

Element 1 (Case Study)

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

The impact YouTube has had on how we produce, consume and engage with content online has been extraordinary, and spans across all industries including music and entertainment. We only have to look at the early days to appreciate how quickly this platform grew: its beta stage in May 2005, the video sharing platform already started to reach visitors 30,000 daily visitors, when the platform officially launched just a few months later in December 2005 the platform was serving more than two million video views each day, with this number increasing to 25 million views by January 2006. (Hosch, 2023).

The founders, Chad Hurley and Steve Chen, would describe YouTube “as a more or less “empty” platform to be filled by the YouTube community with originally produced content of various kinds”; offering a destination for amateur filmmakers, brands and professional producers to come to one place and produce content. (Snickars and Vonderau, 2009, p.6). This created a multitude of exciting opportunities for every type of stakeholder in the music industry - from self-made to established artists, uploading all types of content from music videos, behind-the-scenes, live streams and much more. In the same year of YouTube’s launch, Warner Music signed an agreement with the video platform; the first of the majors to do so (Milmo, 2008). The power and influence

YouTube had was quickly recognised in the industry. However, with new technologies brings uncertainty around laws and legal rights, particularly around those involving music distribution. There have been challenging periods with labels and music artists with commercialising their artistry on YouTube, which I will delve further into in this essay.

The first area this essay will focus on are popular music videos. Prior to the launch of YouTube, music videos belong to the dedicated TV channel MTV. Before 1981, there wasn't a need for music videos; in fact, the concept of it was actually entirely bought by businessmen of wealth and experience but what MTV was able to do was create a 'need' when audiences didn't even know they 'needed it', leading to a so-called music video revolution where the under-represented musicians, artists, producers, executives and so forth finally had a home for visual expression in music (Marks and Tattenbaum, 2012). MTV had several revenue streams, from advertising in TV spots through to charging record labels for video production services for their artists. At its peak, MTV was reaching 112 million homes globally and earning \$400 million in revenue (Lisa, 2022). In return, major labels would have global contracts that spell out the royalties they receive when MTV play their videos anywhere in the world, and at the time these other types of revenue streams outside of CDs were becoming increasingly more important to the major label (Timmons, 2004).

By YouTube's launch in 2006, this threw the music video royalty revenue streams into a much more lucrative environment. For royalties, there are several ways publishers are able to see income from the music they are distributing to the platform. The obvious revenue stream that YouTube pays out to their content creators. Artists and labels can

set up their own YouTube channel to upload and distribute their content, including music videos. In 2022, YouTube content creators can expect to earn around \$0.018 for each view, amounting to \$18 for every 1,000 views (Geyser, 2023), and therefore \$18,000 for one million plays. According to the Economic Times, it wasn't a popstar like Taylor Swift or Beyonce who has topped the YouTube stream count in the music world, but rather Alka Yagnik, who was the most streamed music artist on YouTube in 2022 (ET Online, 2023). Artists can either upload their own music directly to the platform via their own YouTube channel, or they can use a premium video network service called Vevo, which launched in 2009 by Universal Music Group, EMI and Sony Music Entertainment, with Warner Music Group later joining in 2009, as a new way of distributing music videos through their own and partnered channels and platforms (Moreau, 2020). However, in 2018 YouTube flexed their strength in reaching incredible numbers of users globally and brokered a deal with Vevo to phase their own mobile apps and consumer-facing website, and instead focussing their distribution on YouTube (Eliezer, 2018). This effectively shows YouTube eliminating any potential competition, and securing their spot as the number 1 platform for sharing music videos.

When looking at royalty income streams through music plays on YouTube, there are two main opportunities. Firstly, for record-company-produced videos, publishers get a non-public disclosed percentage of ad revenues and/or subscription monies; somewhere around the 10% range (Passman, 2021). One example of this happening is the agreement between Sony/ATV and YouTube. In 2019, the music licensing platform Soundvault confirmed a deal with EMI Production Music, granting sync licensing cover for their music to be used in creator content on YouTube (Sanchez, 2019). Another way

is through licensing music to User Generated Content (UGC). Amateur-made UGC makes up a considerable portion of the type of content that goes out on YouTube, so an opportunity was seen to ensure income is generated to labels from the platform paying anything from 15% or 50% of ad revenue, depending on whether it is commercial-made music or new music created (Passman, 2021). Earning revenue through sync deals such as these is becoming increasingly common in the music and entertainment industry as publishers and labels seek to maximise their revenue potential on digital platforms like YouTube. However, earning money from the UGC stream can be challenging as it relies on YouTube for recognising copyrighted music to then rightfully pay the publishers through ad revenue splits. There have been examples where fraudulent activity or inaccurate autonomous copyright flagging has occurred, such as with YouTube creator Fleischauer who describes his channel being flagged by copyright infringement multiple times even though this decision was revoked by manual process (Dodgson, 2020). Examples like this build little trust in how YouTube action their copyright flags accurately.

Earning income and royalties has gone through turbulent times between major labels and YouTube. In 2008, only 2 years after the launch of the video community platform, Warner Music pulled all of its music from YouTube over failed re-negotiations of a content-sharing deal, and its subsequent royalty split for paying artist and their team appropriately and fairly (Milmo, 2008). However, after a 9 year gap Warner reluctantly signed a new deal with YouTube, even though they weren't happy with many of the platforms practises, including the 'safe harbour' laws (Ingham, 2017). Essentially, safe harbour laws are legal provisions that protect online platforms, like YouTube, from being

held liable for infringing content that users upload to their platforms (Cooke, 2021).

Relating to YouTube specifically, safe harbour laws protect the platform from being sued by labels if users upload their released music without sorting the agreement from the label. CMU goes on to explain that this has caused ongoing issues in the music industry, as the safe harbour law has been used by YouTube to essentially have a much stronger hand in negotiation, in the same of safe harbour protection, and does not require a label's music to be removed if a deal is refused (Cooke, 2021). CMU continues to explain that it's much easier to agree to a lower rate you'd normally agree to, which can be a huge problem if "some people are using a YouTube type service as if it was a Spotify type service...the difference in what royalties YouTube type services and Spotify type services pay is dubbed the 'value gap'." (Cooke, 2021). In the eyes of the music industry, artists and labels alike, YouTube have been avoiding to pay a fair amount for their artistry under the protection of safe harbour. Moore, The CEO of the International Federation for the Phonographic Industry (or IFPI) has also echoed these concerns around the 'value gap' issue, stating that although there's a positive and widespread approach to labels licensing their digital music across platforms like YouTube, the potential payout from the platform versus a dedicated music streaming platform like Spotify or Deezer is disproportionate: "IFPI estimates music subscription services have 41 million paying global subscribers" with the sector generating more than \$1.6 billion in 2014, a stark contrast to YouTube who "claims more than one billion monthly unique users" and such video platforms only generating just \$641 million in the same year to major labels (Ingham, 2015). This is under half the amount of revenue generated by services such as Spotify, yet they attract a smaller pool of active users. There is clearly

a problem with artists and labels being paid fairly under the guise of 'safe harbour' laws on YouTube, yet this opinion is not shared by all, unsurprisingly YouTube one of those stakeholders to think so. The Global Head of Music at YouTube/Google, Lyor Cohen, has responded to these claims of the 'value gap', and explains "I think that the labels don't have to control distribution to be really really prosperous – but what they do need is diversity in distribution" (2018). In short, it allows labels to invest in their artists and their music to go across multiple platforms, and continue to invest in those which gain traction.

Whilst there's video plays and royalties as sources of income for artists and labels across YouTube, its clear that this as a standalone income is most likely not enough, with some artists and labels have took a more innovative approaches to commercialising their content on the platform. One way in which independent artists are using YouTube is as a means to kickstart their career in music. Its ease of use and accessibility enables independent artists of all levels to be able to directly upload their original music and be part of building a fanbase. One of the first, and arguably most well known, case studies of an artist breaking their career through on YouTube on a huge scale is Justin Bieber. Justin began uploading home-made videos onto the platform which gained some traction, and then blew up when manager Scooter Braun signed an agreement with him. (Glinn, 2020). This essentially means that the emergence of YouTube has made it much easier and more accessible for scouts and labels to discover up-and-coming talent, and approach them regarding representation, which then unlocks wider revenue streams to the artist outside of YouTube.

Other ways in which artists can commercialise their content on YouTube is through sponsorships and brand endorsements. Sponsorships and brand between brands and music artists can have a powerful impact, particularly if there is an authentic connection between the two. Brands hiring talent as ambassadors or for endorsement is not a new thing; one of the first brand and talent deals dates back to 1893 in print display media between Lillie Langtry and Pear Soap (Morin, 2002) and new, emerging technologies have continued to grow this type of advertisement. For the brand, the reason why brokering a talent deal is beneficial as it creates brand love and affinity with consumers. In 2019 Ed Sheeran announced a sponsorship deal with Heinz ketchup; Ed Sheeran being a huge fan of the brand, even possessing a Heinz tattoo (Pearce, 2019). Looking at the advert for Heinz featuring Ed Sheeran which was distributed on YouTube, this authentic brand endorsement clearly had a positive reaction from audiences: “I just watched a ketchup ad and nobody forced me to” (Ziółkowski, 2020) and “I watched this ad voluntarily. I don't regret it. I kinda wished more celebrities did this for the brands they genuinely like!” (Hawaii 50, 2020) being stand-out reactions left on the YouTube video.

Whilst this type of brand endorsement was a clear paid-for-sponsorship, reportedly a deal worth £300k (McLaren, 2019), there can be implications between talent and brands if the exchange of monies for promoting a product is ambiguous, which can have legal implications to parties involved. As we know, YouTube is a platform for all types of content, whether that's a brand advertisement with a higher production value or whether that's a self-shot video using a mobile. When it comes to declaring paid-for content on YouTube, the rules are clear: “If your content has a paid product placement,

endorsement or other commercial relationship, you need to notify YouTube so that we can facilitate disclosures to users” (YouTube, 2023). Failure to declare would result in action from the advertising Standards authorities, such as the Federal Trade Commission in the United States who can impose possible fines for failure to notify paid promotion or endorsement (Wiley, 2019). In 2018, DJ Khaled was under fire for promoting cryptocurrency offerings without declaring he had been paid for this endorsement (Garcia, 2018). He was subsequently charged by the Securities and Exchange Commission for the undeclared exchange of monies, which came to \$50,000. With advertising becoming “less like advertising” (Google, 2014), brands are continually looking for ways to reach audiences as authentically as possible, but as long as the appropriate declarations are made by the content creator (whether that’s the talent or the brand) then this is proven to be a hugely successful way of engaging with consumers, who enjoy the experience of watching their favourite artist in a different environment.

As we summarise this essay, it's clear that the impact YouTube has had on the music and entertainment industries has been at an unprecedented level. The world quickly jumped onto the vision of what a video sharing platform would do for the music industry in the age of the internet, evident from the major labels signing agreements to the platform but then quickly departing when they didn't see this proportionate to the level of revenue from CD sales (Adegoke, 2008). The fact it took us to 2017 to see the “Big 3” Universal, Sony and Warner to renegotiate those deals (Schlagenhauf, 2017), albeit reluctantly, just affirms the influence YouTube has over the major labels. When we see figures such as Lyor Cohen, a hugely influential figure when it comes to the

commercialisation of music content on YouTube, dismiss the ongoing discourse of the issue around the 'value gap', it further affirms the platform's influential power in how labels should strategise the commercialisation of music. Cohen is right in the sense that there should be a shift towards diversification of distribution (Cohen, 2018), and it's clear that the opportunities are much more lucrative than just royalties, with opportunities around talent scouting and brand endorsements being two key ways, there is still a responsibility for YouTube to ensure artists are paid fairly for their work and I expect these conversations to be ongoing with no sight of end until YouTube don't use 'safe harbour' laws as a scapegoat.

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