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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

Found in 2005, the expansion of YouTube was so quick that it got acquired by Google after about 19 months in 2006 for almost 1.7 billion. After the acquisition, apart from being the world's largest video-sharing website, YouTube is also the second-largest search engine. People always use it to look for information or explore different videos relating to what they need.

In 2021, over 2.3 billion people worldwide used YouTube once a month, and in 2022, the number of YouTube viewers is even expected to hit 210 million in the US alone!

It is not difficult to understand how does YouTube works. YouTube provides a platform for one to share videos online with others. Videos can be of any kind, including music, drama, educational materials, lifestyles, and any topics that one would like to share. Not only on the YouTube platform, but those videos can also be easily shared via different media like Facebook, Instagram, websites, or even embedded in other websites.

Apart from uploading a video, YouTube itself will also suggest a "playlist" since their search engine will automatically find out the person's interest in watching then recommend videos to them. It also allows people to comment on the video they are watching or share the video they like.

For the video creator, YouTube allows them to make the video "public" or just share it privately with selected people. To keep track of the performance, YouTube also offers a self-serviced analytics and reporting tool (YouTube Analytics) to help the creators easily track the performance of the videos that they have uploaded. Information like the number of views, the viewers' demographic, the content that their viewers like etc., can also be reviewed via those easily accessed tools.

YouTube can also help the creators set up their own business channels by linking their videos with customized designs. With this platform, creators can upload all their videos, promoting them via the specific web address created for this channel, and the channel can also be opened for subscription.

Moreover, YouTube offers opportunities for different business parties to promote their product or services with specific targets on demographics or even special interests. Various advertising formats are available, including sponsored video, embedded advertisement, landing page etc.

Apart from its video-sharing platform, Youtube also got a specialized platform for music. YouTube Music provides a customized interface for music streaming, helping users to browse through songs and music videos on YouTube based on genres, playlists and recommendations. This is a free to use music, but it also offers a premium tier, enabling ad-free playback, audio-only background playback and downloading songs for offline playback. YouTube music got an extensive catalogue covering not only official songs but also remixes, live performances, covers and music videos etc. In 2021, YouTube Premium and YouTube Music together had more than 50 million subscribers worldwide. (GMI Blogger, 2022)

YouTube TV is also a US-exclusive live TV streaming service that lets subscribers watch different cable channels, including ABC, NBC, FOX, ESPN, Disney, and many more, on Youtube.

YouTube's primary source of revenue comes from advertisements which represent 11% of Google's net US ad revenues. (Dutta, 2020) even though the company is steadily moving towards the subscription-based business model, the ad revenue income is still an undeniable income source for YouTube.

YouTube offers many kinds of advertising formats for business parties who want to get close to their target consumers.

First of all is sponsored video, in which the advertiser pays YouTube based on the number of views it gets after its ad has been clicked on. It is called SERP advertising.

Another type of advertisement is called embedded advertisement, which is played before the actual video begins. With this type of advertisement, YouTube earns money from the advertisers based on the number of views the ad gets. Also, short ads can be placed in between videos that also generate income. The landing page (YouTube's homepage) advertisement on YouTube is a banner style advertisement that can hold both pictures & videos created by the advertisers to showcase their story. Video discovery ads will be put on the page together with the other content, and the advertisers will only be charged when the user clicks on them.

Apart from advertisement, YouTube also offered a monthly subscription, YouTube Premium (YouTube Red before the rebranding on May 17, 2018), to view an ad-free version of YouTube with additional exclusive videos that non-paying users cannot access. It also launched a YouTube Music subscription, which is free with ads. It also offers a premium tier that enables ad-free playback audio-only background playback, and downloading songs for offline playback. YouTube Premium, which bundles ad-free viewing with YouTube Music, hit 30 million subscribers in 2020. (Iqbal, 2022)

Other sources of revenue from YouTube include the 30% fee that it keeps for the Channel Membership fee and the subscription fee for YouTube TV. This US-exclusive live TV streaming service lets the subscribers watch cable channels, including ABC, NBC, FOX etc.

Last but not least is the affiliate Earning which refer to related products under some videos on YouTube. These products link to the affiliate partners, paying a commission to YouTube if consumers buy their products.

Although YouTube earned revenue from different sources, it also developed tools to help qualified creators to make money under its YouTube Partner program. Super Chat, Channel Memberships, Merchandise etc., are some features with which YouTube will share revenue with the content creators.

In the YouTube Partner Program, eligible creators can get an advertising revenue share from different ad formats that the business puts into their video. They can also get a monthly payment from their channel members if they can offer something "special" to their members or get extra income by highlighting their fans' messages in the chat stream (Super Chat &

Super Sticker). By selling their official branded merchandise on their pages, the creators can also earn revenue from YouTube. Last but not least, the creators can also share the revenue from the YouTube Premium subscription when the users watch the content.

In 2020, the YouTube platform (across all of its videos, music included) generated \$19.78bn from advertising. (Stassen, 2021)

YouTube's Global Head of Music, Lyor Cohen, confirmed that YouTube had paid over \$4 billion (20% of the ad revenue) with money coming from YouTube ads and YouTube Premium or YouTube Music subscriptions to the music industry, including artists, songwriters, and rights-holders. Their ad revenue has even reached up to \$28.8 billion in the full year 2021 (Hutchinson, 2022)

From YouTube global Head of Music, Lyor Cohen,

"As a visual-audio platform, our goal is to become the leading revenue generator for the music industry and to help artists around the world build a career making music." (Stassen, 2021)

According to Cohen, YouTube is developing more "direct-to-fan products", including memberships, merchandise, ticketing, paid-for virtual events, and monetizing the end-to-end experience globally to increase the revenue share with the content creators.

Although YouTube is generating more income for the music industry, BPI (British Phonographic Industry) has always accused YouTube of exploiting the "value gap" between

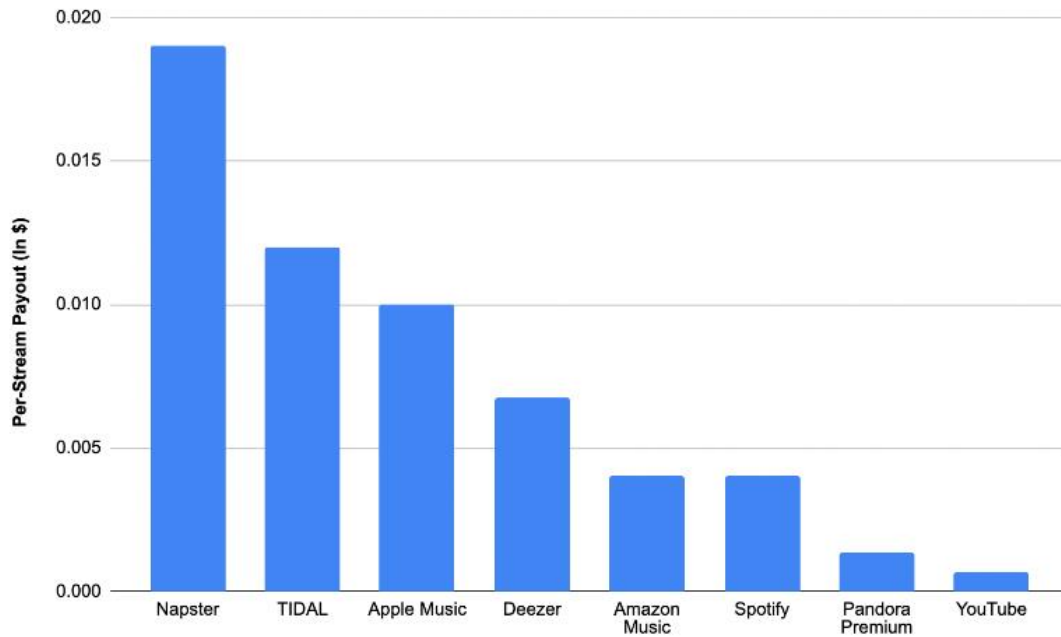
the ad money that it has earned and the amount of money that finally goes to the artists.

(Sweeney, 2017) IFPI also commented that YouTube denies music rights holders a fair return for their work. (Savage, 2016)

How does YouTube exploit the "value gap"? Actually, generally speaking, this is not easy to find out how much each artist will be paid per stream since there are many factors and a variety of different payouts systems affecting the amount of royalties one can get. Ditto Blogger (2020) describes various factors, including:

1. The listener's country/location
2. Whether the listener has a paid subscription or free account
3. The specific artist's royalty rate
4. The relative pricing, currency & inflation in different regions
5. Distributor/label negotiated rate
6. Promotional stream etc

However, for a very long time, YouTube has had a bad reputation in the music industry for paying the least per stream to the artists.



Per-stream payouts from top music streaming services (Sanchez, 2018)

The above shows the payout ranking by music streaming services which Napster, despite its total usage being low, remains top of this ranking (\$0.019 per stream). Being the most significant source of User Generated Content in the world, YouTube is packed with the most video content and music than any other platform, providing the least payouts of \$0.00069 per stream. This means that in order to earn the minimum wage amount of \$1,472 in the US, an artist needs to get 2.133 million total plays on that content on Youtube.

For other streaming platforms like TIDAL, Apple Music, and Deezer to even the second last music service provider, Pandora Premium, the total plays needed ranging from 177K to 1 million, showing YouTube was most properly the most horrible one.

Streaming Music Service	Pre-stream Rate	Total Plays Needed to Earn \$1,472 (US Minimum Monthly Wage)
Napster	0.01900	77,474
TIDAL	0.01250	177,604
Apple Music	0.00735	200,272
Google Play Music	0.00676	217,752
Deezer	0.00640	230,000
Spotify	0.00437	336,842
Amazon	0.00402	366,169
Pandora Premium	0.00133	1,106,767
YouTube	0.00069	2,133,333

(Sanchez, 2018)

One of the reasons why YouTube is ranked the lowest is because the music industry believes YouTube has taken advantage of "Safe Harbour" laws (Section 512 of the Digital Millennium Copyright Act), which protect it from liability when users upload copyrighted material, provided it can be removed on request.

The DMCA is a law by the US government enacted in 1998, and President Bill Clinton signed it into law. This law addresses the conflicts between the copyright owners and the users and investigates any kinds of copyright infringement in the digital world.

The DMCA is meant to protect copyright owners on the one hand and the ISPs/OSPs that provide online services or network access. This is further elaborated in the Safe Harbour provision, which recognizes the difficulties for OSPs to identify each post by a user to ensure they are not infringing the copyright. Therefore, as long as these ISPs comply with DMCA notices and try their very best to stop copyright infringement, they are protected from infringement lawsuits. This protection is valid if ISPs didn't know participation in the infringement, didn't have actual knowledge of the infringing materials and didn't gain financial benefits. (Justia, 2021)

Under this provision, YouTube always claims itself as only a free service provider providing a platform for the interflow of ideas and content without knowing what is being posted, together with the fact that more than 300 hours of videos are being uploaded to the platform every minute according to IFPI, it has been one of the primary beneficiaries of the safe harbour exemptions.

Even though the music industry believes YouTube benefitted from the "Safe Harbour" law, YouTube is currently implementing some copyright management tools. One of them is the Content ID system, which allows rights holders to flag any of their works on the platform. It frequently checks all uploaded videos against a massive database to see if it has infringed other creators' copyright. Once a work is identified, the rights holder is given the option of taking it down or monetizing it through a revenue-sharing agreement with YouTube. In the first half of 2021, there were already over 722 million copyright claims were made through Content ID (King, 2021)

"Safe Harbour" law is always under the challenge of over-protecting some streaming service providers. Article 13 under the European Union Directive on Copyright in the Digital Single Market is also another debatable law for protecting the copyright owners. (Reynolds, 2019) This Directive on Copyright and Article 13 requires the online platforms to filter or remove copyrighted material from their websites and make them liable for any possible copyright infringements. This also means those platforms become responsible for taking down any possible content if those contents are copyrighted materials. The implementation of Article 13 will definitely affect the content creators' motivation to post videos and limit the creativity and innovative ideas of the videos shared on the platform.

Although Article 13 has been passed by the European Parliament, it is still up to the EU's member states to enact it accordingly. This Directive has got supporters and detractors. The big supporters of this act are those music industry parties, including record companies, content creators, and composers & media organizations, who believe their rights are needed to be protected in an open platform. However, big critics of the Directive include big tech giants like Google, Facebook, and eBay, who claim they do not want to sacrifice freedom of expression online in a corporate battle.

There are many challenges that YouTube needs to face and tackle. Apart from Article 13, the increasing demand for revenue sharing with content creators, constant complaints from the music industry about the low per-stream rate, difficulties in collaborating with different media partners etc., all are significant challenges that YouTube needs to handle. Besides, maintaining its viewership is also an important topic that YouTube needs to address. Since the biggest asset of YouTube is its users, how to maintain a good relationship with its content creators in order to secure good videos on their platform is very important. Their current way of building relationships with the creators can be seen in their constant improvement in offering partnerships programs to share revenue. This can be one of the most effective ways to keep the existing content creators while helping newcomers continue working on creative & innovative ideas.

In summary, there are different views of whether YouTube contributes to or exploits the music industry or even the music community. I totally agree that YouTube has contributed to developing an environment where people can showcase their creativity and be acknowledged for their talents. It also successfully discovered/created many artists, and their careers have flourished with the exposure on YouTube, which is invaluable to all artists. Besides, it served

as a bridge and broke the boundary between the artists and the audience, where the artists no longer needed to rely on the major labels to develop their careers.

Together with the increasing revenue sharing from YouTube to the music industry, I believe YouTube has put into effect its ambition to "build the best music experience for fans and empower all artists to grow their careers", said Lyor Cohen (Stassen, 2021).

However, I understand that the exceptionally low per-stream royalty rate from YouTube remains arguable. Is Article 13 really helping? Should the government enforce it to protect artists? I know YouTube has three copyright management tools (Content ID, Webform tool, copyright match tool) on their site to help solve the copyright issues. Through the better usage of these tools, together with the ever-increasing proportion of revenue sharing, will it solve the fundamental problem of YouTube and make it continue to be the clear leader in the online video platform? I genuinely hope this problem can be solved in the future so that, like what YouTube has put in its mission statement, *"everyone deserves to have a voice and that the world is a better place when we listen, share and build community through our stories"*. (2468 words)

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