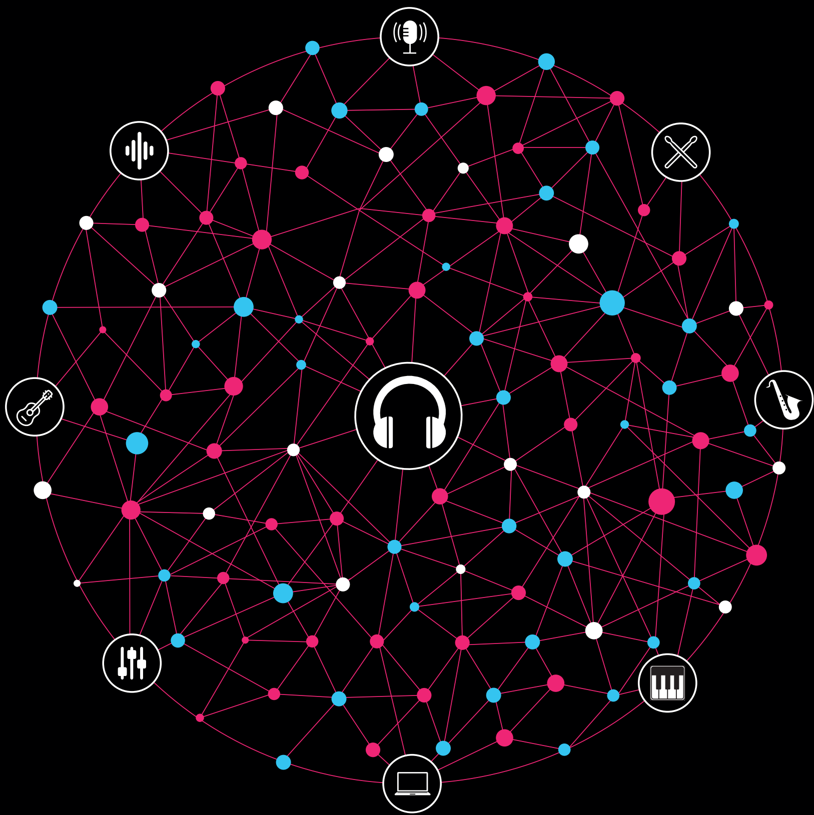
AIM PRESENTS

DISTRIBUTION REVOLUTION



MAPPING THE 21ST CENTURY DIGITAL MUSIC SUPPLY CHAIN

THE ASSOCIATION OF INDEPENDENT MUSIC
AIM.ORG.UK

'Distribution Revolution' is a new report based on research undertaken by CMU Insights on behalf of the the Association Of Independent Music.

ABOUT AIM

AIM is the not-for-profit trade body exclusively representing the UK's independent music sector, which now makes up a quarter of the recorded music market.

Now in its 20th year, AIM's members range from the largest, most respected record labels and associated music businesses in the world to self-releasing artists and the next generation of entrepreneurs in music.

AIM promotes and supports this exciting and diverse sector globally and provides a range of services, commercial opportunities and practical help to members; enabling them to innovate, grow and break into new markets.

At the larger end, AIM member businesses include companies such as Beggars Group, Domino Records, Warp Records, Mute Records, Ninja Tune and [PIAS]. They release music from artists including AJ Tracey, Arctic Monkeys, Aphex Twin, Blood Orange, Bonobo, Danny Brown, Hot Chip, High Contrast, Little Simz, New Order, Radiohead and many, many more.

More at aim.org.uk

ABOUT CMU INSIGHTS

CMU helps people navigate and understand the music business through media, education, research and events. CMU Insights is the company's business intelligence unit.

CMU shares its insights with thousands of music industry professionals every year through its own programme of seminars and masterclasses; the training courses it delivers for music companies and organisations; the speed briefings it presents at music conferences around the world; and the three full-day conferences it curates as part of The Great Escape showcase festival in Brighton each May.

CMU also supports grass roots artists and future industry talent through partnerships with the likes of the Featured Artist Coalition and the Roundhouse; the Pathways Into Music guides and courses for music educators; and by delivering guest lectures at a range of music schools and colleges.

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The digital music supply chain begins with the artists, songwriters, musicians, record producers and sound engineers who make recorded music and ends with the music fans who consume their recordings.

In between there are a number of businesses involved in the delivery of the music from artist to fan. The exact number of businesses will vary from artist to artist and release to release, though there are three key categories of partners involved in the process.

1.1 BREAKING DOWN THE SUPPLY CHAIN

As a starting point, we will briefly introduce each of these three categories of businesses that sit between the artist and the fan.

THE RIGHTS-HOLDER

The rights-holder is the entity which controls the copyright in any one sound recording. This entity probably won't control the accompanying song copyright (ie the lyrical and musical copyrights) and, in most markets, the song rights are usually licensed separately from this supply chain.

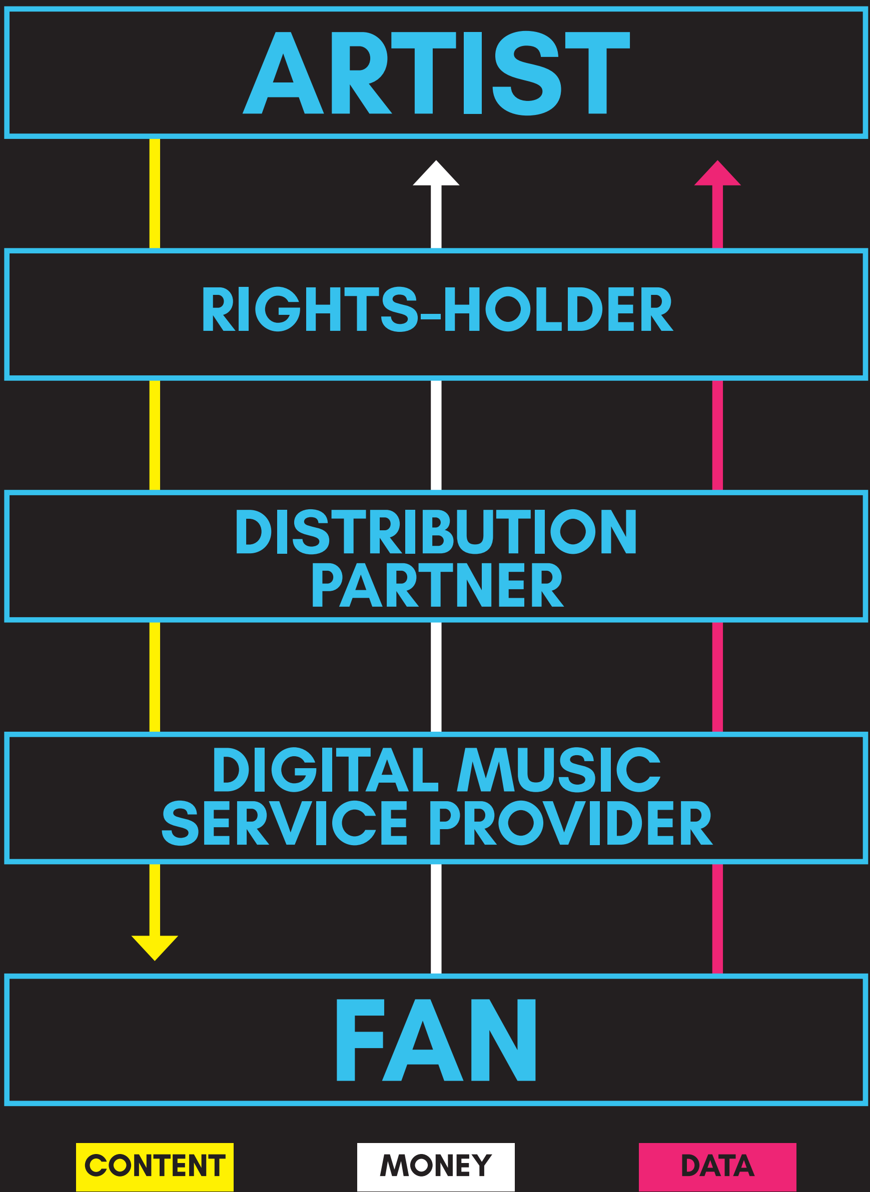
The rights-holder may actually own the copyright in any one recording. This may be because this entity is the default owner of the sound recording copyright according to the default or presumed ownership rules of the local copyright system. So, in the UK, that would mean that the rights-holder organised the studio session where the recording was created. Alternatively, it may have been assigned the copyright through an assignment deal. In that case the default, or another previous, owner transfers ownership of the copyright to the rights-holder through contract.

Alternatively, the rights-holder may control a sound recording copyright on behalf of the actual owner via a licence agreement. Licensing agreements of this kind often have a lot in common with the aforementioned assignment deals, except ownership of the copyright isn't actually transferred. Nevertheless, the rights-holder will often act as if it is the copyright owner until the point at which its licensing agreement with the actual owner expires.

In the music industry we would traditionally call this kind of rights-holder a **record company** or a **record label**, and in many cases that term is still used.

Though the rights-holder might also be an artist who has chosen to self-release their music. Depending on their level, they may do this on their own, or in partnership with a producer or artist manager, or a studio

KEY STAGES ON THE DIGITAL SUPPLY CHAIN



or artist management company. As part of this process they may formally or informally set up a standalone **single-artist-label** that their recordings will be released under.

When it comes to record labels, it is common to distinguish between major labels and independent labels. Today, the term 'major' usually refers to any record label majority owned by one of the big three music rights groups:

- Sony Music (owned by Sony Corp).
- Warner Music (owned by Access Industries).
- Universal Music (owned by Vivendi).

The independent labels are everyone else. As a result, the independent label community includes a very diverse range of companies from global players with hundreds of employees to single person operations. Self-releasing artists and their single-artist-labels would also often be included in this independent label community.

For the purposes of this report we will use 'rights-holder' as a neutral term for all of the above. Where we say 'label' we specifically mean a company which works with and releases music from multiple artists. We will refer to 'single-artist-labels' where we specifically mean artists releasing their own music, with or without the support of a producer, manager, studio or management company.

THE DISTRIBUTION PARTNERS

Between the rights-holder and the digital music service provider, or DSP, there are often distribution partners. These are the companies that are the main focus of this report.

The digital music distribution process involves brokering DSP deals, content checking and delivery, managing data feeds, payment processing, B2B marketing and analytics. A rights-holder may undertake some or all of these activities itself, but most will rely on a distribution partner to handle at least some of these tasks. The distribution partner may also provide other services to the rights-holder, all of which we will discuss later.

There may be a single distribution partner undertaking all of this work on behalf of any one rights-holder or there may be multiple partners involved in the distribution process. This may be because a rights-holder appoints different partners for different tasks or because one primary distribution partner outsources some of the work to others.

As for what we call this distribution partner, the terms **aggregator**, **distributor**, **label services provider** and **artist services provider** have all been variously used.

These terms are not necessarily synonyms, but instead describe different categories of distribution partner or different categories of services that a distribution partner might provide. However, there isn't really an industry-wide consensus on how these terms should be used, which we will come back to later.

THE DIGITAL SERVICE PROVIDERS

The DSP is the consumer-facing digital music platform. There are a number of different kinds of DSPs, though a common distinction is made between the **download platforms** – like the iTunes Store and Beatport – that allow users to download permanent copies of a track, and the **streaming platforms** – like Spotify and Apple Music – that provide access to tracks that can be streamed.

Streaming services can be further broken down by a number of different criteria including...

- Whether the service offers fully on-demand access to tracks (eg Spotify, Apple Music) versus a personalised radio experience (eg Pandora, iHeartRadio).
- Whether users pay to access music (eg Spotify Premium) versus access being free to the user paid for by advertising (eg Spotify Free).
- Whether the service offers a wide ranging catalogue of tens of millions of tracks (eg Amazon Music Unlimited) versus a smaller catalogue curated in some way (eg Amazon Prime Music).
- Whether the service only carries music content provided by labels and distributors (eg Spotify, Apple Music) versus those that encourage user-generated content (eg Soundcloud, YouTube), whether that UGC be music and mixes uploaded by amateur artists and DJs, or music that soundtracks other video content.

In the 2000s, download platforms generated the most digital music revenues, with Apple's iTunes Store dominating, especially in markets like the UK. In more recent years download platforms have generally gone into decline while streaming services have experienced significant growth, so that since 2016 – on a global basis – streaming revenues have out-performed download revenues (according to figures from the International Federation Of The Phonographic Industry).

Streaming alone became the global record industry's single biggest revenue steam in 2017 and now accounts for about half of the recorded music sector's combined income.

In most countries fully on-demand streaming platforms dominate, both in terms of users and revenue. The main exception is the US where Pandora and iHeartRadio's personalised radio services are also major players, particularly in terms of user numbers.

In most markets the free-to-access streaming services have more users but the premium streaming services generate the most revenue. On a global basis, premium streaming generated 37% of total recorded music revenues in 2018, compared to 10% from free services.

1.2 THE SHIFT TO DIGITAL

The shift to digital resulted in a number of significant changes for rights-holders.

First, traditionally rights-holders generated most of their income by directly exploiting their recording copyrights through the process of pressing and selling physical product like vinyl records, cassettes and CDs. In the digital domain, they have become licensing entities, granting permission to DSPs which then exploit various elements of the sound recording copyright in order to deliver the music to the fan.

Second, with the shift to streaming, the recorded music business has moved from a sales model to a consumption model. In the physical market rights-holders received whatever the consumer paid for their physical product (minus any costs of sale). In digital, they share in a DSP's revenue based on how much of total consumption their catalogue accounts for. This also means that rights-holders earn tiny micro-payments every time their recordings are streamed, rather than a one-off but larger payment whenever a copy of one of their recordings is sold to a fan.

Everyone in the wider music community is still adapting to the challenges that these changes have created. This includes the various supply chain challenges this report discusses.

‘Distribution Revolution’ is a major new report from the Association of Independent Music (AIM) and CMU Insights.

It explores how the role of the music distributor has evolved over the last two decades as distribution companies have expanded the ways that they work with independent music businesses, increasingly moving into so called artist and label services.

It then explains the options now available to those independent music businesses - including self-releasing artists - who are seeking a new distributor, outlining essential knowledge required before selecting any new partner, for distribution and more.

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