



BUSINESS OF MUSIC

LECTURE – WEEK 10

Last Week

- We considered contracts in the music industry.
- Hopefully this led you to an understanding that the music industry is no different to any other industry – participants need clarity and certainty in their dealings.
- This is where the law of contracts comes in.

This Week

- ▶ We will look at the changing face of the recording and publishing industry.
- ▶ We'll look at some very different financial models that have evolved and we question whether they are sustainable.
- ▶ We'll consider what the next steps may be.

Retail Sales Income

- ▶ We have already discussed that the traditional income streams were built around the sales of records.
- ▶ Record sales would generate income for a number of participants in the recorded music industry:
 - ▶ Music Retailers – a retail margin from the sale
 - ▶ Distributor – a wholesale margin for services
 - ▶ Record Label – the wholesale price
 - ▶ Artists – Royalty based on contract
 - ▶ Manufacturer – fixed payment for services
 - ▶ Music Publisher – mechanical royalty – set by statutory rate
 - ▶ Songwriter – a royalty based on contract

Licensing Income

- ▶ A further form of income was generated when the recording was used by a third party – requiring the permission of the rights owners
- ▶ Licensing of Recorded Music would generate income for a smaller number of participants in the recorded music industry:
 - ▶ Record Label – a fee negotiated for master recording use
 - ▶ Artists – Royalty based on contract
 - ▶ Music Publisher – a fee negotiated for use of the composition
 - ▶ Songwriter – a royalty based on contract

Retail v Licensing

- ▶ Clearly Licensing Income is a more attractive financial model than retail income.
- ▶ With licensing income there is no cost of manufacturing, no cost of distribution and no retail margin.
- ▶ Retail obviously is about a high number of transactions with a low margin for each, whereas licensing revenue is about a small number or often a single transaction which generate a very high margin return.
- ▶ Not surprisingly in an environment of contracting retail income all participants started looking more towards licensing revenue.

Retail v Licensing

- ▶ Obviously though the recordings and songs that tended to attract the most interest from a licensing perspective tended to be those that already enjoyed a degree of popularity or success.
- ▶ Accordingly there was still a great need to try and establish “hit songs” as they were more likely to generate licensing revenue.
- ▶ But equally, there was a desire to try and generate revenue for alternative pieces of music – non-hits – that still had value in areas such as film, television and advertising.
- ▶ Labels and publishers certainly became more pro-active in seeking out licensing opportunities.

Downloads

- ▶ The advent of downloads didn't change that position.
- ▶ A download was still a sale, albeit one that did not require manufacturing, a physical distributor or a retailer than needed a sizeable margin to cover a bricks and mortar operation.
- ▶ For this reason download sales were more attractive to most participants than physical sales.

Distribution

- ▶ For distributors it meant that the basis of their model – a fee for (essentially) freight, logistics and sales services – had to change.
- ▶ Many distributors started to offer digital distribution services.
- ▶ But logically the actual services required for digital distribution were different to those required for physical distribution.
- ▶ One was a warehousing and logistics business and the other was a technology business that essentially operated in a non-physical world.

Distribution

- ▶ Not surprisingly some distributors made the transition to digital distribution well and others were less effective.
- ▶ Another business model arose – effectively a business with its roots in the technology industry rather than the music industry – the business of digital aggregation.
- ▶ This is a different business model again – under these models the rights holder (artist or label) simply pay a fee for a service – a low fee, again based in a high turnover model.
- ▶ These are businesses such as Tunecore, CD Baby, Ditto etc.

Evolution

- ▶ So while there was evolutions being forced upon the industry a number of key parameters remained.
- ▶ Copyright still supported both songs and sound recordings – the rights of reproduction and performance still existed.
- ▶ Artists were still basing their model in sales.
- ▶ Labels and publishers still valued third party licensing revenues.
- ▶ Artists (an their managers) began placing increasing importance on other revenue streams such as touring, merchandise, sponsorship& endorsement

Evolution

- ▶ Adam Jankie – Mushroom Group
 - ▶ “Things are moving at such a fast pace now that it's all about innovation, and coming up with creative ways to expose content – music, pictures, imagery, anything that's associated with the artist. It's about exploitation of content, not just exploitation of music directly anymore. It's all about, ‘what's the next thing?’.”

New Models

- ▶ The current end-game for this evolution is best represented by the curious case of Chance The Rapper:
 - ▶ <http://www.theindustryobserver.com.au/the-new-face-of-hip-hop-chance-the-rapper-earned-33m-without-selling-a-single-record/>
 - ▶ <https://www.forbes.com/sites/ogdenpayne/2016/05/30/three-marketing-takeaways-from-chance-the-rappers-coloring-book-roll-out/#1720699ee5e1>

New Models – You Tube

- ▶ The ground has shifted again and now the owners of copyright material are embarking on a new strategy – monetising You Tube content.
- ▶ *The Guardian* newspaper reported in January 2013: “Some indie labels say about 30% of YouTube ad revenue goes to You Tube and owner Google and 40% goes to the owner of the recording (usually the record label). The label gets another 20% of the ad revenue if it can claim ownership of the video; that is, it's an “official video” and not a video of someone dancing to the track. And last – and least – the songwriters/publishers get to share the remaining 10% between them.”

New Models – You Tube

- ▶ This is an interesting evolution for what was once regarded as a purely promotional vehicle.
- ▶ The words of Charles Caldas (Merlin) are again instructive:
 - ▶ “This notion that everything is promotional: that way that people used to talk about YouTube as a ‘promotional channel’. When that becomes the destination for music fans, it needs to compete in the marketplace with all the platforms that are monetised.”

New Models – You Tube

- ▶ There are several ways of using You Tube as a revenue generator
 - ▶ <https://www.imusiciandigital.com/en/three-ways-to-monetize-your-music-on-youtube/>

New Models – You Tube

- ▶ You Tube has something like a billion users, compared with Spotify's 100 million. Yet the music industry revenue generated by You Tube is less than 10% of the revenue generated by Spotify.
- ▶ In fairness to You Tube music only makes up a small part of its content and it's parent Google claims to have paid out \$3 billion to copyright holders.
- ▶ The platform continues to make goodwill gestures to the music business including opening up its YouTube Spaces with their high-tech production facilities to artists and the industry, presenting artist showcases at SXSW, Coachella and elsewhere, offering YouTube Music Insights tools to help artists with optimization and being having an investment in Vevo.

New Models – You Tube

- ▶ In 2016 YouTube launched an initiative to develop music talent under the name *YouTube Music Foundry*, which gives artists new tools and guidance on how to successfully grow their presence on the video platform.
- ▶ All Foundry content is available for free on the main site as well as on the YouTube Music app.
- ▶ Among the tools artists are learning to use now via The Foundry include live streaming video production, a rapidly growing technology that over the last several years has grown exponentially, especially since the advent of Facebook Live.

New Models – Live Performance

- ▶ Ruth Barlow – Beggar's Group
 - ▶ “What we have to acknowledge now is that marketing, promotion and sales have merged. They are all the same thing. There is no such thing as promotion because promotion used to be directed towards getting a sale, but now consumption of music is a sale”.

New Models – Live Performance

- ▶ These days the line between “live” and “recorded” is being blurred.
- ▶ Whereas once when an artist used to play live it would hopefully encourage audiences to go and buy their album, now a live recording viewed on You Tube was more likely to be seen as an alternative to listening to that same artist’s recorded music streamed on Spotify.
- ▶ Effectively the streamed live performance was music consumption that cannibalises the type of consumption that a record company actually gets paid for.

New Models – Live Performance

- ▶ **[RUTH BARLOW]:** “A couple of years ago we noticed that a lot of festivals were wanting to record our artists. Not just Glastonbury and Coachella but a lot of other festivals as well. I think it was triggered somewhat by You Tube saying to festival promoters that they should set up their own channels and become content providers. We started to get a lot more requests through for permissions and we were being told it was part of the performance fee – the artist has got to be recorded and live streamed.

New Models – Live Performance

- ▶ **[RUTH BARLOW]:** “And we got to thinking – “Well, that’s not right.” - because the artists were our exclusive recording artists and what the festivals wanted was a recording license. After a lot of thought we decided that we would embrace that but be smart about it. We were being told “Hey, its great promotion”, but this was a time when streaming was really starting to become the way people consumed music and so we asked what exactly was it promotion for? If the consumer was listening to a live concert on You Tube that consumer wasn’t then going to go “Now I’m going to listen to their album”. There are only 24 hours in a day.”

