

# Written evidence submitted by Dr Franco Mariuzzo and Dr Peter Ormosi

## Independent v major record labels: Do they compete on a level-playing streaming field?

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Response to

Call for evidence: Economics of music streaming,

UK Parliament, Digital, Culture, Media, and Sports Committee

### Summary of work

This summary is based on our paper prepared for the UK Parliament, Digital, Culture, Media, and Sports Committee call for evidence on the economics of music streaming. The paper is available for download here: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3729966](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3729966)

The paper is part of a larger project that we are currently undertaking at the Centre for Competition Policy, in which we look at music streaming in the UK. The main motivation for doing this work comes from observing the ownership structure of Spotify. Whereas traditionally streaming platforms were the middleman between the content provider and the consumer, Spotify has evolved into something altogether different. Today, all three major labels (Sony, Universal, and Warner) have direct and indirect ownership in Spotify. This poses an obvious competition policy question: can major labels use this downstream influence to make competing upstream more difficult?

Given the remuneration system of Spotify, streaming numbers (the number of times listeners stream a song) are one of the key determinants of how much revenue artists and record labels receive. Around a third of these streaming numbers come from listening time spent on Spotify-generated playlists, with another third going on user-generated playlists. Major labels have control over content dissemination through direct and indirect (through Spotify) ownership of the largest playlists. Spotify playlists are the main generator of streaming numbers. Spotify's curated lists have over three-quarters of the followers of the top 1,000 playlists; Spotify's algorithmic lists have another 9.3 percent. This ownership structure means that Spotify is no longer an independent platform, rather it resembles more a vertically integrated part of major record labels.

The important role of playlists in generating demand, and the fact that major labels directly or indirectly own a large proportion of these playlists, cast reasonable doubts over the idea that major and independent label artists play on a level playing streaming field. This would be an important research question even in normal times, but at a time of a world-wide pandemic, which effectively shut down many revenue streams for artists and left streaming as their almost exclusive source of revenue, its significance is even more pronounced. Moreover, this question has long-lasting

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potential consequences. Although currently, consumers have low-price access to an unprecedented selection of music, the long term damage can be more severe if the current revenue structure leads to a loss in music variety, as independent artists cannot recoup their investment because they are being foreclosed from receiving revenue from online streaming.

This paper is the first step in our empirical journey to collect evidence on these issues. For this, we looked at data on streaming numbers for major and independent artists. We posit that if major and independent artists are on a level playing field on Spotify's platform, then streaming numbers should grow randomly (according to the popularity of artists), in which case the limiting distribution would follow a power law distribution, which is frequently used to characterise similar man-made and natural phenomena. If this assumption holds, then the main data generating power law parameter should not change due to a change in scale (e.g. because major labels have artists with a larger fan base), and therefore should be similar for both major and independent artists. The reason why, is to do with the scale-free nature of the power law distribution, which suggests that the relative likelihood between songs with few and songs with a large number of streams is the same, no matter what choice of few and many we make.

We looked at 65 independent UK record labels and the UK affiliates of the three major labels (Sony Music UK, Universal Music UK, and Warner Records UK). We found that the relative likelihood of observing a song with many streams in comparison to a song with few streams is the same across all independent labels, and across all major labels, but it is different if one compares independent with major labels. As a counterfactual, we show that there is no difference in the distribution if one compares the most popular indy labels with less popular indy labels, or if one compares the different major labels. On the other hand, the difference between major and indy labels exists even if one only compares the most popular indy labels with major labels. To further understand what this means, we looked at a growth process that could have conceivably generated our stream counts and ran simulations that confirm that a scenario that most likely have generated the data we observe is one where major songs feature on popular Spotify playlists at a disproportionately higher rate than independent songs. We believe that given the ownership structure of Spotify, the current revenue allocation system reinforces the imbalance in the streaming playing field.

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**Peter Ormosi** is an Associate Professor of Competition Economics, and a member of the Centre for Competition Policy at the University of East Anglia. He has published in both economics and law journals of international excellence. He has provided advice and delivered various reports for the Competition and Markets Authority, the European Commission, the OECD, UNCTAD, and the World Bank on issues related to impact evaluation and the estimation of the consumer benefits of competition policy.

**Franco Mariuzzo** is an Associate Professor of Econometrics in the School of Economics at the University of East Anglia, and a member of the Centre for Competition Policy. Most of his research is in Empirical Industrial Organization and Competition Economics. He has worked on cartels, mergers, demand estimations, platform competition, and mobile applications. He has co-investigated two projects for the European Commission, DG Comp.

## About the Centre for Competition Policy

The Centre for Competition Policy (CCP) the UK's leading inter-disciplinary centre focused on competition, regulation and consumer policy. CCP conducts independent policy-relevant research, organises bespoke professional development and provides specialist events such as conferences, workshops and seminars. We bring together experts, government officials and practitioners from the fields of business, economics, law and political science to create and communicate high-quality research. CCP was established in 2004 as a 10-year Centre of Research Excellence funded by a major UK research council. Since 2014, the centre has been self-funding from a wide range of research, consultancy, training and related activities. Many of our members have substantial in-agency competition experience and substantial competition authority consulting experience. CCP has close links with, but is independent of, a wide range of regulatory authorities, government bodies and private sector practitioners, including the European Commission, the OECD and within the UK, the Competition and Markets Authority (CMA), the Financial Conduct Authority (FCA), Ofcom (the telecom and media regulator), Ofgem (the energy regulator), Ofwat (the water regulator) and the Department for Business, Energy and Industrial Strategy (BEIS).

Reflecting the centre's leadership, frontier work and practical focus it receives gold sponsorship from the international law firm Clifford Chance, subject to maintaining full independence. While based in the UK, the CCP has extensive international links and in the past five years has undertaken projects for the European Commission (DG Competition and DG Justice), the OECD, APEC, the Centre on Regulation in Europe (CERRE), the Danish Competition Authority, the European Consumer Organisation (BEUC), Germany's Markenverband and the University of Johannesburg.

CCP currently has 41 associated faculty members (from Economics, Law, Business and Political Science) who, in addition to their research, teach on undergraduate and postgraduate programmes within the University; 24 research student members; and is supported by two administrators. CCP hosts an annual conference which draws an international audience of more than 150 delegates (the last conference had 600 registrations, more than half from outside the UK), as well as other ad hoc conferences and workshops, in particular for UK government departments and regulatory bodies who are members of our Subscription Membership Scheme. CCP also produces a biannual Research Bulletin, a blog ([competitionpolicy.wordpress.com](http://competitionpolicy.wordpress.com)) and twitter feed (@ccp\_uea) to effectively communicate our current research to a wide audience. More information about the Centre can be found at <http://competitionpolicy.ac.uk/>.

Various CCP members have done works relevant to the music industry and streaming platforms. Some of their most relevant papers are:

Hviid, Morten, Simone Schroff and John Street, 2016, "Regulating Collective Management Organisations by Competition: an Incomplete Answer to the Licensing Problem?", 7 JIPITEC 256-270. [previously CREATE Working Paper 2016/03]

Jacques, Sabine, Garstka, Krzysztof Kornel, Hviid, Morten and Street, John, 2018, Automated anti-piracy systems as copyright enforcement mechanism: a need to consider cultural diversity, European Intellectual Property Review 40, 4.

Jacques, Sabine, Garstka, Krzysztof Kornel, Hviid, Morten and Street, John, 2018, An empirical study on the use of automated anti-piracy systems and the consequences for cultural diversity, SCRIPTed (IP special issue) 15:2, 277–312.

Hviid, Morten, Sofia Izquierdo Sanchez and Sabine Jacques, 2018, "Digitalisation and intermediaries in the Music Industry", SCRIPTed (IP special issue) 15:2, 242–276 [Previously CREATE working paper, 2017/07].

Fletcher, A. (2020). Market Investigations for Digital Platforms: Panacea or Complement? CCP Working Paper 20-06.