## Written evidence submitted by Beggars Group Limited

# Evidence to the Parliamentary Committee on Music Streaming
# 6th November 2020

Our company represents a number of independent record labels, viz. 4AD, Matador Records, XL Recordings, Young Turks Recordings, and Rough Trade Records. We are based in London, and have offices in New York and Los Angeles. We have been in business for over 40 years. We specialise in independent, alternative music, which we are happy to see stay outside of the mainstream, but which sometimes crosses over into the mainstream.

- **What are the dominant business models of platforms that offer music streaming as a service?**

  Advertising supported

  Some streaming services are free to users but include adverts to generate revenue. Spotify has an advert supported service, so too does YouTube. These services can act to funnel users towards paid for subscription services, Spotify does that very effectively, YouTube does not.

  To be successful, these services needs very serious ad selling capabilities, which are expensive to set up and really need to be nationally focused to catch a sufficient amount of advertising revenue. YouTube's ad selling capabilities in many – but certainly not all - countries is very considerable.

  Content is capable of being restricted by the content owner on these services, as compared to paid for subscription services, but this rarely happens.

  These services do have functionality restrictions however, which apply to all content and are designed to push users towards paid for subscription services.
  In terms of payments to rights holders, the services collect the advertising revenues and pay a share of them to the rightsholders.

  Paid Subscription Services

  Here, revenue is generated by the user paying a subscription fee per month or year to the service. Examples are Apple Music, Spotify, and Deezer.
  These services offer full catalogues, in contrast to audio-visual streaming services such as Netflix which offer limited but exclusive content.

Bundled Services

This category comprises some very different services but the common denominator is that here, the user pays for a range of services that includes a music streaming service.

The largest exemplar of this is Amazon Prime, where users pay per month for free delivery of Amazon goods, and get an audio-visual streaming service and music service bundled in. The content offered on Amazon Prime is not full catalogue - the music streaming service does not feature new releases.

Apple Music is also offering a bundle of its audio-visual streaming service and music streaming service, but the content available in the music streaming service is full catalogue.

Other examples of bundles are where mobile phone networks bundle a streaming service with their network connection bills. These can be very successful if given the right promotion.

- **Have new features associated with streaming platforms, such as algorithmic curation of music or company playlists, influenced consumer habits, tastes, etc?**

Yes, they have. The algorithm is now in charge, it has largely taken the place of charts, chart shows and even reviews.

Spotify in particular is very focused on utilising algorithms to deliver what they think the user will listen to. Spotify resists attempts for rights owners to promote their own recordings via third-party owned playlists on the platform. The whole ecosystem is very much Spotify's USP and they resist any non-Spotify offering. There is a clear policy to overlook albums and concentrate on individual tracks - for example on the new release page on Spotify there is no distinction between Eps, singles and albums.

Users now consume a substantial % of their music via playlists which are created by the algorithm through personalised playlists and radio features. On Spotify, anywhere from 10% to 40% for most recordings. This can be good for music discovery, but it can also lean towards the homogenous (as with all algorithms), and there is a risk that certain cheaper content is prioritised over more expensive content – and in fact in the last week Spotify announced it is going to offer rights owners the chance to get additional plays in return for accepting a discount to the amounts payable. The result of this will we fear be that the service increasingly chooses to push music according to how much it costs them.

YouTube's playlist offering is heavily curated by its own algorithm with each user experiencing their own decade and genre lists based on their consumption. Apple Music and Deezer comparatively lean towards human curation though offer For You and Flow respectively which are lean-back radio style playlists driven by algorithms.

- **<u>What has been the economic impact and long-term implications of streaming on the music industry, including for artists, record labels, record shops, etc?</u>**

  The economic impact of streaming on record labels with sufficiently sized quality catalogues has been very positive. Our own set of labels has benefited thanks to the rights it has acquired over the last 40 years. The benefit accruing to the major labels with their vast catalogues going back to the 50s has turned them into multi billion pound industries immensely attractive to investors. This is a sea change from where they were in the pre-streaming era just a few years ago.

  Similarly, some artists with good sized quality catalogues have benefited greatly. Some such artists have chosen to sell their right or income for very high prices to entities such as Hipgnosis that have access to vast funds fleeing low or negative interest rate bank accounts.

  However, for labels and artists starting out from new, the story is sometimes not so positive. The problem is that with streaming the revenue flows in a trickle but over a longer period of time, in distinct contrast to the old world of sales, where the units were mainly shifted in the first few weeks from release, and hence the income was front loaded. The marketing and promotion costs remain the same however, so somehow labels and artists have to bridge that funding gap.

  Streaming services have boosted specific types of music over others, and principally pop, hip hop and R&B, and as referred to previously have centred on the single track rather than the release. Some types of music, such as alternative guitar bands have suffered on streaming platforms due to the genre focus above.

  Record shops have somehow managed to co-exist and even benefit from streaming services, mainly by selling vinyl to enthusiasts who will also be paying for music subscription services. We believe record shops can continue to provide an essential service, by providing that human editorial that is so absent from the streaming services. However there is a concern about the long term future of record shops when the vinyl market fades away.

- **<u>How can the Government protect the industry from knock-on effects, such as increased piracy of music? Does the UK need an equivalent of the Copyright Directive?</u>**

  The government can help the industry deal with stream ripping websites and apps and other piracy activities.

  A strong copyright law and enforcement of that law is essential for creative industries to flourish in the digital economy.

  We fully supported the Copyright Directive and worked very hard to persuade MEPs to vote for it. We are however concerned about the power of the tech industry to lobby and to overturn any potential gains from new legislation. Look for example at the draft German implementation of the Directive, it actually puts rights owners in a worse place than the status quo ante the Directive.

We believe as a broad principle that tech companies should be more responsible for what happens on their platforms, be treated more as publishers, and would very much support the government legislating to make that happen. However, we know what a massive undertaking that would be, and the political will required to bring it about cannot be under stated.

- **Do alternative business models exist? How can policy favour more equitable business models?**

  There is an alternative revenue distribution model for streaming services that has been widely discussed – which apportions all of a user's subscription fee to what they have listened to (as opposed to taking total revenue and dividing it by total plays across the service). Although this might solve some issues we do have concerns about it. It only shifts some of the income around to a fairly minor degree, it does not create more revenue with the same mouths to feed and it does not mean that the revenue is distributed more equitably, but it may create more confidence in consumers that their money is going towards the artists they listen to, which would be positive.

  We support a fair minimum digital royalty rate for artists without the royalty deductions of the old sales based world.