

Written evidence submitted by Soundtrack Your Brand

Evidence on the Background Music Streaming Sector

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Introduction

In recent years, streaming has become the dominant format for consumption of music in many countries around the world, including the UK. Streaming services like Spotify, Deezer, Apple Music, Tidal, Amazon Music, Soundcloud and YouTube are now the foundation for revenues to rights holders within the music industry.

A specific variant of music streaming is **background music for businesses**, music that is used in commercial establishments and public spaces, such as shops, restaurants, gyms, malls, cafés, hotels, airports etc. At the moment, large parts of this area are not licenced in correct ways, businesses are using consumer streaming services (such as the ones mentioned above) which are licenced solely for personal private listening and the resulting distribution of revenues is unfair and, in many cases, non-existing, towards artists and songwriters.

Swedish-based Soundtrack Your Brand (SYB), seed-funded by Spotify, offers a streaming background music service for such businesses. SYB is available on 74 markets, and the UK is one of our key markets, which is why we think our Evidence can be useful in the upcoming sessions concerning the economics of music streaming.

The mission for SYB is to change the landscape for background music, towards a system that is more fair to rights holders, artists, musicians and composers. We have developed a licensing structure, the **SYB Model**, where we are the first background music service to licence commercial rights directly from rights holders on a global basis, including for the UK. More than 10,000 such direct licences to use the music in a commercial setting (i.e. the rights to “pipe in” the music to the business) are in place, and we provide detailed data on each and every stream that is being made on location, including to PROs like ICE (PRS for Music among others), something that is totally new in the area of background music.

All major labels, major publishers, as well as the majority of the indie sector have agreed upon the SYB Model as a means to change praxis within the background music sector, including administration optimisation and new levels of revenue sharing from streaming.

But, much is still needed if we are to change the status quo for streaming background music. Since **83 percent of business owners are still not streaming correctly licenced music** in their commercial

environment, we think that new regulations, a changed industry praxis, as well as public communication, is needed to make this part of the streaming sector as vibrant as it can be. We hope that our descriptions and suggestions in this Evidence can be a part of that journey.

The dominant business models for background music streaming

Background music is highly diversified with at least 150 actors around the world. The United States represents the largest market with a 32% share of total revenues. Europe has a 29% market share while Japan has a 14% share (*QYR Research Center*). In Europe, background music has seen a steady revenue growth of 5% for each year since 2012, including the UK market. Some of the leading background music companies in the UK are Mood Media, Octave Group (Playnetwork and TouchTunes) and ImageSound

But, this part of the music industry is still somewhat underdeveloped and is not as evolved as the consumer music industry, meaning that many background music companies are still delivering a hardware based music service to business customers. In many cases music is still manually ripped from CDs with limited or no metadata attached, which makes it impossible to accurately distribute royalties on a census basis. This is both inconvenient for customers and damaging to indie artists and creators in particular.

Moreover, **many background music providers still apply somewhat antiquated tariffs and licences** once constructed to enable physical or hardware based offerings even for new technologies such as streaming.

Songwriters, artists and musicians are therefore not getting paid nor reported correct amounts for when their music is being used commercially by businesses. A majority of businesses are also using personal consumer subscriptions from regular consumer streaming platforms, although these subscriptions do not include the correct commercial rights and hence are not allowed to be used in a commercial environment or other public performance.

The fact that consumer streaming services do not hold commercial licences and that they may only be used for private and personal listening is reflected and stated in all of the consumer streaming services' terms of use, however, the difference between a background music service licenced for businesses and a personal music service is not widespread knowledge. As a result, an overwhelming number of businesses are using personal music services in their businesses (see research we have conducted together with Nielsen Music below).

Apart from using a correctly licenced service for piping in the music to the venue, every business also needs to pay for the public performance that takes place when the music is played "piped out"). This is normally done through a performance rights organization ("PRO") such as PRS or PPL. The use of correctly licenced music services by businesses is poorly supervised, also by the PROs, and it is not in the interest of personal music companies to prevent businesses from using their services either.

Moreover, creators and artists are losing out on significant amounts of royalties, since public performance royalties from background music are generally distributed according to proxies based on music usage on

national radio, which benefits popular artists and often leaves indie artists without any compensation at all.

We believe that this problem can be solved with the introduction of a **user-centric business model together with new regulations and easier licensing schemes**, that together will increase the revenues to music creators and thereby support their carriers.

SYB's service is licenced for specific use in a commercial environment, which gives music creators fair and a much higher compensation (up to 5–10 times higher) compared to a personal music service, as the ones mentioned above. The SYB service is tailored for the needs of businesses and provides them with real, tangible value for which they are willing to pay a substantially higher price. We are now also exploring joint public performance licensing schemes together with PROs and CMOs in the Nordic countries, which makes it much easier for business owners to sign up to both our service and a joint public performance licence. Such a modern model is already in place for SYB in North America and the benefits for customers as well as artists, songwriters and composers are significant.

All in all, SYB aims to change the outdated background music industry by applying personal music streaming technology on the background music market as well as offering fair and correct per-stream based distribution of royalties. This is made possible through direct licence agreements between SYB and the record labels and music publishers as well as close collaboration with the CMOs of the world

The economic impact and long-term implications of background music streaming for artists, record labels, songwriters and publishers

In 2018, Soundtrack Your Brand commissioned Nielsen Music to perform a study on background music among 5,000 businesses in the US, UK, Sweden, Spain, Italy, Germany and France. Ten percent of the businesses came from the UK.

The results show that background music is featured heavily, with **70% of businesses playing music on a daily basis**. However, only one third consider themselves responsible for ensuring that the business has the correct licence(s) for playing music. Generally, the consumer services that are most commonly known are also used to play background music.

The study shows that the absolute majority, 83% of businesses that are playing music, is using consumer services as their music source, although these services are not licenced for use in commercial environments. As a result, **it is estimated that the global music industry is missing out on \$2.65 billion annually**.

The study also shows that this misuse is largely due to lack of knowledge by the business owners, who generally incorrectly believe that a consumer music service gives them the right to use it for background music in their business, although the knowledge among business owners regarding licencing bodies within the music industry is quite high, 80% of respondents are aware of at least one music industry body, such as PRS for Music, PPL or TheMusicLicence. This survey clearly shows that a large portion of

businesses in the UK think they are using music in a fully legal and licenced way, when in fact they are not.

On the other hand, the results of the study show that **companies want to do the right thing**, and have a high willingness to pay more for music. About half of the respondents answered that they *“would be disappointed to learn that I had been playing background music without the correct licences”*. The same level is present for the statement: *“It matters to me that artists are fairly compensated for the playing of their music”*.

Hence, the economic impact and long-term implication for artists, labels, songwriters and publishers could be substantial if general knowledge were increased and supported by simpler licensing schemes and access to music. It is obvious that the current structure of several invoices from different rights organisations is not user friendly, at the same time as the administration cost for the distribution of revenues to rights holders are much too high, leading to creators and artists losing out on royalties.

That is why the SYB model is focused on offering **one joint licencing** (i.e. including so-called public performance licences offered by the collecting societies), together with detailed usage data towards the rights holders. This model is available by SYB in the US (from the major PROs as well as from the publishers direct) and Canada (via CMOs SOCAN and Re:Sound) and it is much appreciated by businesses in those markets. We have developed three different tiers together with the music industry, that results in 5 to 10 times (depending on which tier is used) the revenues into rights holders compared to the revenues they receive from business owners using private personal accounts.

How can the Government protect the industry from knock-on effects, such as increased piracy of music?

We advise the UK Government to take measures to prevent the widespread incorrect usage of personal music streaming services in commercial environments and increase the supervision of correctly licenced music by businesses.

There is also a need for joint licensing schemes to make it easier for business owners to naturally do the “right thing”. Today several licences from different forms of rights owners are often required, which is often quite confusing for non music industry professionals. It is much easier for a business owner to receive one invoice instead of two, or even three invoices, from different rights organisations.

One very important aspect is the fact that PROs have quite high administrative costs related to the collection and distribution of public performance revenues from the background music sector, usually 20-30% of the collected money from business owners. We think that in the age of big data and decentralised data sharing, these administrative costs are much too high, and of course leads to lower revenues and royalty payouts for artists and songwriters.

The UK Government could here support the shift from using traditional sampling and analogy methodologies for the distribution of public performance monies, to a situation where all background music providers are demanded to provide detailed usage data based on correctly licenced music.

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

As earlier described, there is clearly an alternative to the contemporary underdeveloped streaming area of background music, and new policies could lead to a much more equitable situation for artists, musicians, labels, publishers and music creators. We have in this Evidence identified 4 problems, summarised below, followed by suggestions on how to tackle them.

Problems and solutions:

1. *Many of the existing background music providers are not delivering detailed data on actual music usage, which leads to an unfair revenue distribution to rights holders, as well as too high administration costs.*

Solution: Require all background music providers to deliver detailed data sets on when and where music has been played, for each month. Many of the existing background music actors are flying “below the radar” in the industry system and are focusing on their own economic gain rather than supporting music creators. The same rules should apply for all actors, and the Government can be a part of introducing such rules.

2. *As much as 83% of business owners are using personal private streaming subscriptions in their businesses, which means that they are breaking the terms of use (often without knowing it), and music creators do not get fairly compensated.*

Solution: Knowledge on the difference between private and commercial music streaming needs to be heightened among business owners. This can be done by campaigns introduced both by the Government and PROs (such as done by Belgian CMO SABAM), together with actors like Soundtrack Your Brand. Also, push consumer streaming services to clearly inform their users that private subscriptions can not be used in commercial settings.

3. *The current licensing structure is difficult for business owners to understand, invoices are often coming from different organisations, and it is hard to follow where the money is actually going.*

Solution: Make it possible for actors like Soundtrack Your Brand to offer one joint licence (i.e. for both the supply of the commercial music service AND for the public performance that use of the service results in) to business owners. This will make it much easier for any user that needs to stream music commercially, and will optimise data gathering as well as revenue distribution, leading to increased revenues for artists and music creators.

4. *The main revenue distribution model for public performance of background music is not based on a user-centric paradigm (location-based), but rather on analogies to what is played on e.g. national radio. This often leads to rather absurd consequences and many smaller artists never see any royalty at all despite having been played extensively.*

Solution: Make the user-centric model the standard model for revenue distribution of public performance revenues in the background music sector, leading to larger possibilities for smaller artists, genres, songwriters, publishers and labels to increase their revenues and long term stability.

To summarise, this specific area of music streaming has a great potential for the future. For too long has background music been working in a closed and “black boxed” environment. It is time to create a more transparent, fair and effective system that compensates artists and music creators in the correct way. We believe that our contribution and mission can be an important part of this, and are looking forward to continuing this process also in the UK. This Evidence sets out to summarize the key takeaways and Soundtrack Your Brand look forward to taking the discussion further and remains at your disposal.

Stockholm, November 2020