

YouTube's role in the streaming economy.

BMTY7002 – Assessment 1

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Executive summary

The developments in technology have led to a new wave of media consumption with streaming. As the streaming market has evolved it has encompassed a large majority of music revenue and changed the distribution of revenue to artists. This has created a debate around fair payments to artists whose work is being streamed on platforms. YouTube which is the biggest web 2.0 entertainment company has become a large part of the music industry but one of the lowest performers in fair payment to artists.

Introduction to streaming

In the early 2000s, the music market had hit new peak profits as the CD market boomed hitting yearly profits of 23.7 billion dollars as adjusted for inflation. This revenue gave the music industry a comfortable stance without the need for change as the revenue was on a steady incline. However, in 1999 Napster (a file-sharing platform) was released to the public consumer. The peer-to-peer transfer of data led to the site being used primarily for the pirating of music, this led to a sudden and dramatic decrease in the music industry's profits, as 95.5% of revenue was attributed to the sale of CDs (Routley, 2018).

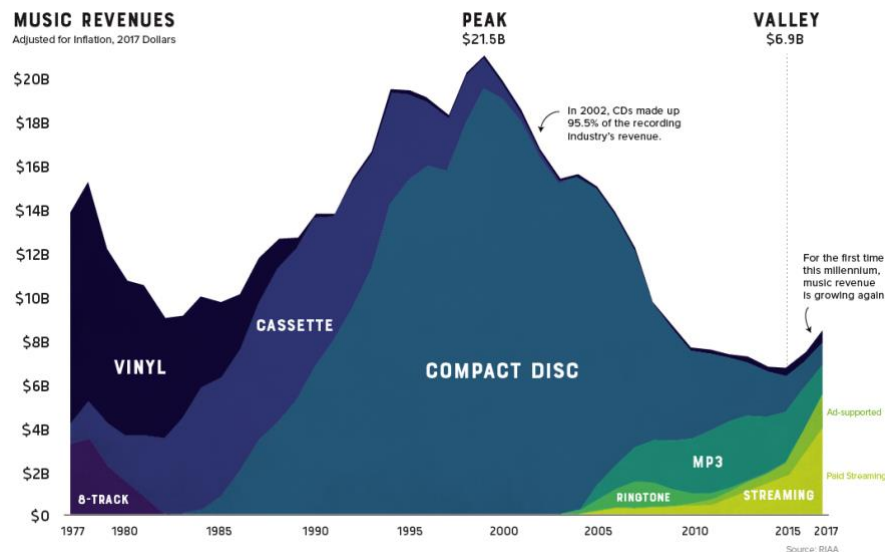


Figure 1 Comparison of music revenue from physical and digital music sales (Routley, 2018)

Napster along with other file-sharing platforms grew rapidly at the beginning of the millennium causing a rapid decrease in physical sales. Even after the RIAA sued Napster for the infringement of copyrighted material which ruled in favour of the RIAA the music industry had already been irreversibly changed (KRAVETS, 2009). Now the young consumer market no longer saw music as a paid commodity but instead, as something they could access freely and with other platforms already offering the same service as Napster there was no need to go back to paying.

In this mid-2000s market with music revenue at the lowest, it had been in almost a decade and with the continual decline in CD sales, it was clear the industry needed to pivot to stop this fall. Music retailers needed to reverse consumer consumption views from free pirated music to paid for, the first of these direction changes came in the form of paid digital downloads. The release 2004 of iTunes brought huge publicity through marketing campaigns made a good start in changing public opinion and establishing a popular, legal marketplace.

From its conception in the late 1990s music streaming developed quickly, and many new companies started, some legitimate some pirating (Wagner, et al., 2015). The huge conglomerates within the Music Industry such as EMI and Warner with slow policy-making practices lost profits while small independent companies started up and quickly took advantage of the new technology to grab profits. After Napster, Pandora and Last FM were some of the many new start-ups offering various services from personalised listening to unsigned artists' music. But the next big player in the marketplace was Spotify, starting small in Sweden, it grew to have and maintain a monthly active audience of 433 million people.

Spotify shook up the Music Industry, its founder believed "The only way to solve the problem (music piracy) was to create a service that was better than piracy and at the same time compensates the music industry." (BBC, 2018). The consumer market took to it quickly. Offering a freemium service which was

funded via advertisement or paid for without advertising, in Europe it quickly became the most used streaming service (SoundCharts, 2019). When it launched in America in 2010 it again became the lead streaming service. Spotify did pay to stream artists' music but at a very low point of a percentage per stream, usually between \$0.006 and \$0.0084 (PLAUGIC, 2015). For the established artist, this meant a loss of revenues, although for many new artists it was a positive way of getting new music to the public and building a fan base but they also could not reap large financial benefits. Spotify set the precedent for the future of music streaming and low royalty rates.

One interesting factor towards artist recompense is that in acquiring shares in Spotify major labels like Universal committed to paying some of the profits to their roster of artists should they sell the shares. In fact when Sony sold their shares in 2018 they paid out over \$250 million to artists from the proceeds (INGHAM, 2021).

YouTube

Whilst the music streaming market was building in 2004 the YouTube site was launched. Founded by 3 former PayPal founders, the concept of the video platform was to begin a new online dating platform where you could trust the person you were talking to was who they were said to be. However, this original concept changed as they discovered there was no internet-wide video hosting platform. (Soukup, 2014) By 2006 the platform had already seen rapid growth to 20 million monthly users and was carving space on the web. It was at this point that after trying to compete with YouTube Google made developed a similar service however they also began the process of the \$1.65 billion stock acquisition they now hold in YouTube (BBC, 2016).

Whilst this acquisition was ongoing YouTube began the process of incorporating opt-in adverts onto the site. By 2007 advertising became an integral part of the platform, running before videos and also as a sidebar and pop-ups. Content creators on the platform could join a partnership program where they would receive compensation in the form of a percentage of the advertising revenue promoted alongside the video (Cayari, 2011).

At this point, YouTube had little protection against IP stealing as there was no system to take down the unlicensed sharing of artist music without them being compensated however as monetisation rolled out to creators YouTube began the implementation of a content ID system. Content ID development was forced by lawsuits from the entertainment industry, notably Viacom and the Premier League, as unlicensed content from these businesses had been uploaded to the site. Viacom had notably over 150,000 unauthorised clips uploaded to the site with over 1.5 billion views without receiving any compensation (BBC, 2014). From these issues, the content ID system began trials as it automatically combed through uploaded videos comparing them to a databased of IP that had been registered to the system if the video was flagged the monetisation would be transferred to the rights owner of the IP.

YouTube music

Before the Google acquisition and content ID the music industry had already taken note of the copy write infringements that had been blatantly running on the platform, so to partnership with YouTube, Universal music and Sony both made deals with YouTube (Gutelle, 2015). This deal involved using the framework being built for the content ID system to have the labels licensing copywrite to the platform in return for monetary gains from any content that used said content. UMG in a press release saying "UMG and its artists will be compensated not just for UMG produced videos but also for the unique, user created content that incorporates UMG music". The labels also much like their deal with Spotify reportedly received small stakes in the company before the acquisition took place, meaning they gained in both royalty payments but also in the sale of YouTube to Google (Adegoke, 2008).

As YouTube grew it in essence became the new MTV of the 2000's, artist began debuting music videos on the site and posting promotional material for easy fan access. With music being the largest media consumed on the platform in 2009 YouTube and UMG joined in a partnership to create VEVO. During VEVO's development both Warner and Sony joined the project, its aim being to charge a higher premium for advertisements played before VEVO branded music videos which would result in higher profit for the companies involved.(Gutelle, 2015)

In 2015 YouTube made its official debut into the music streaming model with YouTube Music. Much like its contemporaries it offered both a freemium and paid subscription at the price of \$9.99 a month.

YouTube went on to partner with Vevo, Universal and Sony to be able to offer professional and original music listings, this gave them a real comparison to the music streaming services as the quality improved enormously after this. Although the site is still primarily a general entertainment site the 700 million official music listing added meant full length none pirated music videos were more readily available on the site.

YouTube versus competitors

YouTube is arguably the biggest platform out of all its competitors with a user base of 2 billion active users more than the rest of the top 5 streaming site combined, however its paid music streaming model has a significantly smaller user base at 80 million paid users.

Though it provides a large income stream for artists in the monetisation of music videos and other video based content on its music platform it pays significantly lower than others as seen in figure .. With an artist needing to have 1.8 million streams a month on YouTube to make a minimum wages of \$1,256 it cuts off smaller artist from being able to make a living from their music as when compared to Spotify with artist needing only 287,568 streams to make the same amount.

Earning Gross Minimum Wage From Streaming in 2021		
Streaming Service	Per Stream	Streams Needed for \$1256.67/Mo.
	\$0.00437	287,568
	\$0.00735	171,208
	\$0.00402	312,604
	\$0.0125	100,534
	\$0.00069	1,821,261

Figure 2 The amount of streams needed to make minimum wage in the US 2021 (Shotwell, 2021)

STREAMING PLATFORM	ROYALTY RATES (PER STREAM)	STREAMS REQUIRED TO MAKE \$1
Tidal Music	\$0.01284	78
Apple Music	\$0.008	125
Amazon Music	\$0.00402	249
Spotify	\$0.00318	314
YouTube Music	\$0.002	500
Pandora	\$0.00133	752
Deezer	\$0.0011	909

Figure 3 Music streaming royalty rates 2022 (FITZJOHN, 2022)

Though both a still a high amount of streams the difference between the two are staggering and with YouTube 2021 revenue being £23.3 billion compared to Spotify's £9.3 billion in profit it calls into question why YouTube is unable to meet the same higher royalty rates. YouTube when faced with industry concerns of its low royalty rate states the figure that it pays out to the industry being over \$3 billion in the year of 2022. However that is from the platform as a whole, not from its streaming based services, inferring that company perhaps believes due to the high payments made from the viewing of music videos, live performances etc; the low royalty rates from the streaming service are negated.

Regulations and government standing.

The debate of the low streaming royalty rates have been a discussion from streaming inception. Within the UK public complaints about the streaming industry has led to government papers and reports the most recent being November 2022 commissioned from the CMA (GOV, n.d.). One finding from this was that over 60% of streams were from only 0.04% of artist's, however the Competition and Markets Authority concluded that government intervention/sanctions would not lead to a better financial deal for the lesser artist and that financial rewards had increased somewhat since streaming began. The last assessment of the music streaming industry had a wide focus from the financial rights of the artist to the safety of the public and the effect on the British Music Industry. For instance the UK music industry generated 4 billion pounds to the country's economy, something the government is keen to protect and improve (Renard, et al., 2013).

There is already a precedent for regulation in other streaming industries with the Television regulator OFCOM. OFCOM has the power to regulate the Television streaming services such as Netflix and Disney, so there is precedent to create a regulatory body for the Music Streaming industry. But at present in the UK the music streaming industry is still self-regulated but does appear to be conceding somewhat to some government demands and recommendations.

Governments have a new challenge with streaming and regulations are likely to develop in the future as streaming itself develops. In 2014 the European Union commissioned a study to better understand how it could be regulated and what regulations should be applied. One finding was that by creating virtual borders for streaming services, country could actually lose some of the benefits of streaming (European Parliament, n.d.).

The Audio Visual Media Services Directive in Europe was established in 2010 and revised in 2018. This also addressed issues around culture and industry, ensuring that streaming services especial visual ones are investing in the countries they are streaming to. This ensures at least 30% local content streaming, by using local creation services, artists and production therefore channelling finance back into the countries using the services (Frater, et al., 2022).

Conclusion

YouTube is in a dominant position within the online entertainment market and has been able during its development to become a key part of the music industry. As streaming has developed the platform has tried to negate disapproval of its lower royalty streaming rate by showing the overall figure it pays out to the music industry from video views. Unfortunately due to lack of regulations and no minimum payment amount the only options for the artist is to, either lobby the relevant government, remove their music from the platform or accept the low rates. Though a larger artist can with their millions of streams make a comfortable living those with lower streaming figures and a smaller voice are unfortunately left in a dilemma. For streaming to move forward the implementation of a regulatory body may become the best step forward, as regulatory bodies can make decisions on the streaming industry which can become a standard across all platforms locally and globally.

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