

## **Written evidence submitted by Aubrey Brocklebank**

### **The economics of music streaming from the perspective of an investment analyst**

I am an investment analyst, and I work at a fund which invests according to ESG principles, and is a signatory to the UNPRI, (United Nations Principles of Responsible Investing)

I am also a failed (but still aspiring) musician.

Spotify (and other streaming businesses) can not in my understanding be defined as “ESG”. These do not meet my criteria for being ‘sustainable’. There is obviously a degree of subjectivity in this statement, though I will try and elucidate as to why this is the case.

### **Paying musicians next to nothing harms music**

First and foremost: it is clear that Spotify serves only the very biggest of celebrity artists. Many smaller acts, and niche artists can not afford to ply their trade under the economics of Spotify.

I know that there are many submissions to this investigation that will go into detail as to how uneconomical it is for such artists.

This is supported by the Music Ally interview with Daniel Ek, where he basically states that artists need to produce more content. This will obviously have a deleterious effect on music.

If musicians can't take time over their craft then all we will be left with is “three chords and the truth”, although that truth will be yet another clichéd dirge.

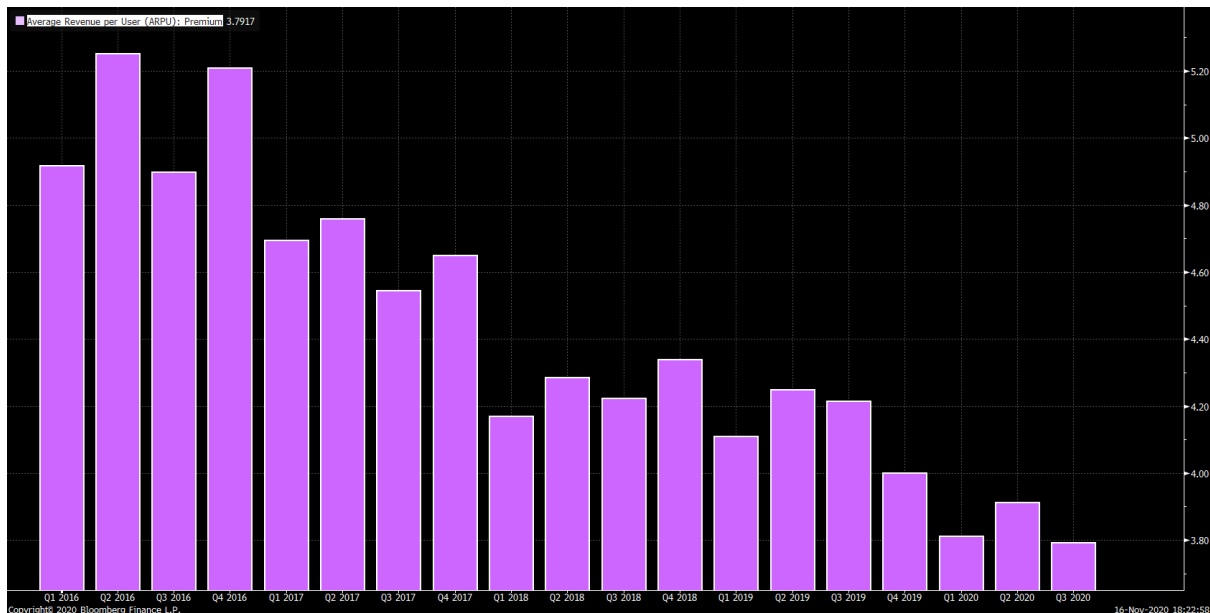
Of course there will still be some artists that can afford to take time over their art because they come from wealthy families. But that is equally not desirable.

As an investor do I wish to contribute to the decline and demise of good music? Do I wish to partner with businesses that treat artists as gig-economy workers (I don't want to invest in any business that employs sub-standard labour relations).

### **Streaming ASPs perpetuate the effects of Piracy**

Spotify has a ludicrously low ASP. We tend to think of the fee as being £10 as that is the headline number.

However as the below chart from Bloomberg shows, it is actually much lower.



£3.80 for unlimited access to over 50 million tracks.

This is what users would pay to aggregate all their stolen/pirated library; to access playlists (and not to mention podcasts). Thus users are not actually paying for the music itself.

Of course the consumer surplus created here is great. However it is at the expense of the metaphorical golden goose.

The key to this argument however is that this is resultant from piracy. Sean Parker of Napster admits to this here:

<https://promusicmagazine.com/interview-guy-killed-music-industry/>

So the point is because of the States failure to prosecute piracy music was priced as being worthless.

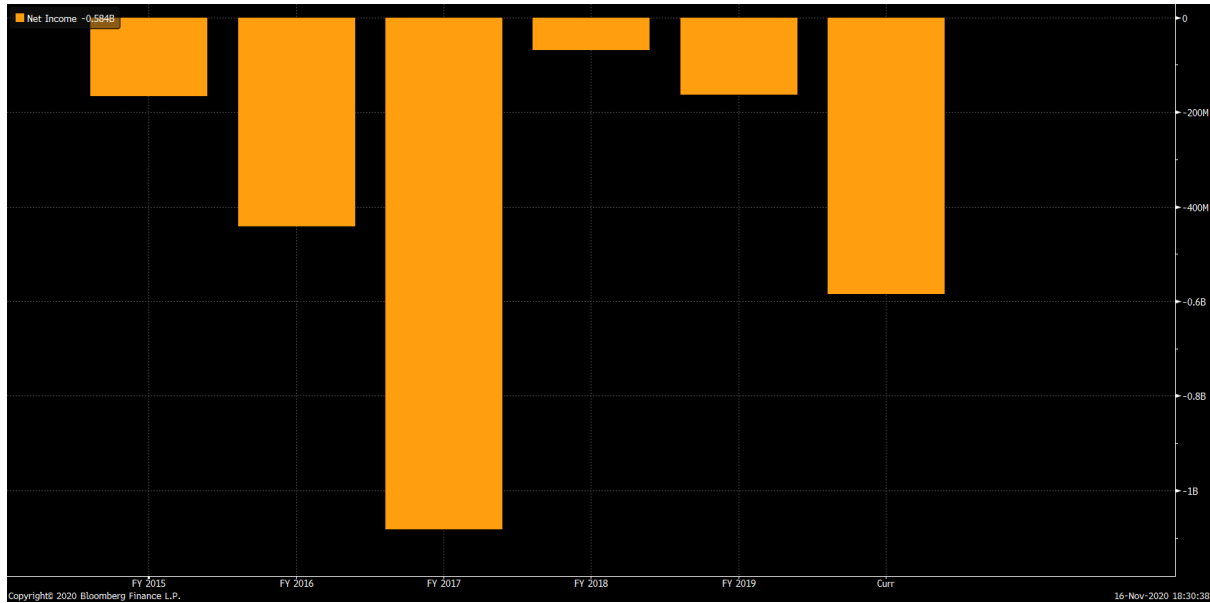
Spotify would not be able to get away with an ARPU of £3.80 has the government done its job and prosecuted those who broke the law.

Can anyone imagine how Apple would have responded if their IP had been so devastatingly ripped off?

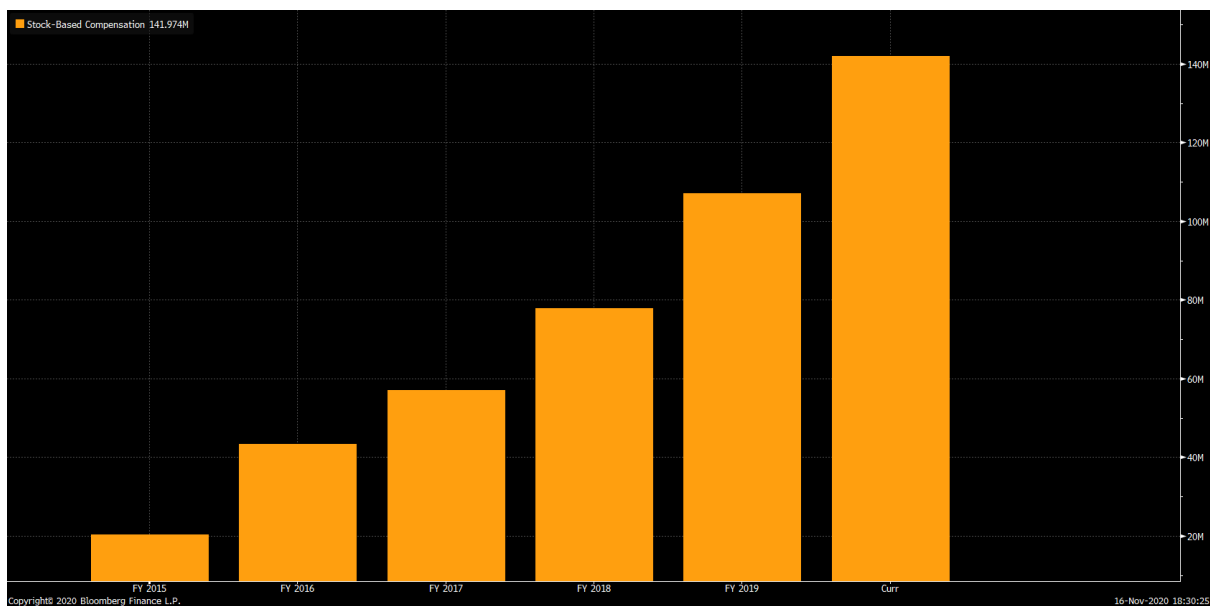
### **SPOTIFY does make money**

We often here Spotify cry that they don't make money. And that they payout 70% of their revenues to artists (well to the major labels – but that is another story!).

And it does look like a sorry state of affairs from their Net Income



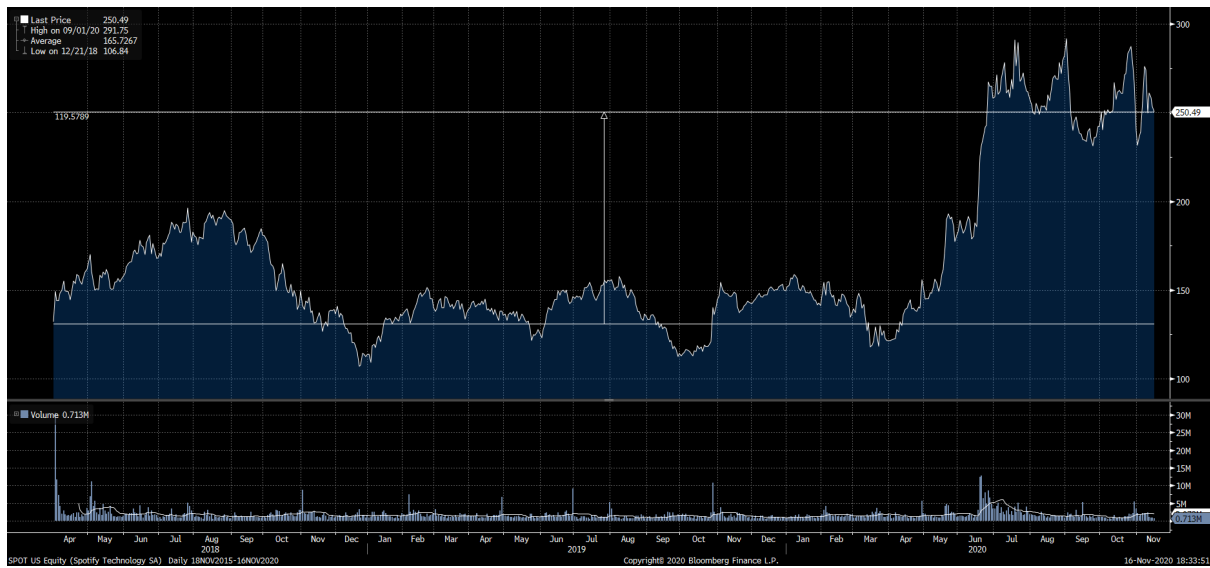
However if we look at their Stock Based Compensation – we can see that management are getting some fairly hefty bonus (last year they payed out 140m in SBC)



And the Board of Directors took home £22.4m last year.

However the biggest way in which Spotify has been accruing value is through Market Capitalisation. Because the market has been valuing this business based on the number of users the company has been incentivised to lower the ASP to drive greater volume growth.

And since listing they have put on £119m of market cap (puts the lbs I put on in lockdown into perspective!). This has been of benefit to shareholder, and not to artists.



I concede that as a musician as well as being an analyst I am possibly biased. However I do not believe that it is morally right to support a business that would not have prevented some of the greatest albums of all time from having been produced due to the poor artist economics.