

Business strategies, challenges, and revenue mechanisms related to the commercialisation of music and entertainment content on YouTube

2521 Words

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YouTube is the world's largest video sharing platform, with over 2.5 billion monthly users and \$28.8 billion in revenue in 2021 (Iqbal, 2022)ⁱ, this is an increase of 46% in revenue on the previous year. YouTube is one of the world's most popular apps, with it sitting behind only Google and Facebook, as a result it pays out £54 million a year to its highest earning YouTuber, 'MrBeast'. However, what makes YouTube so successful is its integration with the music industry, offering YouTube Premium, combining music and video streaming with no ads, this attracted more than 50 million customers in 2021, up from just 10 million in 2018(Iqbal, 2022)ⁱⁱ,. This essay will analyse and review the challenges, revenue streams, and business strategies surrounding its commercialisation and monetisation of music and entertainment content on YouTube.

We speak about Netflix's influence on Hollywood, media consumption and the value we place on content, and for good reason. But YouTube is undoubtedly the biggest and most significant name in media and content distribution for the last 20 years, offering both a community of creators and consumers alike. The title of both the largest video and music streaming service is attributed to this platform. A completely new category of entertainers was also produced, the content creator.

Since iTunes had made the music industry completely dependent on Apple for the past ten years, record labels didn't want another tech company to hold such sway over it. It then started lobbying with Amazon and YouTube to treat paid music with more respect and to help increase the value of music.

The first point of examination for any investor looking to value a company is often by looking straight to the figures, which in the case of YouTube are extremely strong, demonstrating clear year on year growth and presenting that they are here to stay. But what's more important is examining and understanding where this growth and value comes from, how its earned and the business structure involved in organising and maximising this revenue. The company is valued at an estimated \$180 billion (Mann, 2022)ⁱⁱⁱ and is a subsidiary of Google, valued at a staggering \$1261.04 billion (Macrotrends, 2022)^{iv}.

"YouTube's main source of revenue is advertising. Additionally, we earn money from our monthly subscription businesses such as YouTube Premium. We've also developed tools to help eligible creators earn money in a variety of other ways, such as Super Chat, channel memberships and merchandise. In most cases, creators and YouTube share revenue generated from these channels." (YouTube, 2022)^v

This is the statement regarding revenue sources given by YouTube on their website, stating that advertising makes up the majority of its revenue as well as its paid subscription service. This is important to examine, the reason as to why YouTube holds such a large stake in

advertising is similar the reason why Facebook and other social media platforms do as well, the value of data.

“The rewards for using data are big. Smart organizations are using it to improve user experience, personalize interactions, improve loyalty and usage, create better products and processes, improve quality, lower waste, leverage preventive maintenance and reduce costs.” (Wipro, 2019)^{vi}

All social media platforms provide the data needed to achieve all the forementioned benefits. Users can be accurately tracked, their interests, engagement times, age group, location and behaviour patterns are just some of the data points obtained by platforms such as YouTube. This data is invaluable due to the nature of the users of social media and their patterns of consumption. An example of this would be how social media users interact with content at multiple times throughout the day, with YouTube’s younger UK based users watching an average of 59 minutes on a daily basis. For the sake of comparison this same user group also used Instagram for an average of 40 minutes, Snapchat for 40 minutes and TikTok for a notable 70 minutes respectively. (Shepherd, 2022)^{vii}

With such a high user engagement rate it’s no surprise that YouTube is able to firstly make use of these users by analysing and categorising these users, their behaviour, consumption patterns and engagement rates. Secondly, as a result of this YouTube can offer a very accurate advertising service to companies in all areas of business. The accuracy of this advertising is invaluable, allowing for companies to target specific target audiences, maximising potential click through rates, user awareness and user engagement with the advertised content. An example of this is William Painter, a retailer of sunglasses and accessories who turned to YouTube to increase their brand awareness and overall sales. *“As an online sunglasses’ retailer, William Painter had to bridge the gap for a product normally purchased in person. They knew they needed a medium that could convey the high quality of their sunglasses — and how great they look on everyone.”* (YouTube Advertising, 2022)^{viii} To make use of the compelling, genuine narrative offered by the platform, William Painter turned to YouTube. The business showcased their goods on a global scale using YouTube TrueView for action ads. When they used smartphones to record their initial videos, they tried several strategies before deciding that humour was the most effective method to engage viewers. A single video went viral, garnering over 65 million views to date, and the brand immediately took off.

As a result of its success on the platform, William Painter sunglasses increased its website visitor rate by 1,500%, it increased discussion around the product and brand by 1,300% and its year-on-year revenue increased by an astronomical 1,300%.

Creators earn money from YouTube by uploading content, from music videos and short clips to documentaries and films, the video sharing platform is used by creators in every sphere. In recent years YouTube has been criticised for not paying its artists and creators fairly,

“Google-owned YouTube has long been accused of exploiting the “value gap” in its business, a reference to what it makes from online advertising around music videos and the share of that income given to artists and labels.”^{ix} (Sweney, 2021)

The amount that YouTube pays in terms of royalties to its creators has been widely criticised for being far less than its competitors. Specifically in the case of the music industry this has affected music video revenue drastically, *“YouTube’s holding company (Google) can’t really have a motto ‘Do The Right Thing’ then pay one-seventh of the rates other streaming services pay,”* said Allen Kovac, *“Moreover, Google drives audiences to YouTube, which devalues artists’ music. That’s a win-win for them, but a colossal loser for artists.”*^x (Sweney, 2017)

The reduced rates that YouTube pays to its artists on the platform not only reduces their

income and increases the already existing financial pressure on so many musicians, but it also devalues their work. It lowers the bar and sets a precedent that is reducing the minimum a company or consumer expects or is willing to pay for the music they hear and the content they consume. The opposite of what is to be expected from the industry is happening, with more people around the world having access to music, video content and more artists than ever before releasing music, there should be more money and value to the industry than we are currently seeing. This can be directly linked to YouTube's attitude to the industry, as well as so many others like Spotify, Amazon music and Apple music. This is an attitude of sell the highest volume of content to the consumer at the lowest price, with these companies all competing and even in some cases operating at a loss to sell their services cheaper than their competitors. An unpopular opinion is that the consumer also has a responsibility to place the correct value on the music they listen to, love and enjoy every day, consumers must either place more value on the content they consume or the companies at the top must reset the average buy in point for these streaming services, from an average £10 per month to a figure that better represents the true value of music and online content.

The way in which YouTube is able to generate income is via the monetization of content uploaded by its creators, artists and users. This monetisation of content on the platform is made possible via the transfer of a non-exclusive licence. *"You retain all of your ownership rights relevant to your Content. However, by submitting Content to YouTube, you hereby grant YouTube a worldwide, non-exclusive, royalty-free, sublicensable and transferable license to use, reproduce, distribute, prepare derivative works of, display, and perform the content in connection with the Service and YouTube's (and its successors' and affiliates') business, including without limitation for promoting and redistributing part or all of the service (and derivative works thereof) in any media formats and through any media channels."*^{xi}(YouTube, 2022) What this means for creators is they still own their masters/rights but ultimately, YouTube can do what they like with your content as all of the six exclusive rights of copyright ownership are non-exclusively licensed to YouTube. However, with YouTube's business model this crucial acquisition of rights and the exploitation thereof of those rights to generate revenue comes at a cost to the company. There are three main costs or outgoings for YouTube these are as follows:

- Maintenance and development of the platform and its content.
- Employment of its 2,800 team members, crucial to operations and continuance of business affairs.
- Servers, other associated hardware, company premises and marketing.

Maintenance and development of the platform includes but is not limited to the task of all copyright acquisition, protection, verification and necessary maintenance or updates. The legal area that requires the most attention is the verification of correct copyright ownership ascribed to the uploader of the content to YouTube. In March 2007 YouTube were sued by Viacom and other content providers, they accused YouTube of copyright infringement and maintained that the company should be liable for hosting close to 80,000 videos on their platform that they did not have existing or substantiated copyright ownership of or permission from the original creator of the content concerned. The ruling went in YouTube's favour as digital millennium copyright act (DMCA) provided safe harbour protection for the content on the platform due to the fact that:

- No evidence presented suggested YouTube could have had knowledge of these specific infringements.

- YouTube was deemed not ‘wilfully blind’ to specific infringements.
- YouTube proved that it did not possess ‘right and ability to control’ the infringed upon content, although it may have profited from this content safe harbour protection was awarded by the judge as Viacom couldn’t prove that “*YouTube had “something more” than the ordinary power to remove or block access to material posted on its website.*”^{xii} (Sholder, 2022)

This case study presents that YouTube’s business model and platform (although highly targeted and the victim of copyright claims) is ultimately very much legally protected and boasts a business that is extremely sustainable. Built, managed and updated with sustainability and the future success of the company at the forefront of its mission.

The business doesn't really require any more annual income to survive. In the last quarter of 2021, its advertising sales increased by 84% to reach over \$7 billion (Shaw, 2021)^{xiii}.

YouTube is comparable to Netflix in terms of revenue based solely on advertising. However, the most successful media companies have two sources of income, subscriptions and advertising. This is something that YouTube has very successfully implemented into its company, with 2.5% of its 2 billion monthly users choosing to pay £11.99 (a month) for ad free playback of videos, the ability to download YouTube content as well as access to music streaming. Although less than 3% of its user base is subscribed to this premium service, when you have such a high volume of users and traffic, this small number equates to a sizeable revenue to the annual sum of just over \$1 billion^{xiv}(Shaw, 2021)

While neither Amazon Music nor YouTube are likely to overtake Spotify as the leader or go to music streaming service for consumers they don’t not really need to. They simply need to compete and continue to develop as the industry changes, maintaining steady revenue and providing a valuable service to many consumers. Without counting the Chinese streaming services, there are currently four music services with more than 50 million customers. With no clear winner, and no streaming service with the security of a monopoly over the streaming industry, there is still room and time for one company or service to take the crown. All streaming services are competing with one another for consumers loyalty, money and their attention. One streaming service will not rule them all as they offer a variety of services and benefits, with each having its own USP they attract different consumers. With Tidal offering the highest streaming quality, Spotify and Apple music offering sheer volume of songs and a very user-friendly interface, to companies like Idagio who specialise in classical music. Each streaming service has its niche in the market and a specific consumer that they cater to. YouTube does however have the platform, financial backing from Google as well as the consumer base to potentially get it right and successfully cater to each niche group of consumers allowing for YouTube to potentially poach consumers from other platforms and gain a monopoly of music streaming.

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