

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

The commercialisation of music and entertainment in the digital era has resulted in rapid changes in the industry that have ultimately led to many musicians being unfairly treated. When music is commercialised, it is managed or run “principally for financial gain” (Oxford Dictionary, 2019). For music to be financially viable (commercially successful), the different stages of the commercialisation process from its production and distribution to marketing and sales all need to be done efficiently (Bloomenthal, 2020). YouTube is the ideal platform to facilitate the commercial success of music because it is a free on-demand music service with it allegedly paying “the music industry \$3bn” in 2019 alone but unfortunately, only a fraction of their profits in practice return to the creators of the music (Ingham, 2020). At the same time, YouTube faces challenges in its revenue mechanisms notably in advertising and licensing. The ad revenue system within the YouTube partner program is flawed and the way brand related revenue is distributed demands considerable change. This essay endeavours to outline these flaws as well as suggest a way to overcome these challenges to make the system fairer on all involved.

A revenue mechanism is a framework for generating financial income (Afuah, 2003). One way that artists can generate income from YouTube is through the YouTube partner program. The program takes the revenue from advertising and pays the partners or users and also matches ads with the user’s channel and audience. In other words, YouTube collects the money from the advertisers and sends it to the musician’s account. There are a number of ad types on YouTube that generate varying revenue levels such as display, overlay, skippable video, non-skippable video, bumper and also sponsored cards (YouTube help, 2020). Often skippable video ads are the most lucrative form of revenue and so are popular with advertisers because they only pay when the user watches a certain length of the advert. If the user chooses

to skip the video, the advertiser doesn't pay anything. YouTube royalties are based on the number of streams a video has received and the pay-outs to the artist are funded through advertising. 'Cost per mille' (CPM) is a metric that represents how much money advertisers are spending to show ads on YouTube and the playback-based CPM is the cost an advertiser pays for 1000 video playbacks. In other words, how much a user's videos will make per 1000 views. Therefore, a higher value for playback-based CPM results in more money for the user and their channel. The RPM is the revenue the creator receives after YouTube takes their share.

A typical agreement in a Google revenue share for content creators is a 44/55 split so the user receives 55% of what YouTube earns from the video and the remaining 45% of ad sales goes to YouTube (Rosenberg, 2020). If an artist is signed to a label then they also make a cut as well as any other intermediaries directly involved with the artist (Setaro, 2017). The label and other intermediaries making a cut is not unique to YouTube revenue streams per se. Rather, it follows the conventional way of how royalties are divided up between different stakeholders and thus the involvement of multiple middlemen is not a flaw of YouTube's revenue streams but how royalties work across all streaming platforms.

There are several features of the partner program that make it difficult for artists to generate income from YouTube. In order to be an eligible partner, the user must have 1000 subscribers in addition to having 4000 hours of viewing time over the previous 12 months (YouTube Creator Academy, 2020). This is problematic for artists who are at the earlier stages of their career because they do not have enough content to upload and they have a small fanbase. Furthermore, it is often only certain types of videos that accumulate a high number of views. For example, in regard to music, musicians who play genres that are less popular will never be able to earn a significant income from YouTube simply because it is not mainstream enough to be high demand.

Even once an artist does have an established channel, a significant number of views are required to generate a substantial income. The average YouTube partner only makes roughly £1-2 per 1000 views and for an artist to make the average UK salary of £27,600 from YouTube royalties, one song would have to be streamed at least 51.1 million times (Ellyard, 2018). What seems more unfair is that YouTube only pays creators 0.00054p per stream of music. The Recording Industry Association of America (RIAA) claim that this figure “is one-seventh the size of what Spotify hands over” to creators (Ingham, 2018). This means a track streamed one million times would earn the artist around £540 (Penman, 2020). Receiving a million streams is an impressive feat for any successful artist, and many musician’s will go through their entire career without ever achieving this. The fact that 85% of YouTube’s visitors come to the site for music and these music fans allegedly contributed £2.33 billion to the website’s revenue in 2017 simply does not align with the modest share artists receive in revenue (Ellyard, 2018). This disparity in revenue between YouTube and its creators is what the industry calls the ‘value gap’ (Ingham 2015). The value given to a single stream is clearly inadequate and not enough from views is contributing towards ad revenue, which is ultimately unsustainable.

According to The Guardian in 2016, artists earned more from vinyl sales throughout the year than they did from YouTube payments for viewings of music videos (Plunkett, 2016). The chief executive of Cisaac, Gadi Oron stated “...the biggest problem facing music creators is that the most significant source of online music, video streaming services, pay them insignificant royalties” (Sweeney, 2017). In the three years since Oron expressed these words, signs of progress have been negligible. The British Phonographic Industry (BPI) reported that YouTube are exploiting the ‘value gap’ between its online advertising profits from music videos and what finds its way to the artists pockets (Sweeney, 2017). From the information provided by Oron and the BPI, it is evident that there is a lack of transparency with ad revenue and YouTube can “establish a position of power” by making money from videos without a

license. Spotify have to sign agreements with labels, so the music is licensed before it is made available (Sweney, 2017). The lack of transparency is further highlighted in YouTube's misleading figures on what the corporation contributes to the music industry (Ingham, 2020). Lyor Cohen, YouTube's global Head of Music and CEO Susan Wojcicki deny claims that they are exploiting the 'value gap' and claimed that they pay out "more than other ad-supported services". They also asserted that YouTube contributed \$3 billion to music rightsholders from ads and subscriptions in 2019 (Ingham, 2020).

Whether \$3 billion is an accurate figure or not, the total global revenue given to record companies from YouTube is much greater now than it was in 2014 when the figure was only \$641 million, which highlights some improvement to artist revenue streams in recent years (Ingham, 2015). So, it appears despite its shortcomings, the partner program can be profitable to artists. It is very easy to sign up to the program and start earning with there being no need to invest in hosting or domains because YouTube acts as the host provider. Having no advertising fees on the world's most popular video-streaming platform is a huge advantage for self-promotion and widening an artist's target audience and fanbase worldwide.

YouTube helps the partner by providing developmental and analytical tools to improve content thus increasing revenue for both the user and the platform. Additional exposure is also provided to partners because their uploaded videos are placed at the top of the search list so that users can quickly access their content. Having this extra exposure makes YouTube an effective promotional tool for artists and it enables music fans to discover new music. The platform acts as a part of the marketing as well as distribution.

It is the effectiveness of YouTube at exposing artists music to a target audience, particularly amongst the younger generation that excites music industry professionals. The optimistic amongst the business see YouTube "as a facilitator of a creative renaissance rather

than a death sentence” (Forde, 2016). The corporation has also worked successfully with the music industry setting up the YouTube Music streaming service which further promotes original content for artists. YouTube Music also sponsored the BRIT awards in 2019 which proves that they are willing to support creators - those at the heart of the industry. It is these collaborations that perhaps suggest making adjustments to the current revenue mechanisms is certainly achievable.

Many in the music industry believe YouTube unfairly takes advantage of ‘safe harbour’ laws which ensures they are not responsible for the massive amount of copyrighted material, illegally uploaded by its users (Sweney, 2017). However, YouTube do have in place content ID which is a digital fingerprinting system that content creators (like record labels and artists) can use to identify and manage their copyrighted content on YouTube (Zimmerman, 2020). Once the music or song is uploaded it is added to YouTube’s content ID system. The song is then compared with other audio and video files that have been uploaded by other users. If a match is discovered, the video that has been matched with the original is monetised so that royalties return to the creator, preventing anyone from illegally sharing the content and monetising it themselves. Having this copyright management system in place protects the copyright owners and ensures that they can still be paid through ad revenue. Content ID automatically handles 98% of copyright issues on YouTube so intervention by the copyright owner is rarely needed (Google, 2018). Therefore, the system not only acts as an anti-piracy solution, but also as a revenue-generation tool because creators and rightsholders can “earn money even when their work hasn’t been properly licensed by the upholder” (Google, 2018).

Another type of brand related revenue is through ‘Product Endorsements’. These are payments or free goods from a brand in return for endorsing or using their product (Penman, 2020). The brand pays advertising fees in exchange for “product placement, endorsements or branded content on the user’s channel” (Leni, 2020). This partnership with sponsors is

potentially very lucrative if the right connections are made. An artist can also sell their own products and services such as merchandise by revealing it on YouTube through the 'YouTube cards' feature. The cards are versatile pop-up screens that a user can add to their videos to sell tickets and merchandise e.g. pre-release songs. This feature pushes audiences and fans towards more of the artists content such as their playlists, merchandise stores and events pages as well as their social media, ultimately leading to a greater income (Zimmerman, 2020). In November 2020, YouTube released a new 'audio-ad' format which is designed to connect brands with audiences in "engaged and ambient listening on YouTube" (Sutherland, 2020). The corporation noticed the growth of podcast ad revenue on Spotify and thus launched their own revenue model involving audio advertising. Cohen, YouTube's global head of music, stated that "brands can achieve results by aligning with music content", using as an example the US-based retailer American Eagle's collaboration with social media influencer Addison Rae to target the Gen Z audience (Cohen, 2020). The brand also identified the most popular artists in the Top 100 to engage this audience and subsequently the company saw a 23% increase in branded search as well as a significant rise in product interest (Cohen, 2020). The partnership is beneficial to both the artist and the brand because it further engages fans to the music they like as well as increasing interest in the advertised product. The marketing promotion of artists through brand partnerships can help improve revenue streams for artists on YouTube ultimately making the system fairer for all parties.

In addition to the 'audio-ad' format, YouTube have made further strategic changes to the current revenue model to make the system sustainable for musicians. 'Superchat' and 'Superstickers' are a YouTube add-on to the partner program that enables the user to pin comments on a live stream. A form of fan funding was in place before, but YouTube noticed that this was only successful on live streams, so they discontinued the service and replaced it with 'Superchat'. Fans watching their favourite artists in a live stream click on the currency

symbol and select a price to pin their comment – the more money spent, the longer the comment stays pinned and at the top of the comments. An artist performing a live streamed concert could take requests from viewers in exchange for a donation on ‘Superchat’ thus turning a free concert into something that could earn the artist revenue (Duncan, 2017). In addition, the feature could support a musician’s crowdfunding campaign and one could even auction their merchandise and get the fans to pin their bids on the ‘Superchat’ (Duncan, 2017).

Having said this, there is still the drawback of YouTube taking a portion of the revenue generated by ‘Superchat’ and also there is the possibility of viewers donating a small fee in order to post offensive or abusive comments (Duncan, 2017). The technology may take a while to catch on because it is a very specific feature and also the amount of money that can be paid to artists is capped at a certain limit (Duncan, 2017). Despite these minor shortcomings, the enforcement of national lockdowns worldwide due to Covid-19 over the course of 2020 has confirmed that there is certainly a demand for monetising live streaming on YouTube and this will continue long into the future.

YouTube extended this idea of fan interaction further by introducing ‘YouTube Premieres’ and it also has potential to boost an artist’s income. The pre-recorded video is played as a live stream that contains a live chat and live donations can be made by fans. The viewers can chat amongst themselves with the user also being able to interact. This is another effective way for creators and artists to receive money (Zimmerman, 2020).

Talks of changes in legislation regarding intellectual property on YouTube has occurred in recent years to address the issue of content that is illegally uploaded or infringing copyright. The EU copyright directive, also known as article 17, deals with streaming services such as YouTube and makes them legally responsible for copyright infringement on their platform. The legislation is argued to be a solution that could close the ‘value gap’ between YouTube

and creators as well as preventing the corporation from exploiting legal loopholes such as taking advantage of ‘safe harbour’ laws that were put in place for platforms dissimilar to YouTube. Even though the UK will leave the EU before the new legislations are put in place, it is likely that the government will implement a similar regime regardless of Brexit (Berry, 2019). The principles behind the directive could tackle the challenge of artist revenues streams but further negotiation before the law is implemented in 2021 is crucial to prevent restrictions on creator’s freedom on the platform.

In conclusion, it is evident that there are still underlying issues with revenue streams on YouTube. The money artists receive through video streams is negligible due to the value of a single stream on the service being remarkably small. Having said this, the unbalanced strategy of royalty distribution is not unique to YouTube but an issue concerning DSPs. Furthermore, it is difficult to quantify and increase the value of a stream so that artists receive a greater revenue for the same number of views through ad revenue.

However, the system is improving with YouTube becoming more transparent regarding their contributions to the music industry as well as the expansion of their own streaming platform ‘YouTube Music’. New monetisation features, merchandise opportunities and channel membership tiers are also overcoming the challenges of existing revenue models. Technical changes to the platform are being put in place to try and “make YouTube a fairer place for everyone” but this needs to happen in all areas (Cooke, 2019). In order for musicians to gain from YouTube in the future, the corporation needs to work harder to build stronger relationships with labels and other stakeholders in the business, so that music can be monetised as fairly as possible.

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