-hop on the Internet, company revenues remained small compared to major online music retailers. The opening of a storefront in 2005 helped create new opportunities within the music industry, but also proved to be a drain on company resources.

Adam was proud of the fact that his company had remained debt free throughout its history. Now, he wondered if such a conservative financial strategy was limiting its potential. UGHH desperately needed to hire programmers, designers, and managers to keep up with new technological developments and social trends, such as music downloads, blogs, and online social networking. Yet the cost of running a bricks and mortar retail store left little to invest in other areas of the business.

Despite these challenges, 2007 promised to be an interesting year. Adam had a number of exciting new ideas for growing the business, ranging from franchising opportunities to the creation of a reality TV show. The question was, which should he pursue and how should he finance them.

BACKGROUND

In high school, Adam Walder worked part time as a music store clerk, where, one day, he met a radio disk jockey from Rutgers University Radio. The station transmitted to a 25-mile radius around New Brunswick, New Jersey, and, like most college stations, offered an eclectic mix of content. Adam used the opportunity to solicit a position at the station. Soon afterward, he found himself hosting the "Monday B-Side," a popular Monday night hip-hop program broadcast between 10 PM and midnight.

After graduating high school in 1995, Adam attended Northeastern University in Boston, Massachusetts, where he majored in business administration and information technology. At first, he was eager to work at the Northeastern

radio station. However, when the station insisted that he take the 3 AM to 6 AM slot, he quickly realized that it was not to his liking. “I had an ego by then,” he explained with a slight note of resentment. “I went from one of the top shows in New Jersey to a slot where nobody was going to hear me.”

After about 10 weeks, Adam quit his position at the radio station. Nevertheless, music companies continued sending promo albums, which he gladly added to an already extensive record and CD collection from his days with Rutgers University Radio.

Around the same time, a high school friend who had moved to California called Adam on the phone and told him about a new Internet homepage he had created. It was a simple page that simply said, “Yo, Adam, what’s up.” But at a time when the World Wide Web was in its infancy, it was a revelation. Although at that time, nearly everything on the Internet was text based, Adam thought to himself, “if I can see this in Boston, I can give this web address to anyone in the world and they can see it. I’ve got to learn how to do this.”

Adam immediately delved into HTML (see Glossary for technical definitions). Soon after, he created a homepage highlighting his career as a disk jockey. At first, he directed the page to family and friends. Later, he began to compile an index of promotional music that record companies had sent him over the years. Some listings included audio files that allowed users to stream music directly to their computers in WAV or RealAudio format.

At the time, Adam Walder’s personal homepage was the only site in the world that had streaming audio of independent hip-hop. As Internet users began to discover the site, its popularity increased. He soon realized that he could reach far more listeners through the Internet than he ever could as a college radio disk jockey.

I just wanted people to hear my music. Even though I wasn’t being heard personally, people all over the world were hearing the music I loved. I had a tracker that told me where visitors were located, and some were from countries I had never even heard of. Before that, I had no idea that hip-hop was a worldwide phenomenon.

The website also provided Adam with greater freedom to manage his time and focus on his studies.

I could do things on my own terms. I didn’t have to do it from 3 AM to 6 AM. I could do it between classes. It was amazing. I couldn’t do that with regular radio.

Toward the end of 1996, Adam began receiving emails from listeners who wanted to hear old-school rap, rather than just the new promos he received from record companies. As a result, he began to catalog his entire record collection of several thousand albums. He also added streaming music of exclusive tracks that he had recorded live as a disk jockey at Rutgers University.

Artists would appear on my show and “freestyle,” which means they come up to the microphone and just rhyme. So this was exclusive content and people loved it. And I loved it because I was reliving my memories.

I began working on the website every free second of every day. It had to be at least 10 hours a day. While my roommates were playing video games, I was on the website doing updates. I wasn’t getting paid a dime and didn’t want to get paid a dime. The idea of making this into a business had not even entered my mind.

Although other sites devoted to hip-hop began to appear on the web, nearly all focused exclusively on well-known artists and top-40 hits. Underground hip-hop was different. By being against the mainstream, the site appealed to college students who wanted to rebel against the ordinary. “These were the kids who wore Che Guevara shirts,” Adam explained.

Forget the masses and the mainstream stations. We want to be underground and independent. That’s why college radio fits so well, because it’s grass roots. People who like that kind of music also like this kind of music. They felt like it was their duty to make sure our website was known.

In January 1997, Adam added a message board using free third-party software. Traffic immediately doubled to more than 2,000 visitors a day as members frequented the site to post comments about their favorite music.

The best thing was that I didn’t have to do anything. Members created the content. All I had to do was give them a place to talk. And not only did our traffic double, but artists began posting messages to fans. It became an online hangout for fans and artists.

When I was a kid, if I was a fan, the only way I would meet musicians was to write a letter, maybe to management, and hope they read it. Now you can go on the Internet to a MySpace page and literally converse with your favorite musician. When I started the message board, this was unheard of.

A Mini-Portal for Underground Hip-Hop

As late as February 1998, Adam's website had been hosted by a free web service called Geocities. In late 1997, Geocities began experimenting with new ways to generate revenue, such as posting conspicuous banner advertisements. Although casual hobbyists tolerated the changes, for Adam they were a major annoyance. In addition, users had a hard time remembering the site's archaic Geocities web address.¹

Around the same time, web portals had become fashionable among Internet companies like Yahoo, AltaVista, and Lycos. The idea was to become a destination where Internet users could carry out a number of activities, such as shopping, reading news articles, and sending e-mail. By attracting users to spend more time on a given portal, Internet companies hoped to increase online sales of products and services and deliver more revenue-generating banner advertisements.

Adam wanted his site to become a mini-portal for independent hip-hop music. Users could search for music they liked, listen to audio samples and streaming radio, chat with artists and other fans, and post questions and comments on the discussion board. He also wanted to become the first hip-hop site to offer online music purchases.

With the help of a friend who worked for an IT company and who understood networking, Adam built an inexpensive server and hooked it up to the high-speed Internet line in his dormitory room. Although the server consumed as much as 80 percent of the allotted bandwidth for the dormitory, nobody complained.

After transferring the site from Geocities, the next step was to register a domain name. Adam soon discovered that other web sites had already registered the most obvious names, such as hiphop.com and rap.com. Adam finally settled on Undergroundhiphop.com. "At the time, I didn't think it was that great of a name," he admitted.

Now if you ask people, "What is the best thing about Adam's website?" they will invariably say, "He has the best domain name in the world." Anyone who goes on a search engine and looks for underground hip-hop or for an underground artist will find our website in the search results, because the keywords are part of the company name.

¹ The URL for Underground Hip Hop was initially www.geocities.com/diskjockeyquest97/adamshomepage/undergroundhiphop.

Creating an Online Community

Within a few months of registering the domain name, traffic increased to more than 5,000 visitors a day. At the same time, Adam began to receive e-mails from fans volunteering to help maintain the site. Some offered to moderate the message boards, while others offered to write reviews. When one developed the company logo as part of a \$100 contest, he initially refused the prize. He finally agreed to take \$50 if UGHH gave the other \$50 to the runner-up. “We regularly have about 10 volunteer reviewers from all over the world,” Adam explained.

All they want is for their name and e-mail address to appear next to the review so that when they go for job interviews they can say, “I was a reviewer for Underground Hip-Hop, one of the fastest growing hip-hop music sites on the Internet.” They also get to show their friends that they are part of this cool website, which is important for many high school and college kids.

To help support the site, Adam began to post third party banner ads, which by the end of the year generated about \$1,000 per month.

This was pure profit. I didn’t have any expenses, since I was using the university Internet line and had no payroll. It sure beat work-study at \$40 a week.

Online Music Sales

The two major music copyright organizations complained to Adam about the free availability of music on UGHH. They argued that audio streams posted on the site were violating copyright. Meanwhile, more users began to ask how they could purchase the music they heard on the site. Adam realized that if he sold music through his website, he could argue that the site was not broadcasting or distributing music, but promoting legitimate sales.

We didn’t allow users to download music, since it was streaming only. But I explained to the copyright lawyers that customers wanted to listen to the music before they bought it. What is wrong with that? Besides, the record labels weren’t complaining. They wanted their music heard. It was ASCAP and BMI who were complaining.²

² The American Society of Composers, Authors, and Publishers (ASCAP) and Broadcast Music Incorporated (BMI) were competing organizations that sought to protect music copyrights on behalf of members by requiring broadcasters and third party performers to obtain licenses.

I said, “How can you tell me not to put music on the web site, when the record labels want me to? Give me a list of all the people you represent and a list of all the songs from them that you see on my web site, and I will remove them, because those are not the people I am trying to represent.”

I am trying to represent underground artists, not people like Eminem, Dr. Dre, and Missy Elliott. If I’m running into trouble because there are songs from 10 artists among the 30,000 songs on the site, and they want me to pay ridiculous royalties, I don’t want to represent them.

In August 1999, at the beginning of his senior year in college, Adam opened an online store (see Exhibit 1). Using \$1,500 in personal savings, he purchased a small inventory of the site’s more popular albums. Between August and December, Underground Hip-Hop posted revenues of \$24,000 (see Exhibits 2 & 3).

This was pretty crazy for a student in dorms. During lunch, my roommates and friends were packing orders. I would go to the post office on roller blades with 50-gallon garbage bags filled to the brim with orders. It was the most absurd thing ever. But I was living my dream. It was really happening.

The Rise and Fall of Grand Royal

In November 1999, Adam received a call from an Internet startup called den.net. Den provided high quality streaming video content over the Internet with the intent of competing against broadcast television. In 1999, the company was on a spending spree as it tried to acquire content providers. They saw UGHH as another opportunity to expand their Internet offerings and reach new audiences.

Adam was thrilled by the idea of participating in such a well-respected and quickly growing venture. Yet, when he met with the company’s executives in Los Angeles, he quickly realized that Den would not be around much longer. The company had been spending \$20 million a month and would soon run out of cash. A number of executives had already defected to Grand Royal, a record label owned by the Beastie Boys.

The Beastie Boys was the best-known all-white hip-hop group. They founded Grand Royal in 1992 after leaving Def Jam Records.³ The company promoted itself through a self-titled magazine focused on hip-hop. Grand Royal

³ Founded in 1984, Def Jam grew to be the leading hip-hop music label. Universal Music acquired Def Jam in 1998.

magazine was arguably the best hip-hop magazine in the industry and fans eagerly awaited each new issue. Soon however, the demand for subscriptions overwhelmed the editorial department. New issues were often late and over budget.

In 1997, Grand Royal created a website to catalog its albums. Although it contained artist biographies and listings of new releases and concerts, it lacked the compelling content needed to drive traffic to the site. Then in 1999, the company decided to resolve its publishing problems by distributing Grand Royal magazine through the Internet, while also offering to sell music and branded merchandise. Grand Royal began to show interest in UGHH after articles about Adam and his company appeared in Rolling Stone magazine and Sony Style.

Grand Royal contacted Adam with an offer to purchase 50 percent of Undergroundhiphop.com in exchange for a \$100,000 per year salary for 3 years, a \$150,000 signing bonus, funding to improve the website, and an office at Grand Royal in Los Angeles.

Anything I needed, they were going to give me. For a college kid, \$450,000 is a lot of money. I was also getting a big ego. I had one of the members of the Beastie Boys, one of the most famous groups in the world, calling my dorm room. It was the biggest high in my life. I loved to see my friends' reactions when I would say, "You guys, I am talking to the Beastie Boys on the phone. Can you keep it down?"

Elation gradually turned to disappointment as Grand Royal began modifying the contract to offer less while demanding more. In June 2000, Adam hired a lawyer to negotiate on his behalf.

I couldn't look for a job because I was expecting to have a 3-year contract with Grand Royal. EMusic, which after iTunes is the biggest mp3 store around, was interested in my company. But I couldn't talk to them because the Beastie Boys were going to own at least 50 percent of the company. Third, I couldn't look for an apartment because I was supposed to move to California. I was basically a puppet at this point. I couldn't do anything.

In August, Grand Royal called off the deal, citing irreconcilable differences. When he learned the news, Adam turned pale and became nauseous. In one moment, his dream had been crushed. Though the dream of a glamorous life in L.A. had slipped through his fingers, Adam soon realized that it had been for the best. Even before Grand Royal pulled out of the negotiations, Internet companies had begun to face a liquidity crisis. Venture capital suddenly

became scarce, while investors tried to unload holdings in Internet-based companies.

Between March and November, the technology laden NASDAQ exchange lost nearly half its value. One by one, Internet companies became insolvent. Firms that once epitomized the hopes of a new economy became its first casualties. Companies such as Pets.com, eToys, Value America, and Webvan were relegated to history. When Grand Royal joined them, no one was surprised. The company's trustees eventually sold its remaining assets for \$65,000.

Independence

In 2001, Adam married Lynn Ivers, another Northeastern University student who ran an Internet store specializing in custom engraved gifts. Together they tried to obtain warehouse space for their rapidly growing enterprises, but property owners were reluctant to rent space to a younger couple who lacked substantial assets or established credit histories.

At first, they tried to run both businesses out of their home until they ran into space limitations. "Records and CDs were everywhere," Adam recalled. "I swear the wood floor was about to collapse because it was so heavy with product."

We were there for about five months. I remember being out on our three-season porch in 90-degree weather, packing orders in my shorts. In the winter, we had a portable heater, but it was still so cold we had to pack orders with winter gloves. I always wondered what customers would think if they knew how much we went through to pack their CDs.

Eventually, the Walders found space through a family friend who understood their situation. At first, the 1,100-ft² space seemed more than ample. Then, at the behest of customers, UGHH began to offer international shipping. Orders immediately jumped by more than 30 percent. And since US prices were much lower, some European customers began ordering large quantities of CDs for resale on eBay Europe. Within six months, the company had once again run out of warehouse space.

The Retail Store

In June 2005, UGHH opened a 2,600-ft²-store front in Boston. In doing so, Adam hoped to overcome several problems. The company's employees did not like working out of a warehouse in an industrial area of Boston. Out-of-town

artists needed a place to sign autographs and give live performances. And the company needed a more visible presence in the community.

By opening a store, UGHH was also entitled to join Nielsen SoundScan, an information system that tracked North American music sales through 14,000 affiliated retail stores. Billboard magazine and other news sources in the music industry used SoundScan as the basis for music charts, such as the “Top 40” singles. Once UGHH became a member, major record labels began to offer promotional incentives, such as free CDs and in-store visits by major hip-hop artists (see Exhibit 4).

The record labels used to care less whether or not we had the latest stuff. Now they make sure we have it. For example, Lupe Fiasco is the newest prodigy of Kanye West. When he released his CD, the record label made sure we had autographed booklets, a bonus CD, stickers, a download card and a bunch of other free stuff to give away. People could go to Virgin Megastores and buy the CD, or they could buy it online from us and get all this free stuff. We sold 80 copies of the CD during the first week when normally we would only sell five or six.

For the labels, it is all about numbers. However, it works both ways. The store gets promoted because the events are announced on the radio, on the artist’s official website, and through flyers. All these fans come to our store, they watch the show, and they purchase the music. It’s a win-win situation.

On the other hand, Adam also understood that traditional stores posed different challenges compared to online stores. For one, CDs were high theft items because shoplifters could easily conceal them. Also, customers often damaged display goods through improper handling. While competitors allowed customers to place records on turntables, Adam discouraged the practice. “If I am shipping to a customer in Japan who pays \$20 to ship one record, and it arrives open with finger prints on it, that customer is not going to be happy.”

Lynn offered Adam a solution based on her experience shopping at large retail chains.

About seven months ago, I went to Virgin Records looking for a CD. It took forever to find it on their tiny music terminal. Then, when I found the CD and tried to listen to it, it would only play a very tiny snippet that wasn’t even the part of the song that I recognized. It was a complete waste of time.

You record all the music you sell [through the online store]. When people search through that, they know what they are

buying. Why not bring the same Internet experience into the retail store?

Adam agreed. Instead of a large storefront with shelves of records and CDs, UGHH had a small display of the most popular albums. Customers were directed to a bank of computer terminals, each with its own professional quality set of disk jockey headphones. Through these terminals, customers could navigate a collection of more than 12,000 album titles complete with pictures, audio samples, track listings and cover art (see Exhibit 5).

For the most part, the concept of bringing the online experience into the storefront was a success. Some customers spent hours at the terminals sampling new music or listening to their favorite artists. "I'd rather have people hanging out at the terminals," Adam observed. "Then when people walk by, they wonder what is going on."

Some customers had never used a computer before and did not understand the concept of ordering through terminals. Adam tried to emphasize the importance of customer service to his employees, and encouraged them to provide as much technical support to customers as needed. He also gradually began to increase the amount of merchandise on display in the storefront. "People were coming in and thinking that we have nothing," he explained. "And they are never going to come back unless the sales clerk explains how the store is set up."

To purchase an album, a customer initiated a checkout process that was nearly identical to an online purchase, except for the final payment screen, which was completed by the store clerk. Upon payment, merchandise was pulled from the warehouse and immediately delivered to the customer. "We got the idea from the Boston Public Library," Lynn explained.

Their books are very valuable. So you have to give the librarians a list of what you want and they go back to the stacks and bring the books to you.

This system also helped reduce theft and breakage, while providing customers with access to a much larger selection of music than any other retail store. It also eliminated the need to hire security guards or install electronic article surveillance gates. Despite these savings, costs increased substantially. Rent more than tripled from \$1,100 per month to \$3,600 per month. In addition, the company needed two additional full-time employees to operate the store.

Adam continued to manage the website content and programming on his own. "I was doing the programming because that was my passion," he explained.

If I were not doing this business, I probably would be a programmer. There is nothing more satisfying to me than creating something new, like a new function people can use on the message board.

Despite the growth of the site and the large amount of web traffic it attracted, Adam was reluctant to hire additional programmers.

If I hire a programmer who later quits, I might not understand what he did and I will have no idea how to fix the bugs in the code. I am also worried about how much it is going to cost to do something that I know I can do myself. I realize that to get to the next step in the growth of the company, I am eventually going to have to hire more programmers. But right now everything is kind of fine, things are getting done, and the site looks good.

Although managing the balance between the online store and the bricks and mortar store had proved challenging, the Walders felt that having a storefront increased the company's visibility within the community and its connections to the music industry. By the end of its first year, the new store accounted for approximately 12 percent of overall sales.

Inventory

UGHH purchased the majority of its albums from independent label distributors and, to a more limited extent, major labels such as BMG, Sony, and Virgin. Distributors sold discs for about \$10 each and Adam added a flat margin of \$4 on every product sold. If distributors sold vinyl LPs singles for \$4, UGHH marked them up to \$8, double LPs that were \$11 were marked up to \$15, and so on.

Consignment albums accounted for approximately 25 percent of the store's inventory. Artists paid all upfront costs to have their albums displayed on the UGHH website along with track listings and music samples. Payment was contingent on the sale of the entire inventory over an agreed period, usually one year. Often consignment albums were slower moving items and by the time the albums sold out, artists may have moved without leaving a forwarding address. Some never claimed their checks. For those who did, the average payment was \$7 to \$8 per disc. "Some albums sit on our shelves for years," Adam noted.

Others will sell out after three years. Most record labels won't pay the artists for sales that extend beyond the date in the contract. I always pay them when a disc sells out because you never know where these people might end up and I don't want

to burn any bridges. Immortal Technique is a great example. He was a consignment artist and I didn't have to pay him, but I did. Now look where he is.⁴

Other Retailers of Independent Music

Although the more successful underground artists eventually found their way onto large online retailers such as Amazon and CD Universe, the majority sold music directly to fans during live performances or through independent specialty dealers like UGHH. For the most part, independent artists struggled to make ends meet. Signing a record contract was a first step to success, but only a very small portion of the revenues generated by record sales ever reached artists.⁵

Despite these challenges, many underground record stores did not hesitate to exploit artists by selling unauthorized copies of discs and merchandise. Even when artists discovered that their albums had been pirated, financial desperation often forced them to continue doing business with unscrupulous dealers. By not engaging in such practices, Undergroundhiphop.com won the trust of artists, who often promoted the site on their personal web pages. Even best selling artists like Immortal Technique directed fans to UGHH to purchase discs.

Most underground music retailers had a very limited presence on the Internet. Those companies that had web sites lacked the online content, product selection, response time, and operational sophistication of Undergroundhiphop.com. Adam estimated that his next nearest competitor had a response time that was 10 times slower than his website. More importantly, competitors often had a difficult time fulfilling orders in a timely fashion. Some stores failed to notify customers when items were backordered or discontinued. A few shipped pirated copies in place of authentic merchandise. Adam noted,

As a customer, when you have a horrible experience like that, you say to yourself "There must be a better alternative." They'll try us and get their stuff in two or three days and say, "I can't believe it." They tell their friends and word spreads.

Customers

⁴ Felipe Coronel, a Latino rapper also known as Immortal Technique, became one of the more successful underground artists. His album *Revolutionary Vol. 2* eventually sold 29,000 copies. The single "Industrial Revolution" became the top hit on the CMJ new music chart and ranked 50th on the Billboard charts.

⁵ For more information on music industry practices, see the accompanying "Note on Hip-Hop Music."

Undergroundhiphop.com appealed more to avid consumers of rap music than to casual listeners. Initially, college students with access to high-speed Internet connections were the main users of the site. Although the customer base expanded along with the increased availability of low cost Internet services, college students continued to represent the largest percentage of customers in 2006. Lynn noted,

There is a large chasm between urban inner city African Americans who focus mainly on mainstream rap and hip-hop and middle to upper class white college kids who have embraced underground hip-hop in a cult-like fashion.

The Walders hoped to someday bridge that “chasm” and have underground hip-hop appeal to larger numbers of African American listeners. With the opening of the storefront, located half way between Boston’s large college campuses and the largely African American neighborhoods to the south of the city, they felt they had taken a first step toward meeting that goal.

EXPANSION OPTIONS

Digital Downloads

With the increasing popularity of digital music downloads for portable mp3 devices, Adam believed the next logical step for his company to take would be to offer downloads of select underground titles, many of which were not available on iTunes and other mainstream music services. As he began discussions with artists and record labels on how such an arrangement would work, he realized that his standing in the underground community gave him an advantage.

I told them that I could sell a thousand copies of your song and tell you I only sold ten. All they said was, “We trust you.” Undergroundhiphop.com has been around for a few years, and since it’s a small community, word gets around that we are a honest company.

Franchising

Another idea was to franchise bricks and mortar retail stores in other major cities. “There’s no reason why we can’t,” exclaimed Adam.

All the audio samples are set up. We have the computers set up. They could tie into digital downloads. They wouldn’t have to carry much inventory, maybe just the top 1,000 items.

Talent Management

Based on their reputation in the underground community, the Walders believed they were in a good position to become a management firm for underground artists. Talent scouts were usually flooded with demos from aspiring artists and few had the time to proactively search for new talent. Adam felt that his knowledge of the industry could greatly facilitate the process.

We are connected to this whole community of thousands of underground hip-hop artists. We could be getting them bigger deals, movie roles, and placement on video game sound tracks. We don't know who is going to be the next big thing, but we have ideas. I have an ear and an eye for who the next big artist will be. I can tell by the sound.

Also, the web site is a testing ground. You start to see the buzz around certain artists. Then as sales start to increase, it's easy to put two and two together. There is nothing stopping the labels from doing the same thing, but who has the time? The top sellers on our site are already tied to contracts with labels. Labels want to know about the top selling artists not tied to labels. That's private data.

So far, no labels have come to me asking for this data, even though I think it would be the smart thing for them to do. Right now, they only seem to be thinking about their own sales. That's just their thought process and they aren't going to dig deeper on their own. Labels rely on the "buzz" around certain artists. They see messages on MySpace and videos on YouTube. Then they find out where an artist is playing and they go see the show.

"Most traditional talent agents have people fly out to places to listen to someone's music," Lynn added. "If we did the work for them, it would be like handing it to them on a silver platter."

Many artists petitioned undergroundhiphop.com to become a record label in its own right. They disliked existing labels, and found UGHH to be much easier to work with. The Walders, however, were wary. "Personally, I think it's too risky," Lynn noted.

Most artists have an unrealistic view of the business side of record labels. Being a record label is risky because marketing and promotion can get very expensive, and you are never sure you are going to recover that money.

Over the years, Adam had seen a number of underground artists become well-known mainstream performers, but he agreed that managing both sides of the relationship would be tricky.

Eminem is one of the best examples. I interviewed him in 1998, very early in his career. It was his first online interview. Now he is as big as Britney Spears, if not bigger. But there is no remorse, because people come to our site and they see the first online interview with Eminem. They say to themselves, “Wow, these guys really know what they’re doing,” and they start looking around the site to see what else we offer.

Undergroundhiphop.com Magazine

UGHH included a significant number of articles and artist interviews on its website. Adam believed that his company’s ties to the underground community gave it an advantage if he were to create an “Underground Hip-Hop” branded magazine. Grand Royal, for example, had a very successful hip-hop magazine until the company failed in the late 1990s. Since then, hip-hop magazines have lacked the same quality that made Grand Royal successful. Adam vowed to “do it so much better.”

Radio

Streaming music attracted many listeners to the UGHH site. In addition to on-demand playback of individual music tracks, the site offered seven online radio channels, including lives shows, classic hip-hop, and new releases (see Exhibit 6).

More recently, satellite radio had become a popular medium for music fans, growing to more than 10 million subscribers in 2006. It offered many of the same benefits as online radio, namely choice and digital quality. Although both providers offered independent rock and pop music, neither XM nor Sirius included independent hip-hop among their more than 300 channels. Just as UGHH had been a pioneer in offering online music, Adam wondered if satellite radio broadcasts should be part of the natural evolution of the company. “Anything that goes with media can be what our company does,” explained Adam. “The first thing is homing in on what is going to be the next big thing, and that should be our next step,” added Lynn.

Reality Television

Reality TV was a genre of programming that began to be popular in the 1990s with the introduction of the TV show “Cops.” However, it was launch of

“Survivor” in 2000 that vaulted reality TV into the number one spot on US television, with viewership consistently above 20 million. Programs focused on unscripted real-life events and featured ordinary people rather than actors.

Following the success of Survivor, American television networks began to experiment with similar programs. Many took the place of scripted shows due to their relatively low production costs and potential to attract new viewers. Later, as competition increased, programs began to focus on niche topics, such as home improvement, automotive, adventure, and romance.

Beginning in 2002, MTV launched a number of reality shows. “Pimp My Ride” featured rap star Xzibit, who visited individuals with distressed cars. The cars were then taken to West Coast Customs, where a team of engineers, mechanics, and designers restored them to better than new condition. Another featured the daily life of former Black Sabbath member Ozzy Osbourne and his family. A third, titled “Made,” focused on teens who aspired to be famous performers. Several of Made’s more popular episodes focused on would-be rappers and break-dancers.

Adam believed that a reality show devoted to Underground Hip-Hop might attract a similar audience.

You know my story, a 29-year-old white dorky guy running the largest underground hip-hop company in the world. You have all the people I work with. Then you have a camera crew that will follow not only me, but also artists when they go on tour, and all the antics that go on.

You not only have the dynamics of running a company, which is always interesting, but you also have the dynamics of the hip-hop industry. Just look at the number of hip-hop artists that come to our store every week. The cameos and behind the scenes shots with artists would, I think, be very interesting to watch. With proper editing, it could be a great show for MTV. And just think what it would do for the company. Sales would skyrocket and more artists would want to work with us. Even if it only lasted for one season, it would be a great learning experience and a great marketing experience.

Financing the Company’s Growth

As the Walders considered the various options for growing the company, they wondered how they were going to finance its continued expansion. With traffic approaching nearly 100,000 visitors per day, the website had become

increasingly unwieldy. Still, Adam resisted hiring additional full-time programmers, choosing instead to focus on ad-hoc projects that addressed the most pressing service issues, such as developing a wish list registry and offering digital downloads of purchased music tracks.

To date, UGHH had grown through internal financing and, as a result, the company carried no debt. “Venture capitalists and angel investors want a part of the company,” Lynn noted.

Then they want to tell you how to run the company. So we have always shied away from that. We are just averse to debt, period. But as we continue to grow we don’t know the best way to finance this company.

In October 2006, a wealthy real estate developer and family friend offered to invest a considerable amount of money. However, Adam was reluctant to accept any funds without a firm plan on how to best invest it.

In my mind, it could fail. I don’t want to take the money unless I am 100 percent sure that the investment will pay off. But I also don’t want to be running an online warehouse until I am 60 years old. There has to be a next step.

Glossary⁶

Electronic article surveillance (EAS): Uses specially designed tags placed inside retail articles, such as books, CDs, and portable electronics. Unless deactivated, the tags set off an alarm as they pass through an EAS gate, usually placed at store entrances and exits.

HTML: Hypertext Markup Language. A language used to create Internet web pages. Created in the 1980s, HTML has largely been superseded by other formats, such as XML and XHTML.

Lossy data compression: A method for compressing and decompressing data. While compression involves the loss of some detail, it is not noticeable to most people under normal listening conditions. Lossy data compression is often used in streaming media and telephony applications. *

MC (also spelled emcee): Master of Ceremonies; used as the generic term for anyone who speaks over a beat, or performs songs that could be termed “rap” or “hip-hop.” †

MP3: MPEG-1 Audio Layer 3 was a popular digital audio encoding and lossy compression format, designed to reduce the amount of data required to represent audio, yet still sound like a faithful reproduction of the original uncompressed audio to most listeners. Originally invented by a team of European engineers in 1991, it later became the standard format for digital music players.*

Peer-to-peer computer network: A network relying primarily on direct connections between participants instead of centralized servers. In practice, copyrighted music and movies constituted the majority of files shared on peer-to-peer networks.*

Rip: the process of copying the audio or video data from one media form, such as Digital Versatile Disc (DVD) or Compact Disc (CD), to a computer hard drive. To conserve storage space, the copied data is usually encoded in a compressed format such as MP3*

WAV: Waveform audio format; A Microsoft and IBM audio file format standard for storing audio on PCs. With the rise of Internet file sharing, compressed formats, such as MP3, gradually replaced WAV audio.*

⁶ Sources: † *Urbandictionary.com*, * *Wikipedia.org*

Exhibit 1
An Early Version of the Undergroundhiphop.com Homepage (2000)


[Audio](#) - [Video](#) - [Store](#) - [Chat](#) - [Forums](#) - [Home](#)



[LISTEN to unreleased new singles!](#)
[CHAT with other visitors.](#)
[WIN a FREE Mix Tape!](#)

[UGHH.COM ON-LINE STORE](#)


Daily Additions (last 10 days)

17 New Singles	[Audio > New Singles]	2-25-00
Added 17 New Singles by: Adam 12 feat. Charlie Bawles of Skitzofreniks, Craig Mack, Divine Mind feat. L-Fudge, Mr. Complex, J-Love and Large Pro, K-Otix, Mad Skillz, Non Phixion, Ran Reed, and Thirstin Howl III.		
Fat Beat Advisory Radio	[Audio > Radio]	2-24-00
New radio show by DJ high-c playing a Continuous Blend of the Fattest Hip Hop including tracks by: Brassmunk, Common, Gang Starr, Insight, Mass Influence, Zion I, etc.		
Top 25	[Audio > Top 25]	2-22-00
Tons of additions and subtractions to our Top 25 listing.		
Tha World-Wide Radio Show	[Audio > Radio]	2-21-00
New radio show by DJ Opal playing hip hop from The Past To The Present feat. Non-Stop Mixing including tracks by: Bumpy Knuckles, JusOne & Hannibal Lecter, Rip Shop, Young Zee, etc.		
Contest Winner Chosen	[Win - Contest!]	2-21-00
Congratulations to Jeremy Garcia of Alamogordo, NM - USA Jeremy is the winner of our contest for week ending Monday 2/21/00. Jeremy won a FREE copy of the mixtape: DJ Next - 'A Vibe Called Next'. Enter this week's contest by clicking the link above!		
11 Instrumentals	[Audio > Instrumentals]	2-16-00
Added 11 New Instrumentals by: Afu-Ra, Afu-Ra feat. Cocoa Brovaz, Billy The Kidd feat. Defari, DJ Revolution feat. Evidence, Mass Hysteria, Obscure Disorder, Pacewon feat. DJ Revolution, Pumpkinhead (old), Reflection Eternal, Rip Shop, and Team Demolition.		
8 Old School Tracks	[Audio > Old School]	2-05-00
Added 8 Old School Tracks by: Bahamadia, Black Moon, Da King And I, Dr. Octagon, Funkmaster Flex feat. Biz Markie/ ODB/ Charlie Brown, Junior Mafia feat. Notorious B.I.G., KRS-One, and Masta Ace.		

Welcome to UndergroundHipHop.com!
Inside you will find Tons of Singles, Albums, Mix Tapes, Old School Tracks, Instrumentals, Freestyles, Videos, etc. to peep out - **ALL FOR FREE!!!** Make sure to also listen to our weekly radio shows! So come on in, turn on your speakers, and enjoy. If you would like to be on our mailing list, send us comments, report any broken links, etc., simply e-mail us. If you would like to page us via AOL Instant Messenger, our screen name is UGHHdotcom or call us at: 617.840.5285. Finally, bookmark this page (Control-D)!

your e-mail here

Here's what people are saying about UndergroundHipHop.com:

"This just might be the most extensive hip hop site on the net. It has anything and everything a true hip hop fan would want."
- Cypher 777 (Insomniac Magazine - Vol. 15)

"With this T1/Lan System I'm rockin' the old school sh*t ALL DAY in my office!"
- Very happy visitor (2/3/00)

"BELIEVE THE HYPE: the best underground hip hop site is based in Boston..."
- Phoenix Editors (Boston Phoenix Newspaper - November 5, 1999)

SJRuce: The Internet Archive (www.archive.org)

Exhibit 2
Undergroundhiphop.com Profit and Loss Statement

	2006	2005	2004	2003	2002	2001	2000	1999
SALES	1,105,971	1,029,558	705,892	425,264	263,258	175,191	120,164	24,116
COST OF GOODS SOLD								
Inventory	461,489	542,010	405,157	221,740	137,267	120,317	81,591	15,278
Shipping and Postage	149,483	142,191	80,121	42,412	26,255	20,045	12,806	2,200
TOTAL COST OF GOODS SOLD	610,971	684,201	485,278	264,152	163,522	140,362	94,397	17,478
GROSS MARGIN	495,000	345,357	220,614	161,112	99,736	34,829	25,767	6,638
OPERATING EXPENSES								
Compensation of Officers	20,000	20,000	14,000					
Salaries	201,000	119,212	28,481					
Employee Benefit Programs	12,701	5,885						
Bank Service Charges	9,962	13,010	11,088			260	203	156
Vehicle	5,636	3,969	7,038	8,279	5,125	5,494	570	463
Rent or Lease of Business Property	37,838	38,512	13,300	7,108	4,400	4,638	5,750	452
Supplies	9,420	10,536	3,490	3,387	3,413	4,297	1,866	1,187
Depreciation	2,747	1,162	3,852	3,212	2,864	1,029		
Advertising and Promotion	53,990	23,818	10,029	4,433	2,744	1,131	699	50
Internet Service						2,124	2,182	1,840
Telephone	3,817	8,097	10,397	1,871	1,158	1,741	1,333	1,192
Insurance	3,389	3,618	2,237					
Taxes and licenses	20,281	14,150	4,460	1,704	1,055			
Interest	2,105	1,646	1,850					
Miscellaneous	9,873	6,888	4,800	924	572		3,166	279
Utilities	7,215	3,968	481	693	429	704	292	773
Outside Services	725	808	12,767			4,116		
Legal and Professional Services	5,957	6,080	8,706	690	427	1,568	1,500	1,115
TOTAL OPERATING EXPENSES	406,653	281,359	136,976	32,301	22,187	27,102	17,561	7,507
OPERATING PROFIT (LOSS)	88,347	63,998	83,638	128,811	77,549	7,727	8,206	(869)

Exhibit 3
Undergroundhiphop.com Balance Sheet
As of August 31, 2006

ASSETS

CURRENT ASSETS

Petty Cash	\$ 20.00
Checking Account	(2,788.27)
Inventory	138,634.00

Total Current Assets		135,865.73
-----------------------------	--	------------

PROPERTY AND EQUIPMENT

Equipment	20,325.46
Leasehold Improvements	29,891.08
Transportation Equipment	53,678.33
Less Accumulated Depreciation	(71,732.00)

Net Property and Equipment		32,162.87
-----------------------------------	--	-----------

TOTAL ASSETS	\$	168,028.60
---------------------	-----------	------------

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts Payable		18,300.00
------------------	--	-----------

LONG TERM LIABILITIES

Notes Payable	27,373.98
Credit Cards Payable	17,161.44

Total Long Term Liabilities		44,535.42
------------------------------------	--	-----------

Total Liabilities		62,835.42
--------------------------	--	-----------

STOCKHOLDERS' EQUITY

Paid in Excess	7,825.09
Retained Earnings	97,368.09

Total Stockholders' Equity		105,193.18
-----------------------------------	--	------------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	168,028.60
---	-----------	------------

Exhibit 4
In-Store Artist Night Featuring “Dilated Peoples”



Exhibit 5
The Retail Store



Exhibit 6

UGHH Radio Streams

[UNDERGROUNDHIPHOP.COM](#)

[Audio](#) [Video](#) [Pics](#) [News](#) [Store](#)
[Forums](#) [Chat](#) [Site Map](#) [Home](#)

Home > [Audio](#) > Radio


Search

Search hours: — —

Section Description

Our radio feature plays audio for you in a small pop-up window so you can listen to non-stop, commercial free hip hop while surfing around our site, the web, etc.
 We currently offer seven channels to choose from: 'UGHH Live Radio', 'New Hip Hop', 'Not-So-New Hip Hop', 'Hip Hop Instrumentals', 'Old School Hip Hop', 'Funk/ Soul/ Disco' and 'Anything Goes Hip Hop'.
 If you like what you hear, click the 'Buy' link in the radio player to purchase the item (if available), which will redirect you to our online store.

UGHH Live Radio




Every week, we broadcast live radio shows on our site with our in-house DJ's. If you miss the live show, you can listen to the archived shows here.

New Hip Hop




This channel focuses on the newest hip hop singles, including many unreleased joints.
 Song Last Played: Snowgoons feat. Baby Blak - 'Thinking About Me'

Not-So-New Hip Hop




Dope hip hop singles that aren't new, but aren't that old either.
 Song Last Played: 40th Dimension - 'Spitsbergen'

Hip Hop Instrumentals




Perfect channel for MC's or those who like to vibe out to hip hop instrumental tracks.
 Song Last Played: Dilated Peoples - 'Live On Stage'

Old School



The dopest old school buttas to reminisce to!
 Song Last Played: Junior M.A.F.I.A. feat. Notorious B.I.G. - 'Get Money'

Funk/ Soul/ Disco



This station highlights tracks from the funk, disco, and soul golden era as well as future classics from today.
 Song Last Played: Aurra - 'Are You Single'

Anything Goes Hip Hop



Not sure which channel to choose? This channel plays something from each of the channels listed above.
 Song Last Played: East Flatbush Project feat. Ruste Juxxx - 'Ruste Juxxx'

Source: *Undergroundhiphop.com* (Nov. 7, 2006)