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**The Music Industry and
the Digital Era**

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Index

1. Introduction

2. Advantages

2.1 Streaming + Distribution

2.2 Live Industry

3. Disadvantages

3.1 Streams over talent

3.2 Artist royalties

4. Conclusion

5. Bibliography

1. Introduction

The rise of the Internet and digital distribution has had a wide range of changes in several industries especially music. Several years ago, labels were profitable and artists were more dependent on them. In the meantime, CD sales and physical distribution were strong and one of the only ways consumers could have access to music. Not until 1999 with the rise of P2P services like Napster and illegal downloading, we started to see the beginning of what it's now called, Digital Era.

The industry has experienced a shift in which many thought it would be the beginning of a catastrophic decline. Many believed this was a reality due to the impact of piracy, which led to a drastic fall in record sales. (Wolfson, S 2018) says that in space of a decade, annual revenues fell from \$14.6 billion in 1999 down to \$6.3 billion in 2009. This drop led labels to start making cost reductions and leading people to unemployment. Gamal, A (2012) comments that the rise of legal digital distribution begun with the Apple iTunes Store in 2004, which potentially helped record companies to recover a portion of their sales. Social media has also been a huge factor to the restructure of the music industry. Nowadays it depends on consumers and streaming services more than anything else. While artists whom before had little to no choice than to sign a record deal due to the high costs of recording, distribution and promotion, are now becoming less dependent on labels to have their music distributed to an expanded audience. Artists have more freedom with their promotion and marketing and thanks to streaming services; they have a close relationship with their fans. The live sector has also experienced a growth due to this industry's shift to digital, since artists nowadays (both signed and unsigned) make most of their revenue though touring and merchandising.

This essay will evaluate the advantages and disadvantages of nowadays music industry' shift into a service sector. A broad scope of the music business will be evaluated, which will include the technological advances of both recording and live industry, and the implications that this change had on them throughout these recent years.

2. Advantages

2.1 Streaming + Distribution

For many years, major labels such as EMI, Universal Music Group and Sony dominated the structure of the music industry. Artists would receive a recoupable advance but many didn't benefit from recording revenues. To add to it, getting into a studio and recording an album was very expensive, not to mention its promotion and distribution. The rise of digital became a threat. Barnes, P (2017) mentions that when vinyl and CD sales were strong, major labels saw a huge profit, but the rise of the digital made physical distribution lose its value. Streaming has outdone radio, CD and digital downloads, becoming the prime channel of music consumption. The Internet replacing physical for digital, has made way for companies such as Apple and Spotify, and then on things have started to change. Oliver, et al. (2017) mentioned how the Internet broadened access to the creative sector, and made artists reach their audiences in many ways. Nowadays the cost of digital distribution is almost inexistent in comparison to physical, and expenses on music marketing fell by 22% between 2009 and 2015 (from \$2.2 billion to \$1.7 billion). Music streaming services nowadays allow artists to look at their own analytics and gain insight about who listens to their music. This leads to easier marketing and better-informed decisions around production and promotion (Sander, D 2015). They are leading the way in this industry. (Wolfson, S 2018) says that Universal Music Group posted revenues of more than 5 billion with about 1 billion coming from streaming, and revenues coming from British music companies grew faster in 2017 than any year since 1995 (45% increase in subscription streaming revenue). Nowadays labels are experiencing a 10.6% rise in earnings year on year. It's safe to say that these numbers put the survival of the CD at risk as intermediary roles are reshaped. Sweeney, M (2018) comments that while service's revenue increased 41% (more than 38% of total global market of recorded music); CDs fell 30% (\$5.4 billion to \$3.2 billion). Spotify on its own made a total digital income of \$5.57 billion, including streaming subscriptions, downloads and ad revenue.

More people have access to creative content nowadays due to streaming and a more options and versatility. This is due to competition amongst content creators, which leads to improvements in product quality, which doesn't apply just to music but to game developers and scripted content such as Netflix and Amazon. It benefits both consumers and content creators. Turning the music industry into a service sector has allowed more freedom to the artist to make money with or without a label, and with less spending on physical distribution. Chance the rapper won a Grammy for his album based solely on free streaming. He released his music for free on services such as Apple Music, SoundCloud, and Spotify from whom he has 9,586,590 monthly listeners (Heavy, 2018). While he gives his music away for free to fans, he collects his revenue from streams, live shows and merchandising, bringing him to a net worth of \$30 million. Another example is Bring Me The Horizon's brand new album 'Amo'. It sold 16,000 units in its first week in comparison to their previous work 'That's the Spirit' (62,000), which resulted in a 75% dip in record sales (Pasbani. R 2019). But the album became their first number 1 album in the billboard charts based mostly on streams, hitting an almost total of 90,000,000 streams on 4 singles alone). Sander, D (2015) says that without paying customers, streaming services won't have revenue to send to right's holders. They work on behalf of artists to convert consumers back into paying costumers. But instead of buying a track for \$0.99 or a full album, consumers are able to choose a 'pay as you go' plan and still listen to music for free. Barnes, P (2017) mentioned that apps have been integral to the increase of streams revenue, since nowadays consumers spend most of their time listening to music on their phone. In 2017, the top 5 music and Audio apps averaged more than 70 million monthly users on android. The mobile app economy is forecast to be worth \$6.3 trillion in 2021. Employment has also increased significantly due to the impact of the Internet. Although there has been an unemployment rise in physical sales sectors such as HMV, there has been a significant growth in the areas of sound recording and music publishing. With the development of software and music distribution, there has been an impact on music production itself, where full albums can be recorded using minimal equipment, thus minimising production costs. Although this entices a reduction in music production jobs, it opens doors to up and coming producers

to start their own business and careers, which seemed more complicated and challenging a few years back.

Oliver, et al. (2017) says that in between 2011 and 2015, there was an annual growth rate of 4.9%, although radio programming fell at an annual rate of 1.6%. Owinski, B (2019) comments on how radio is still a driving force when it comes to the new music industry. But due to the competition that it faces (such as iheart radio), radio must keep up with updates in technology or it could face a further decline.

2.2 Live Industry

Unlike recorded music, live music industry revenue has been steadily growing over the years. Gamal, A (2012) mentioned that live performance was the original source of a musician's income, including concerts, associated sponsorships and merchandise sales. Labels used to have more financially active role by supporting tours in order to fuel the scale of recorded music. Due to the decline in sales in the early 2000's, labels have stated experimenting with vertical integration by helping to promote tours. As it was clear that majority income was from live and merch, record deals started to be revised in order to include a portion of revenues from live music and hopefully capitalize them. Hence nowadays 360 deals are more often offered to artists, where labels are able to get a share from every income source. Frostonline (2018) comments that live revenue in 2000 totaled a 33% in the music industry, which dramatically shifted in 2013. Nowadays, 59% of artist's revenue comes from live industry compared to 9% on music sales, making concerts their primacy source of income. Chapple, J. (2018) says that business in the live industry is set to reach \$30 billion for the first time in years. Live music revenues plus ticket sales and sponsorships are expected to have an increased annual rate of 3.3% from 2018 to 2022, reaching \$30.55 billion (\$24.36 on ticket sales), while physical sales and downloads will slide down 9.6%. The author also mentions that even though streaming will go a further 18% over the next 4 years, it won't compare to the growth of the live industry, which is expected to become the main generator of music revenues.

Besides concerts, technology is changing the live industry at a fast pace, and the music business is adapting to it. According to Eventbrite (undated), the audience and artists' fans will be part of the industry's marketing all thanks to social media. 95% of venues nowadays use platforms such as Facebook, Instagram, Twitter and/or Snapchat. Professional live streams using Facebook live create an authentic connection with fans, giving them a behind the scenes experience and making them tune in to shows even if they are not physically attending. Streaming and social media have become the go-to destinations to discover new shows. Integration between Facebook and Eventbrite already allows fans to purchase concert tickets directly through an events page, and this proves itself to be beneficial in the long run. Streaming services such as Spotify also includes a concert tab and a personalized concert's suggestion feed that fans can explore. Enabling tickets on other platforms such as Facebook will drive growth in coming years and an increase in ticket sales. This is due to the simple purchase process that takes place: the fewer clicks it takes to get tickets, the better.

3. Disadvantages

3.1 Streams over talent

One of the biggest disadvantages for streaming in the industry is algorithms and how the industry is dependent on them for revenue and sales. Due to the decline in physical sales and rise in streams, artists are being dropped by labels more often if they don't make targets. Santos, I. (2016) mentions that there has been a change in measuring artists' talent and success. Nowadays they establish themselves through social media and services such as Spotify, and labels are more cautious with their selections, as they want to see potential artists build their own fanbase. It seems that nowadays-social metrics such as streams and likes are seen as very important supporting evidence to validate an artist potential of commercial success. In other words, algorithm rises above talent. Hu, Cherie (2018) argues that the popularity of digital distribution and streaming has developed a 'machine driven world' in which artists are not rewarded for

their originality, but whether their streaming and social data is high enough. Algorithms nowadays also have more influence on the listening habits of consumers and it's also affecting press coverage in music. It seems that music critics vouch for artists that would have been ridiculed if it wasn't for the appealing algorithm, therefore devaluing genuine creative work.

3.2 Artist royalties

Even though streaming numbers have reached new records, the industry is facing challenges with transparency when it comes to royalties. During the time when physical sales accounted for the majority of the industry's revenue, there was more insight into artists' earnings. Digital distribution in today's industry is wrapped under a complex chain involving several licensing agreements and inaccurate royalty calculations before it even reaches the rightful owner.

Engerbretsen, A. (2018) comments on how artists are unsatisfied with their royalties' and 'facing issues in regards to rightful payments'. Spotify has been under fire over the recent years over mechanical licensing rights and for being a major liability on artist's payments for their work. In 2016, Spotify paid more than \$20 million to music publishers in order to settle a complicated issue over licensing. It's claimed that publishers were owed between \$16 million and \$25 million in royalties Sisario, B (2016). Spotify pays about \$0.006 to \$0.0084 per stream, and it's shared amongst right holders, which not only include the artist, but also the record label and the producers involved (if applicable). Sehgal, K. (2018) stated that Taylor Swift 's hit single 'Shake it off' earned between \$280,000 and \$390,000 out of an astounding 46.3 million worth of streams. 1 million plays is equivalent to around \$7000, which means that artists are having their work undervalued in exchange for pennies.

4. Conclusion

The music industry will continue to transform thanks to ongoing technological advances and the shift to digital, although it will face a set of unique challenges and opportunities. Streaming has made the music industry a more democratic environment. Labels no longer dominate the market and more power was given not only to the artists but also their fans. The downward slope of physical sales has made distribution easy and affordable, giving artists the freedom to be independent and see more profit coming from their work.

The Internet is now the enabler of the creative sector. The rise of social media and online music communities have allowed up and coming acts to establish themselves and fans are being given new close up experiences thanks to new marketing techniques, such as Instagram and Facebook stories. Not to mention the widespread availability of high Internet speeds that enables the artist's audience to have a fast access to their content. The further expansion of the live industry business is also another fortunate result of the music business' digital phenomenon. Thanks to the easier access to marketing and the merging of ticket sites with social media platforms, smaller and up and coming acts are able to easily promote themselves, expand their following, thus expanding their income stream as well as the rest of the industry's revenue. Nowadays the fan has an active role in their favorite's artists' life, as technology allows them to promote their concerts, stream their work and therefore being vital enablers for an artist's income.

One of the biggest challenges that the music industry faces as of yet is the impact that streaming algorithms are having on artists and the inaccurate royalties. Even though revenue is growing, musicians are still facing low and unfair payouts and while some genres are booming, others remain destitute. This raises questions on whether streaming is making things better for all artists, or whether acts with global appeal will always have the upper hand. Thus the music industry's next step will be develop and incorporate ways that will allow artists to have a better insight to their streaming earnings (such as Blockchain) as well as creating an algorithm that is fair to every single one. Nevertheless, innovation will be the main force that will keep the music industry going.

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