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MA Music Business

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Critically analyse and review business strategies, challenges and revenue mechanisms related to the commercialisation of music and entertainment content on YouTube.

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1. Introduction and Background

On 2nd June 2021, YouTube's Global Head of Music, Lyor Cohen, confirmed that YouTube paid artists, songwriters, and rights-holders, over \$4 billion in the previous 12 months. Three months prior to this, YouTube reported that (across all of its videos, music included) it generated \$19.78bn from advertising across the course of calendar 2020. This means that during the last 12 months to June 2021, YouTube paid the music industry 20% of what it earned in advertisement revenue last year across its platform (Stassen 2021a).

YouTube is important for music. It has become a powerful revenue generator for the global music industry with a clear strategic goal which, according to Cohen is, *"...to become the leading revenue generator for the music industry."* That would mean overtaking Spotify's annual royalty payments, which according to Spotify's Founder in March 2021, surpassed \$5 billion in 2020 (Ek 2021).

Yet, YouTube is probably best described as a frenemy of the music industry. YouTube has clearly represented a disruption for existing traditional media business models (Burgess & Green 2009) commercialising music via user created content and becoming a powerful revenue and fan marketing channel for record labels and publishers, who's artists and songwriters also expect a fairer share of the revenue generated from their works.

The streaming of music is propelling global music consumption to record highs. After nearly two decades of disruption where the industry struggled to find a digital revenue channel to replace the demise of physical CD sales, the music industry is undergoing a massive revival. In its 'Music In The Air' report published in May 2020, Goldman Sachs estimated the entire music industry's revenue (live,

recorded, and publishing) to increase from \$62 billion in 2017 to \$131 billion in 2030. Consumers are signing up for subscriptions like never before. This seems to be proving correct for YouTube. On 2nd August 2021, it was reported that YouTube had more than 50 million YouTube Music subscribers (Stassen 2021b).

YouTube is now offering its users access to music in much the same way as other streaming services do even though it generates revenue across an audio-visual platform and relies on users to primarily create its content. However, the YouTube user-generated model has given it an almost privileged market position, protected to some extent by safe harbour laws, especially in the US, but also using this model to differentiate itself in justifying how music content and usage is accounted back to rights holders and artists.

According to 'The Trichordist Streaming Price Bible' report which compared per stream revenue generated by leading service providers in 2019 (Trichordist 2020), the biggest takeaway by far is that YouTube's Content ID, showed that over 50% of all music streams actually generated less than 7% of revenue.

Tom Gray, of the band Gomez and Performing Right Society for Music Director, is founder of the social media campaign 'Broken Record'. He reformatted the findings of the Trichordist report in his written evidence to the Digital, Cultural, Media and Sport Committee's *Economics of Music Streaming Inquiry* (Gray 2020). In this document he estimates the average pay-out to a songwriter per stream from eight different service providers, and calculates how many streams a songwriter would need to earn one working day of UK Minimum Wage:

STREAMING SERVICE	Estimated Avg. payout to songwriter per stream	Number of streams for songwriter to earn one pound	Number of Streams for Songwriter to earn one working day at UK Minimum Wage (8 hours)	If Songwriter is one of three writers on a song (Closer to the norm of Pop Writing) to earn a day of UK Minimum Wage.
AMAZON	£0.0013	769	53,662	160,986
TIDAL	£0.001	1,000	69,760	209,280
APPLE MUSIC	£0.00076	1,316	91,789	275,367
DEEZER	£0.00063	1,587	110,730	332,190
GOOGLE PLAY MUSIC	£0.00062	1,613	112,516	337,548
SPOTIFY	£0.0004	2,500	174,400	523,200
PANDORA	£0.00022	4,545	317,091	951,273
YOUTUBE	£0.00017	5,882	410,353	1,231,059

Chart 1: streaming service providers and average pay-outs to songwriters

Here, YouTube has the lowest per-stream pay-out rate, paying the least share of revenue onto to songwriters. It's a compelling comparison. In the same year, YouTube reportedly said that the company pays the music industry "*rates that are on par with the rest of the industry across both the advertising and*

subscription businesses.” (Harris 2020). That is somewhat difficult to comprehend given the comparison in per-stream rates in 2019.

Establishing whether YouTube ultimately pays rights holders less for music compared to other music streaming services is a key consideration in analysing YouTube’s and Google’s dominance in the consumption of music and video. If this is the case it could mean that rights holders, artists and songwriters could be at an unfair disadvantage in negotiating a fair rate for the use of music on its platforms.

2. Business Strategies and Revenue Mechanisms

Following the launch of YouTube in 2005, Google acquired YouTube in 2006 for \$1.65 billion. Google immediately began to deliver a business strategy to commercialise and expand beyond a free platform for user generated content and to evolve into offering streaming services, mobile apps, network television and the ability to link with other services.

YouTube began monetising video content in 2007 by offering in-video advertising options to selected content creators. The period between 2015 and 2018 marks a significant scale up of commercialisation and a clear business strategy to generate revenue from users who wanted to access music and stream music. In 2015 YouTube launched its *YouTube Red* subscription programme, *YouTube Music* and introduced channel memberships to allow creators to monetise their content and to allow users to access exclusive content. In 2016 YouTube appointed ex-Warner Executive Lyor Cohen to head its global music business. In 2018, *YouTube Music* was launched, and *YouTube Red* was re-launched as *YouTube Premium*.

YouTube now generates its revenue from advertising and subscriptions through five key revenue mechanisms:

- (i) Advertising: YouTube monetises free viewing (non-subscription) by selling advertising and promoting alongside free-viewing on the platform, including on its *YouTube Music*.
- (ii) Paid Subscriptions: such as *YouTube Premium* (formerly *YouTube Red*), a pay-for-subscription service that bundles ad-free YouTube access enabling streaming video, ad free access to millions of songs (via *YouTube Premium Music*), downloading music for offline listening and playing songs in the background, free access to *YouTube Kids*, access to *Google Play Music* in certain countries where service is available. *YouTube Music Premium* is a pay-for-subscription which offers background play, ad-free music and audio-only mode.
- (iii) *YouTube Memberships*: a patreon-like feature, which allows viewers to become subscribing members of YouTube channels they want to support.
- (iv) *Superchats, Superstickers & Merchandise*: Users can purchase animated graphics and sell merchandise.
- (v) *YouTube TV*: US exclusive subscription based live TV streaming service.

YouTube Music is available as a stand-alone platform or as part of the *YouTube Premium* bundle. All of the above have potential to create income for content owners and demonstrates how the platform has become more commercialised.

One of the largest and fastest revenue growth areas has come from advertising. Google does not provide a break-down of all YouTube revenue streams in its annual reporting, however, Alphabet Inc's (Google's parent company), company reports do account for YouTube's specific advertising income. The K-10 annual report clearly illustrates the rate of YouTube's advertising revenue growth

increasing from \$8,150 million in 2017 to \$19,772 million in 2020. (Alphabet Inc 2019 & 2020):

Growing revenue through advertising is core to the growth business strategy of YouTube, monetising content for both itself, creators and rights owners. Acknowledging that some YouTube users want ad-free experiences, Google's CEO Sundar Pichai speaking about YouTube's advertising in 2015 stated that *"...great content requires investment. So, we work hard to build great ad products that people find useful – and that give back to creators and publishers."* (Piachai 2015).

Clearly, YouTube has continued to apply Pichai's strategy. YouTube continues to innovate by offering new advertising revenue mechanisms to interact with consumers who are now engaging with YouTube content in different ways. In November 2020 it launched YouTube audio-only ads to target music and podcast listeners.

3. Challenges

Almost immediately after Google acquired YouTube in 2007 it faced multiple copyright infringement claims. YouTube had relied on the Safe Harbour rule (in US Law – the Digital Millennium Copyright Act 1998 – DMCA. Safe Harbour provisions were transposed into UK law from the European Union's E-Commerce Directive in 2002), which protects an ISP from copyright infringement liability for infringing content found on their platform if that content was uploaded by a third party. This leaves the content owner to track the third party and issue a take-down notice. When the Act was initially passed it was accepted that this was fair and manageable approach, however, YouTube had not been founded at that time the Act was passed. With millions of user generated videos being uploaded

and copyright infringement taking place regularly, the ability for content owners to monitor and manage their rights on YouTube became untenable.

In the case of '*Viacom International, Inc. v. YouTube, Inc.*' (2012) it was alleged that YouTube allowed its users to upload and view copyrighted material owned by Viacom and further that YouTube knew it was infringing and could stop it if they wanted to. Originally filed in 2007, in 2012, It was found that the DMCA's Safe Harbour provisions did in fact shield Google from copyright infringement. However, in 2013, an appeal overturned in part but still favoured towards Google. As another appeal commenced, the two parties settled out of court apparently with no money exchanged.

A useful way to categorise the music industry is to consider it as a copyright industry (Wikström 2020). Perhaps YouTube began to realise this at least to an extent that it should have mechanisms that not only generated revenue but also allowed content creators and content owners more efficient and effective ways of control and managing content that it allows to be uploaded onto its platform.

YouTube launched its *Partner Program* in 2007 which has continued to evolve giving access to YouTube's suite of content management tools including *Content ID* and the *Copyright Match Tool*.

However, these tools do not prevent potential copyright infringement on YouTube, they mostly provide a mechanism for rights holders to manage their content on the platform after the music has already been uploaded. Youtube defends its position saying that it is the responsibility of rights owners and that the *Content ID* process removes many of the normal costs publishers and labels need to pay.

Some labels and publishers argue that this means that user upload services get unfairly preferential rates creating a 'value gap'. The argument from rights

owners is that nevertheless, the safe harbours give YouTube an unfair advantage in licensing negotiations because it is positioned with the owner's content already and therefore has the upper hand in that if the owner does not license it on YouTube's terms they will be left with the cost of monitoring it themselves or removing it and losing all revenue..

Tom Gray, calls for more of the streaming revenue 'pie' to make its way to artists and songwriters. The campaign was launched during the Covid-19 pandemic in 2020, when artists relied even more upon revenue generated from recorded music revenue, due to restrictions on live performance. This campaign has increased the profile of the lack of transparency and equitable pay for artists from revenue generated from streaming of their music. This has coincided with the DCMS inquiry into the *Economics of Music Streaming*.

In its second report published in July 2021, the committee acknowledged the dominant market position of Google and YouTube and recognised that safe harbour was giving YouTube a competitive advantage over other services and undermined the music industry's leverage in licensing negotiations, suppressing the value of the digital music market (House of Commons 2021 p.87).

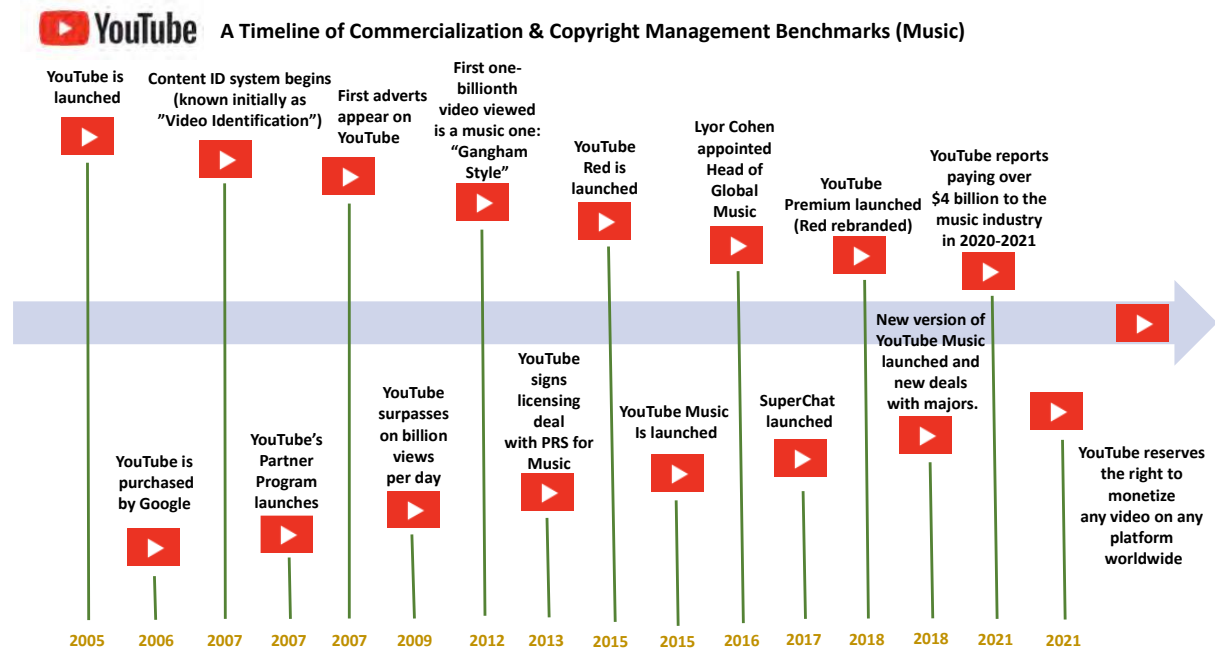
In the same report, Tom Gray describes safe harbour as “*a get-out-of-jail-free card for Google from copyright and competition law*”. Elena Segal, Global Senior Director of Music Publishing at Apple Inc., went further in the report saying that safe harbour provisions create an “*unlevel playing field*” in favour of YouTube: The fact that they do not necessarily have licences for all of the music that they use and that they do not need to. Even where they do have licences the amount they pay, because of the way their business model is set up and the way the tariffs work, is less. As such, whereas other streaming services negotiate to license music and subsequently make that available to consumers, YouTube

effectively negotiates licences for music that users are already providing through the service. This gives YouTube an ongoing competitive advantage when licensing music relative to other competitors that do not host.

In response YouTube refers to the contribution it now makes to the global music economy. In the UK, YouTube argues that its creative ecosystem supports the equivalent of 30,000 full time jobs and contributes £1.4 billion to GDP (House of Commons 2021, p.86) These are powerful statements and a clear signal of commercial strategic intent by YouTube and demonstrates that, along with its owner Google, it is prepared to stand its ground based in terms of both the commercial and legal status compared to other streaming platforms.

4. Conclusion

Clearly, YouTube and the music industry have a working relationship where commercial opportunities and copyright challenges are not independent of each other. This is summarised in the timeline below which illustrates key stages of commercial evolution of music content on YouTube intertwined with some of the significant steps taken to address and keep within safe harbour regulations, strike licensing initiatives and launch copyright management tools.



The dilemma for both YouTube and the music industry is that the music industry needs YouTube and YouTube needs music content (Cooke 2020). It clearly pays less on a per-stream rate but with the overall value it brings to the music industry and with a wider range of opportunities for music content to be monetised than other service providers, perhaps the industry is now recognising that this is a industry partner it now wants to embrace a little more. On hearing that YouTube subscribers had surpassed 50 million, Max Lousada, CEO of Recorded Music at Warner Music Group said, *"Music has always been a pivotal part of their platform, so it's great to see them become a dynamic force in subscription streaming too."* (Stassen 2021c).

It's interesting that the UK Government, in its response to the DCMS Committee's Economics of Streaming Report recommendations, agreed to ask the Competition and Mergers Authority (CMA) to consider a market study of the music rights sector and the major music companies' role in it, and to discuss legislative proposals further, as well as other proposals for changing the ways

streaming monies are shared out (Cooke 2021). Perhaps the spotlight has shifted from YouTube and moved onto the Majors and their process for sharing streaming revenue with artists and songwriters. At least for the time being.

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