

Written evidence submitted by techUK

techUK response to DCMS Committee inquiry into the economics of music streaming

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About techUK

techUK represents the companies and technologies that are defining today the world that we will live in tomorrow. The tech industry is creating jobs and growth across the UK. More than 850 companies are members of techUK. Collectively they employ more than 700,000 people, about half of all tech sector jobs in the UK. These companies range from leading FTSE 100 companies to new innovative start-ups. The majority of our members are small and medium sized businesses.

Summary

techUK welcomes the committee's interest in music streaming and the role that technology plays in the sector. Music is a part of the fabric of UK society – it's a sector in which we punch above our own weight as a nation, impact the culture of not just those closest to home but around the world. Artist remuneration is an important part to the sustainability of this ecosystem.

There is a long history of technological advances and innovation changing the way that people engage in media and culture – from the radio and music halls to television and the advent of the internet – with each advancement having a consequential impact on business models and leading to a period of change. Recent digitalisation has seen this trend continue across the economy, including the music industry, with demand for physical purchases dropping in favour of subscription services and digital means of delivery.

Just as with the sale of other goods and services, this digitalisation and innovation empower artists to look beyond their local market, to find new audiences and to transform the way in which they engage their fans, reduces piracy and copyright theft and creates new forms of content and income.

techUK understands that artist remuneration has been a major topic of debate and controversy in the music industry for decades, with several high profile disputes around ownership and revenue share. It is right that the Committee consider this as part of its inquiry, but the committee might need to focus more widely on the economics of the music industry rather than just focussing on music streaming: many of the issues facing artists are much more related to the interplay between labels, publishers, artists and songwriters.

It is the impact of digitalisation and innovation which techUK seeks to focus on in this submission, looking at what these changes mean for business models, consumer habits and the competitive environment.

Economics of Music Streaming

Today there are a number of competing music streaming platforms. Typically they operate on a business models that provides unlimited access to large catalogues of music in exchange for a monthly fee. Within this environment there are a range of different approaches used by different streaming services: some opt to bundle music with wider services, some provide family subscription packages, while others provide free trial periods or ad-supported access without a subscription fee.

This diversity is healthy and positive for consumers and has facilitated more access to music than ever before available – whether at home or on the move. Not only has this been beneficial and popular with the consumer, but for the music industry as well. Streaming is the key driver of growth within the music industry, which is seeing revenues increase year-on-year.

According to the 2019 Global Music Report, the global music sector grew by 8.2% in the previous 12 months¹, representing the fifth consecutive year of growth. This growth is predominantly driven by fans' increasing engagement with music on paid streaming services, with the number of paid streaming accounts rising to 341 million by the end of 2019, and associated revenue rising by 24.1%.² In addition to increased revenues, streaming is helping to engage people more deeply in music. In the same period, the Global Music Report found the total time spent listening to music increased on the year before, to more than 2.6 hours daily on average.³

Not only have these revenues driven broader growth in the industry, but they have also proved more resilient to disruption than others. In the past turbulent year music revenue from streaming services has continued to grow and support the industry, now accounting for 56.1% of global music revenues.⁴ Artists have never relied on one source of income and streaming has been one of many avenues available. However, at a time when other revenues such as live events, touring and physical sales have been under immense pressure, streaming has enabled continued growth. Emerging data from H1 2020 showed consistent growth in music revenues around the world during this period, up 4% in Spain, 4.8% in Germany and 5.6% in the United States.⁵

Impact on Intellectual Property

As well as driving growth, music streaming is helping to tackle known economic costs in the sector. One of the primary challenges for music, more than many other forms of media and entertainment, has been the impact of piracy. Despite the existence of legitimate services offering access to music in the past, artists and rightsholders have been concerned that their work was being enjoyed by people who had accessed it by illicit means.

Over the years many policy initiatives have been developed to address this problem, with success varying. However, it was only with the emergence of widespread, sustainable streaming services that a significant impact has started to be made and piracy start to decrease as a problem. Copyright infringement remains a threat, with an estimated 23% using illegal stream ripping services,⁶ however the picture is much improved from a decade ago and continues to move in the right direction.

It is the universality and ease of use that drives people towards legitimate sources of licensed music. Research has shown that engagement with on-demand streaming is high for both paid and ad-supported services in all age groups.⁷ There is a surge in older age groups using music streaming services, with the 35-64 age group seeing the highest rate of growth of any age group, up 8% year on year.⁸

The reasons for this legitimate use is clear. Surveyed on their top reasons for using a music streaming service, the majority of people cited the large catalogues of music available and overall convenience. In the survey 62% of respondents said they enjoyed streaming for "instant access to millions of songs"; 61% enjoyed being able to "listen to what I want, when I want" while 47% said it was "the most convenient way to listen to music".⁹

Competition and Remuneration

For artists and rights holders, the use of legitimate music streaming services represents multiple sustainable sources of revenue. The competition for customers between streaming services, all of whom have a strong incentive to have the most extensive catalogue, means rights holders can derive a fair return in exchange for their content being licensed.

Additionally, the competition between platforms drives them towards continued innovation with curation, different types of content, and value-added services such as lyrics, playlists or information about artists. Again, this all brings positive value to legitimate consumers via a market mechanism.

¹ <https://new.ifpi.org/ifpi-global-music-report-2019/>

² *Ibid.*

³ *Ibid.*

⁴ <https://www.ifpi.org/ifpi-issues-annual-global-music-report/>

⁵ <https://www.musicbusinessworldwide.com/music-streaming-revenues-in-the-us-are-on-course-to-grow-by-over-a-billion-dollars-in-2020/>

⁶ <https://www.ifpi.org/ifpi-releases-music-listening-2019/>

⁷ *Ibid.*

⁸ *Ibid.*

⁹ <https://www.goldmansachs.com/insights/pages/infographics/music-streaming/>

Clearly, within the music industry there are various elements to the value chain and the precise financial arrangements between them will affect how much reward ultimately goes to artists, songwriters, producers and other creators. This has always the case, for physical sales, concerts and merchandise as much as digital. Streaming services don't have oversight into all parts of the value chain. They enter into agreements with labels who have their own agreements with artists and other parties, such as producers and songwriters.

The competition between platforms means there is an opportunity to explore new methods for attributing payments, although the money paid through to creators will ultimately be determined by the relationship between the labels and publishers on the one hand, and the artists and the songwriters on the other. Looking to the future, it seems fair to expect more experimentation and innovation in business models, many of which could have an effect for artists, for example different models for calculating royalties (including variations on the 'user-centric payments' model).

However, where there is established or ongoing debate and controversy around the contractual relationships between artists and labels it is not in the tech sector's ability to influence.

Continued Innovation

Although music streaming has been a mass market phenomenon for several years, it seems fair to expect more innovation and dynamism as we go forward, including potentially new entrants and different business models.

This continued innovation in music streaming is not just beneficial for listeners, but for artists as well. The competition and innovation in streaming enables artists to expand beyond their local markets and find new audiences all around the world. Lower barrier to entries present new avenues to share their own music or discover new content, with new ways to enhance fan engagement, promote collaboration or diversify income.

According to Music 360's 2020 report 62% of people now prefer to discover new music through streaming services¹⁰, with innovations in curated content and playlists allowing listeners to discover new content they may not have previously had the opportunity to. This even surpasses recommendations from family and friends, cited by 54% of respondents.

This discovery is not only beneficial in itself, but can allow even small artists to establish dedicated new fan bases from across the world. This democratisation and low barrier empowers signed and unsigned artists to look beyond traditional revenue streams such as merchandise, leveraging membership platforms like Patreon that support artists to dedicate more time to their music while still maintaining full control of their schedule.

Alongside these additional revenue streams it is important to consider the broader cultural and creative impact of streaming, and how it interplays with other products and services. In October 2020 Fleetwood Mac re-entered the US Top 40 Charts for the first time since 1977 following a viral video online¹¹. A similar viral video in September 2020 featuring a previously unknown Blackpool grime artist led to over 15 million streams in the past three months alone.

It is the ease of access and universality of video sharing and streaming that enables these cultural moments to be capitalised on by signed and unsigned artists alike, forming not just part of the music ecosystem but the cultural conversation.

¹⁰ <https://www.billboard.com/articles/insight-reports/9451744/mrc-data-us-music-360-report-post-covid-19-guide-to-the-music-landscape>
¹¹ https://www.officialcharts.com/chart-news/fleetwood-mac-s-dreams-re-enters-the-top-40-after-viral-tiktok-video__31257/