Mount Kimbie

SUSTAINABLE MUSIC STREAMING

As streaming becomes ubiquitus in western society, it is necessary to question if the economy that it creates is sustaibable for artists, labels and streaming services alike

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The Current Industry

The music industry is currently in a state of flux. While revenue is beginning to rise after a historic low point in the 2000s, a smaller percentage is going to artists than ever before. The reason for this is on-demand, subscription-based streaming services such as Spotify and Apple Music. While these services have curtailed illegal downloads and injected funds into the industry, they also pay artists much less than previous methods. So, is a music economy based on streaming services sustainable?

65% of music industry revenue now comes from streaming, producing $5.7 billion USD in revenue for the industry (RIAA, 2017). This is a $1.7 B increase from 2016 and almost 2.5 times the 2015 revenue of $2.3 B (RIAA, 2017). Simultaneously, sales of digital downloads fell 25% in 2017 (RIAA, 2017). First time since 2011, revenues from physical products exceeded those from digital downloads, likely due to the rise in streaming (RIAA, 2017). While physical sales increased 4% in 2017, streaming is the dominant force in the industry and will remain this way.

A variety of data, when combined, paints a clear picture of the music industry. After almost 13 years of regression, global recorded music revenue is starting to increase year to year, growing 7.82% from 2015 to 2018 (IFPI, 2018). Looking at the Recording Industry Association of America's sales data, when adjusted for inflation, revenue from streaming sources made up 65% of 2017's overall global revenue. The move to streaming may have restarted growth in the recording industry, but this move has changed a great number of factors. Per numbers gathered by Nielsen, album sales have consistently diminished since 2007 as **consumers move towards a per-song and playlist mentality** (Nielsen, 2018).

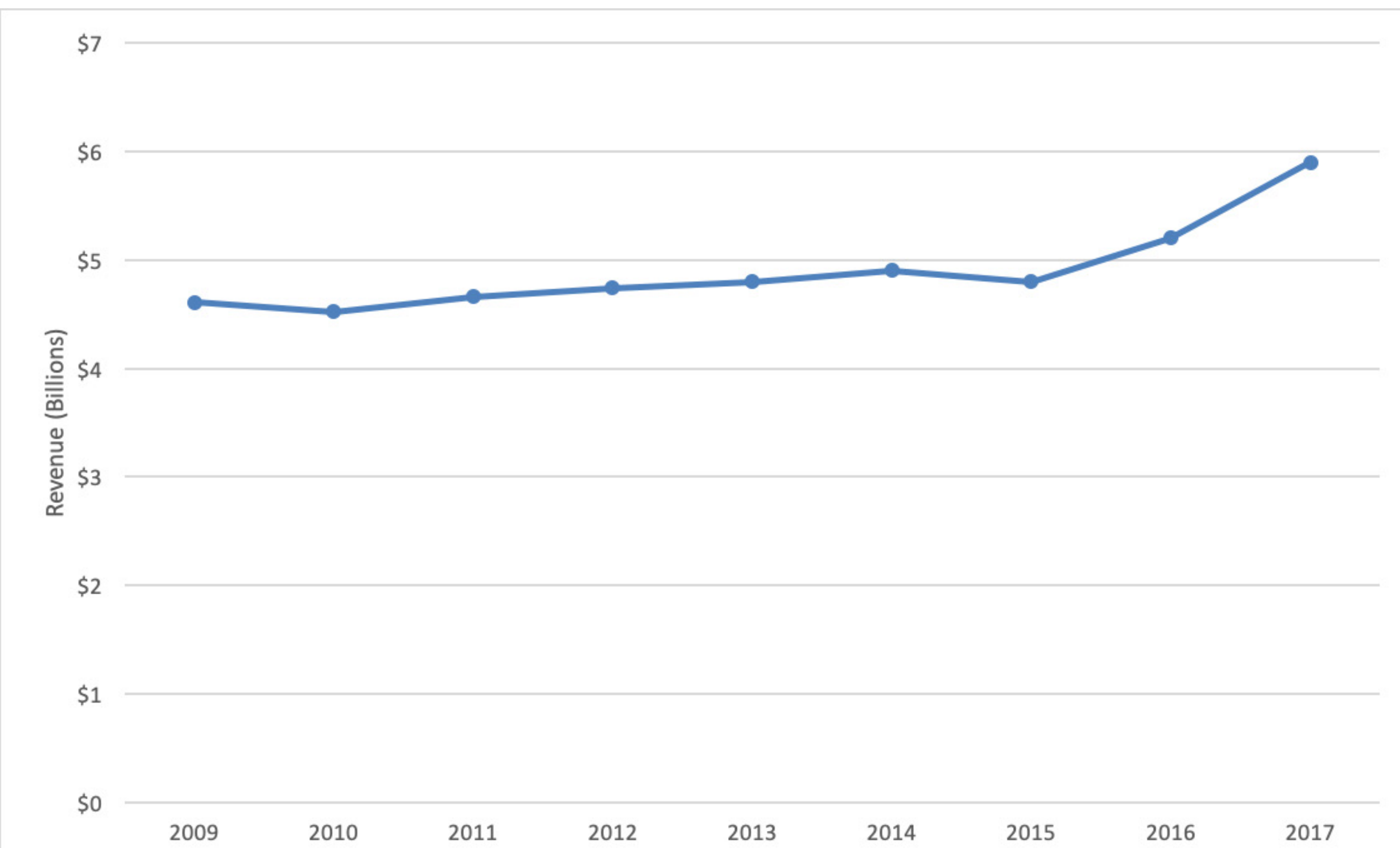


Figure 1: Music Industry Revenue in Billions from 2009 to 2017
Source: RIAA

Current Streaming Economics

While the idea of streaming music predates the internet, on-demand music streaming in its current form only emerged in 2011 when Spotify announced listening deals with most major labels (Witt, 2016). The introduction of Napster in 1999 paved the way for consumers to have instant access to music for a little-to-no cost (Fonzo, Steele & Llamas, 2018). Other streaming platforms have existed for several years, yet it was Spotify's introduction that propelled streaming into the mainstream and injected much-needed revenue into the music industry (Fonzo, Steele & Llamas, 2018).

In data gathered by David McCandless—a data reporter for Information Is Beautiful, it is painfully obvious how little artists earn from streaming. For a CD released through a label and distributor, artists would typically earn less than a quarter of this (less than $3). So to earn the equivalent of US federal minimum wage, they would have to sell 457 albums per month. A single song download through iTunes leaves the artist with 23% of profits, meaning that to earn minimum wage, the artist must sell 5,478 songs per month. An unsigned artist will typically earn 70% of profits, needing to push 1,818 songs per month. To contrast this with streaming figures, **a signed artist on Spotify will earn $0.001 per stream, needing 1,117,021 plays per month to earn minimum wage** (Figure 2).

In an article on how little artists are paid for streaming, The Verge author Lizzie Plaugic states that even her most streamed artist of 2015 only earned the artist $2.24 over 250 streams (Plaugic, 2015). This same $2.24 is split between the label, rights holders, and distributer, leaving around $1 for the artist. **Artists make over 200% more money through iTunes sales than through streaming.** It is now completely unsustainable for small musicians to earn a living wage from their art without touring, selling merchandise, and possibly even having a second job.

Outlet	Stream with Label	Stream for DIY Artist	Number Needed Per Month for Minimum Wage (DIY)	Number Needed Per Month for Minimum Wage (Signed)
Amazon	$0.00002	$0.00010	10,500,000	65,625,000
Spotify	$0.00100	$0.00700	180,000	1,117,021
Rhapsody	$0.00200	$0.01000	104,132	650,826
Apple Music (Formerly Beats)	$0.00300	$0.01800	70,000	420,000
TIDAL	$0.00700	$0.04300	29,302	180,000
Google Play Stream	$0.00730	$0.01800	70,391	172,206
iTunes (Song Sale)	$0.23000	$0.6900	1,818	5,478

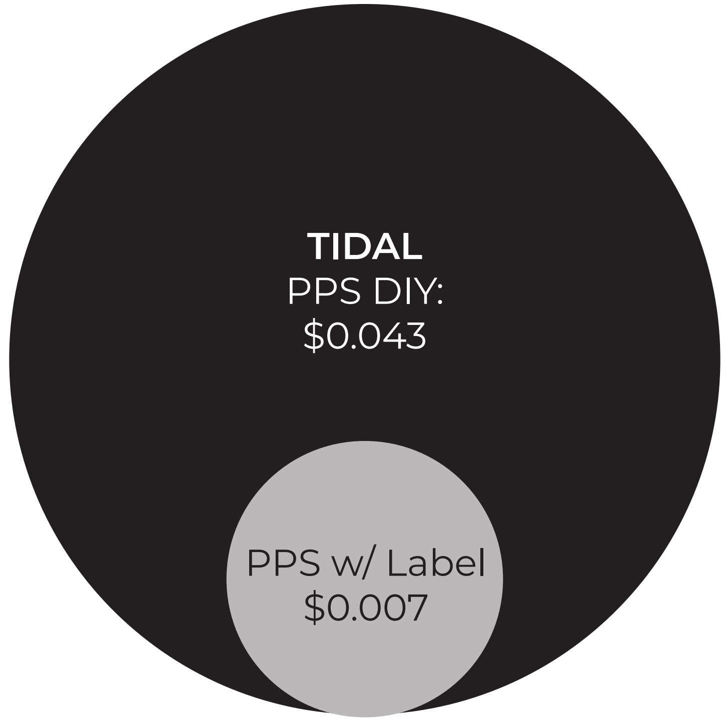
Figure 2: Streaming Payouts by Outlet and Deal
Source: Information is Beautiful, 2015

Streaming Payouts

The following circles visualize the various payouts made by streaming services to artists for each stream. While numbers vary based on the artist, label, contract type and more, these numbers are a good baseline for analysis. The data was gathered by David McCandless for Information Is Beautiful.

Each circle represents an on-demand streaming service. Each circle is broken into two, the larger showing the streaming payout (pay per stream or PPS) if the artist is unsigned (or DIY) and the smaller showing the payout with a label. The size of each circle is proportional to the size of the payout. The blue section represents the payout for a song sale on iTunes for a DIY artist ($0.69), kept at the same scale.

This shows how little artists make through streaming compared to sales. Note that Amazon's streaming payouts are too small to be visible at this scale.



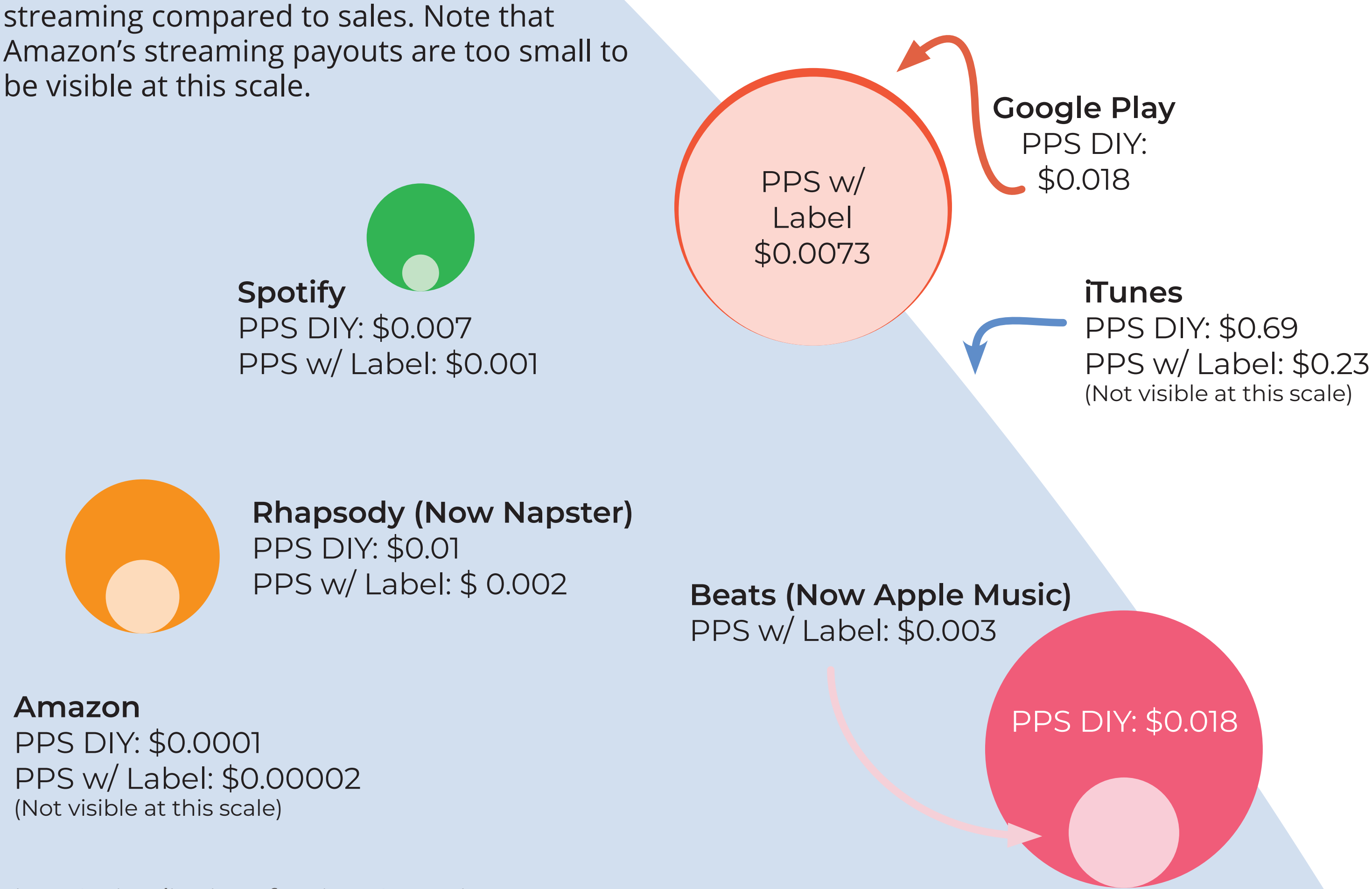


Figure 3: Visualization of Various Streaming Payouts
Source: Information Is Beautiful, 2015.
PPS = Price Per Stream.

Streaming Profits

With artists struggling and being paid less for their music than ever before, can streaming services afford to pay musicians more? It is incredibly important to note that **while Spotify's revenue is growing at an incredible rate, the company has not yet made a profit.** In 2017, Spotify had $4.64 B USD in revenue but lost $428 M USD (Richter, 2018). In the eyes of Spotify, they are already paying artists too much. Or, more specifically, they are likely paying labels too much. Music streaming services themselves may never be profitable without raising prices. However, this lack of profit only matters for companies where the sole product is streaming. Apple and Amazon both offer a line of speakers and other devices to accompany their streaming products, meaning that if their overall business model remains profitable, streaming services are able to operate at a loss. For artists, this could mean that unless prices of streaming services increase and consumer attitudes towards the cost of music change, artists cannot expect payments from streaming services to increase.

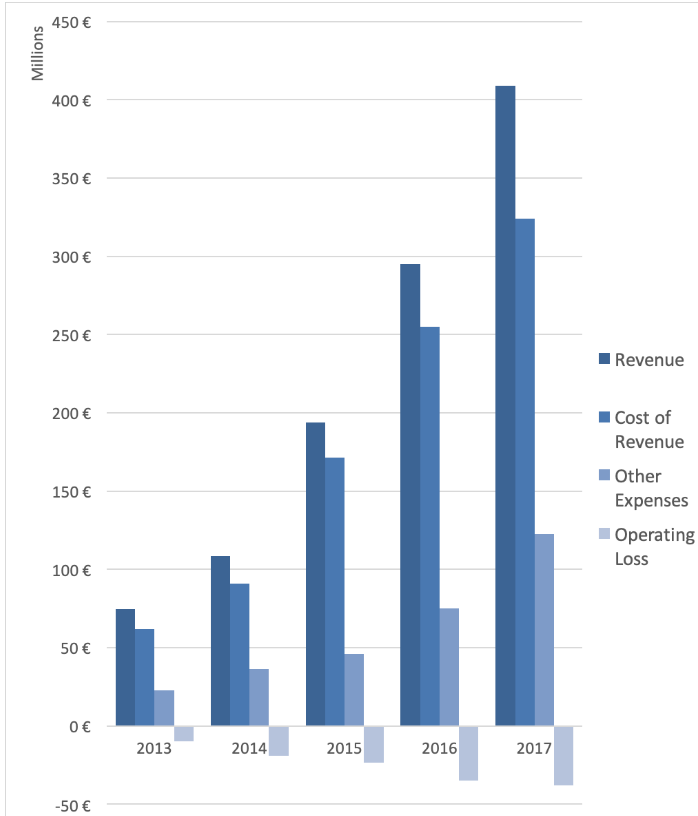


Figure 4: Spotify's Net Revenue and Losses 2013-2017
Source: Spotify's 2017 SEC Filings

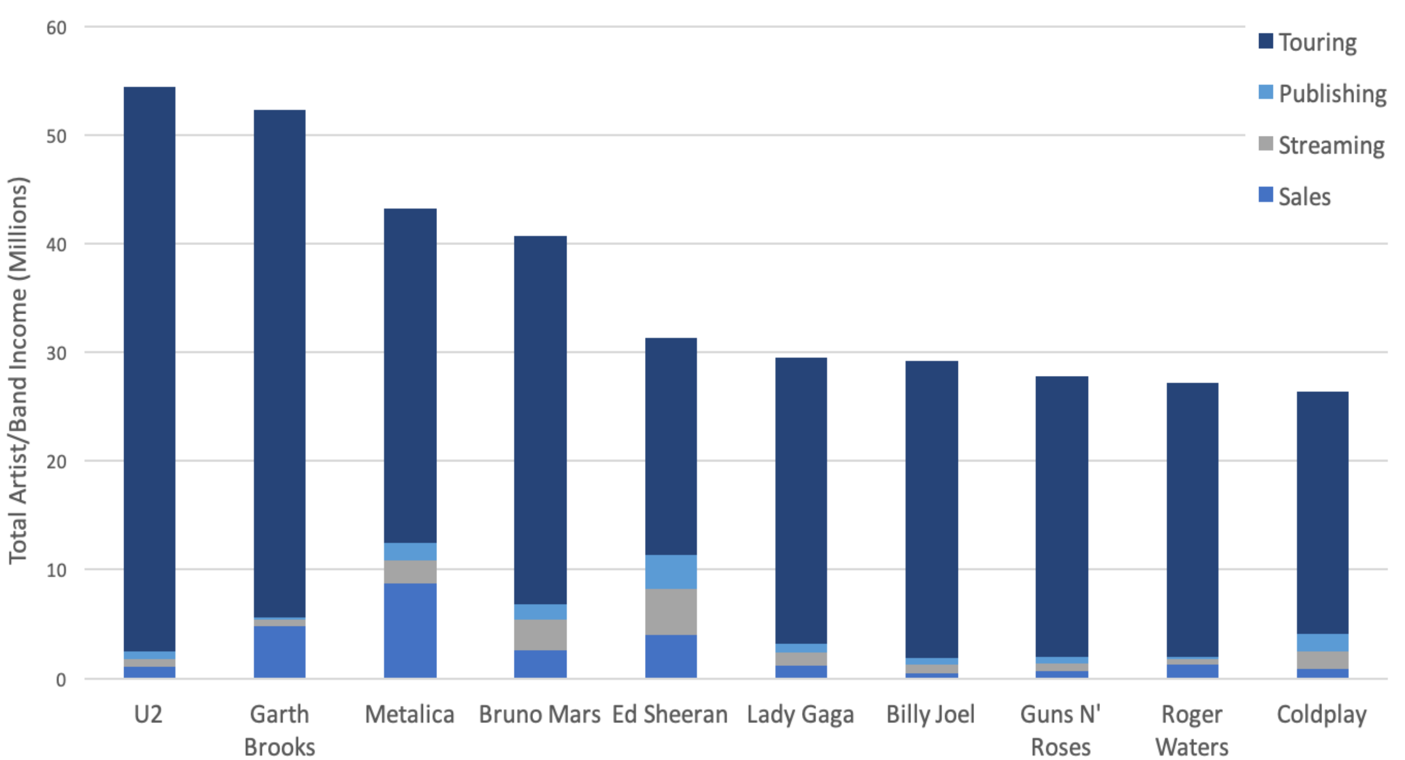


Figure 5: Top 10 Grossing Artists in 2018, Broken Down by Source
Source: Billboard's Top 50 Money Makers of 2018

Current Solutions

A current solution for artists is simply to tour more and expand their live shows. Pollstar, a trade publication for the live music industry, recently released figures stating that, by their estimates, worldwide concert ticket-sales reached over $8 B USD in 2017, an 8.75% increase over 2016 and a 41.25% increase over 2012 (Pollstar, 2018). Data from PwC's Global Entertainment and Media Outlook survey support these findings from Pollstar, estimating that by 2021 the global live music industry will have $9.55 B USD in revenue (Rain News, N.D.). It's clear that the future economics of the music industry is swinging towards live music, rather than sales of recorded music. The American Society of Composers, Authors, and Publishers (ASCAP), a music licensing and advocacy group, note that for most small shows, a typical deal breaks down as 70-100% of profits taken by the artist at 21+ venues and 50-70% of profits paid to the artist at all ages venues. Bars will typically pay anywhere from $50 to $350 (Herstand, 2012). As artists rise in success and notoriety, these numbers go up.

Yet, it's worth noting that for many small artists, touring may end up costing them money. As an article in Vice points out, mid-tier artists may have their hotel room covered by the venue, but typically must pay for transportation in between cities. This, along with management fees, taxes, and basic living costs can mean that most small acts only make $1000 for a month on the road (D'Amore, 2014). In short, touring is not the mystical money maker that it is made out to be.

Billboard's 2018 list of the top 50 highest paid musicians gives a breakdown on where artists make their money and an astounding percentage comes from touring (Figure 5). **Many artists earn well over 90% of their income from their tours alone,** as depicted below (Billboard, 2018). However, as an article in The Guardian points out, the price of a ticket does not just go to the artists, but also to promoters, stagehands, and more (Forde, 2017). After accounting for processing, taxes, song, staff, transport, insurance, promotion and management, the band typically only ends up 40-50% of the ticket price. Further, this 40-50% must account for their own team of crew members as well as any staging and lighting. With rising costs of tours and rising expectations for outlandish stages, artists are making less and less money from their tours. This, combined with a recent effort of large labels to earn a cut of touring profits mean that artists can no longer bank on large profits form their tours to support them fully. While merchandise originally began as a frowned upon the concept for bands, it has quickly become the most lucrative part of touring for artists. Artists typically earn 10-15% of their touring revenue from merchandise, with large acts bringing in up to $500k per show (John, 2017). Merch sales are a current solution for artists to recoup the costs of touring, with many smaller artists only profiting from merch and losing money everywhere else. For small artists, merchandise is their sole source of income.

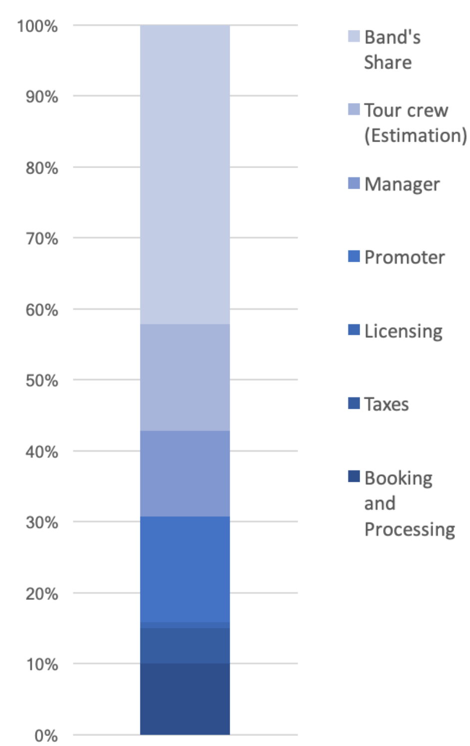


Figure 6: A breakdown of touring prices. Source: ASCAP

Possible Future Solutions

With labels taking up to 70% of revenues, some suggest that the future of the music industry may lie without labels. In September 2018, Spotify announced a pilot program allowing artists to upload their music to Spotify without a distribution service or label (Deahl). At the time of publication, the program remains in an invite-only beta. The Verge reports that Spotify will offer artists 50 percent of Spotify's net revenue and 100 percent of royalties for the songs they upload. As previously mentioned, Spotify is still losing a great deal of money each year, largely due to large label fees (Richter, 2918). If Spotify is able to undercut labels and scare them into lower prices, it may pave the way for the company to become profitable and pay artists larger percentages of streaming revenues. However, while this gives increased revenues to artists, going label-less has many downsides. Artists lose their legal support system, marketing team, and loans for recording, equipment, production, and distribution. Crucially, they lose all label contacts in promotion too. As the music industry is increasingly democratized, methods used to shout through the noise are increasingly necessary. Plus, the financial barrier to rent a studio, buy equipment, pay featuring musicians, pay their producer, pay a mixing engineer, and pay for physical copies can be too high for small acts. Labels may take a big cut, but they also fund artists to create their works.

A different shift in distribution models could be to a pay-what-you-like model for consumers. In the past few years, the service Bandcamp has popularized (as much as indie music can be popularized) the idea of pay what you like for music. Artists and labels can put their music and merchandise online for free or at a base price. Consumers can pay the minimum or any additional amount that they see fit.

Overall, there is tremendous new growth in the recording industry as a whole, especially in revenue and touring. However, little of this is seen by smaller and medium-sized artists who are struggling to make ends meet now more than ever. While touring and merchandise sales have supported bands in recent years, their power is dwindling as stages become larger and labels demand a cut from tours. Going forward, more drastic changes such as more artists releasing their music independently, using services such as Bandcamp's pay-what-you-like feature, and selling limited physical releases may help to keep smaller artists afloat.

PEOPLE, a new streaming platform founded by a musician's collective of the same name, recently launched using a cross between Bandcamp and Spotify's approach. Artists directly upload their music and receive 80% of all subscriptions. Patrons pay anywhere from $10-50 per month for full access to the service (a free version is also available). While this particular service is extremely limited in breadth and potential audience, it shows as an example of both an ethical and sustainable streaming model.

Streaming accounted for

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of US music industry revenue in 2017

Source: RIAA

Many artists earn

90%

of their income through touring.

Source: Billboard

Recommendations for Artists

If not using Bandcamp and other pay-what-you-like services, upload music and merchandise to these services for increased exposure and income with Bandcamp taking a 10% smaller cut than most competing services.

Embrace the long tail philosophy of distribution by appearing on as many streaming services as possible. While you will likely not make a considerable amount of money, the exposure will drive ticket sales and merchandise sales.

Review your contract with labels if signed and avoid 360 deals that give labels a cut of touring and merchandise sales.

If possible, sign to a small label or represent yourself independently. With Spotify, Bandcamp, Beatport and other streaming and distribution services allowing unsigned and independent artists to upload and sell music, it is entirely possible to distribute digitally without the help of a label.

Investigate the buying power of your fans. If it is strong, try selling limited merchandise with high profits.


Little Brother


Chvrches

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Lucy Dacus