

**CASE STUDY:**  
**THE REVENUE MECHANISMS OF**  
**YOUTUBE AND HOW IT IMPACTS THE**  
**MUSIC INDUSTRY**

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## ABSTRACT

This case study will be critically analysing the business strategies of video-streaming platform YouTube, as well as reviewing its revenue mechanisms in relation to musical content and its impact on the entertainment industry as a whole.

## INTRODUCTION

### THE EXPONENTIAL GROWTH OF YOUTUBE

Launched in early 2005 by three former employees of PayPal (Burgess & Green, 2018), YouTube, the online video-sharing platform, was an instant success. Within sixteen months of its inception, comScore reported as many as 100 million clips being viewed daily, before reaching the same milestone in viewers solely within the US by October 2008. The site was acquired by monopolistic search engine Google for \$1.65 billion in October 2006, and by 2011, the site was ranked third most popular in the world – Google and Facebook took the two top spots (Latta & Thompson, 2011). By 2018, YouTube claimed to have more than one billion music fans going to the site every month to consume music (Dredge, 2020), and by 2019, 135 of the 151 videos which had achieved over 1 billion views (89%) were categorised as music videos (Wikström, 2020). The company also made \$15.14 billion from ad revenue that year (Aslam, 2020), with latest figures indicating over 2 billion users each month and 1 billion hours' worth of content viewed every day (YouTube, 2020). Such is the continued expansive growth of YouTube, one Wall Street analyst estimated the company's value at \$300billion if it were a standalone company (Strauss, 2019).

### BUSINESS MODEL

YouTube is best known as utilising a click-through ad-funded model rather than subscription video channels (Harrison, 2017) like Amazon Prime, Netflix, or music streaming sites Apple Music or Spotify. However, the Google-owned company have made several attempts in recent years to offer up subscription services to users. The first attempt was Music Key in 2014, but within a year was rebranded to YouTube Red. This allowed users to enjoy ad-free content, (much like Spotify Premium), and access to the music streaming branch YouTube Music and YouTube Originals – original films and series from YouTube personalities as a way of competing with video sites like Netflix and Hulu. YouTube later rebranded this again as YouTube Premium in another bid to turn customers from 'freemium' to premium users.

The ad-funded model was introduced in 2007 under the guise of the YouTube Partner Programme, which essentially allows content creators to share in the revenues that the video site makes from advertisements. However, for a channel to be eligible for the YouTube Partner Programme, it needs to reach a certain threshold before being able to monetize their content. Previously a channel needed 10,000 views on their channel, but as of 2018 this was increased dramatically to 1,000 subscribers and 4,000 watch hours over the past 12 months (Avard, 2018). The GamesRadar article criticised the move by claiming, “YouTube is going to continue to become a less viable form of income for the smaller and mid-tier creators, all while maintaining favouritism towards the big players at the top.”

These ‘top-tier’ creators (100,000+ subscribers) were given an additional boost in June 2018 when YouTube introduced Channel Memberships. For \$4.99 per month, viewers get access to exclusive livestreams and additional content, although YouTube still takes a 30% cut after tax deductions (Perez, 2018). Channels with 10,000 subscribers could also sell merchandise directly to fans via YouTube. Another introduction, Super Chat, allows viewers to interact in live and premiered videos, as well as make cash donations to the channel.

### **ROYALTY RATES**

While the majority of music streaming sites have received continued criticism for their low royalty rates, YouTube is by far the worst offender (Sanchez, 2019). In the Digital Music News article, Sanchez noted how artists would need over 5.2 million plays per month to earn US minimum wage. This equates to approximately \$0.00028 per play. And while the logical argument would be for artists to issue their releases elsewhere, the International Federation of the Phonographic Industry claimed that YouTube was the largest streaming site on the Internet, accountable for 46% of all music streams globally (Vroom & Boque, 2019).

## THE REVENUE MECHANISMS OF YOUTUBE AND HOW IT IMPACTS THE MUSIC INDUSTRY

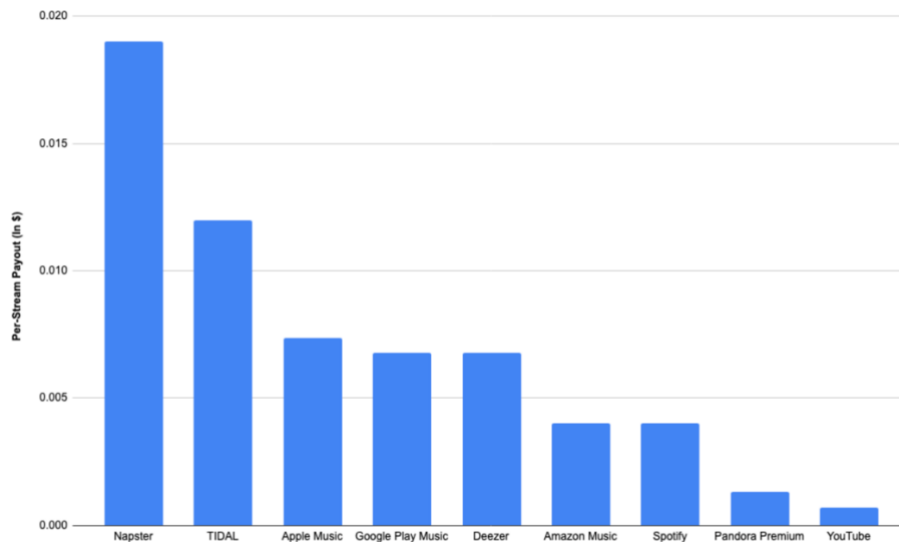


Fig. 1 (Sanchez, 2019)

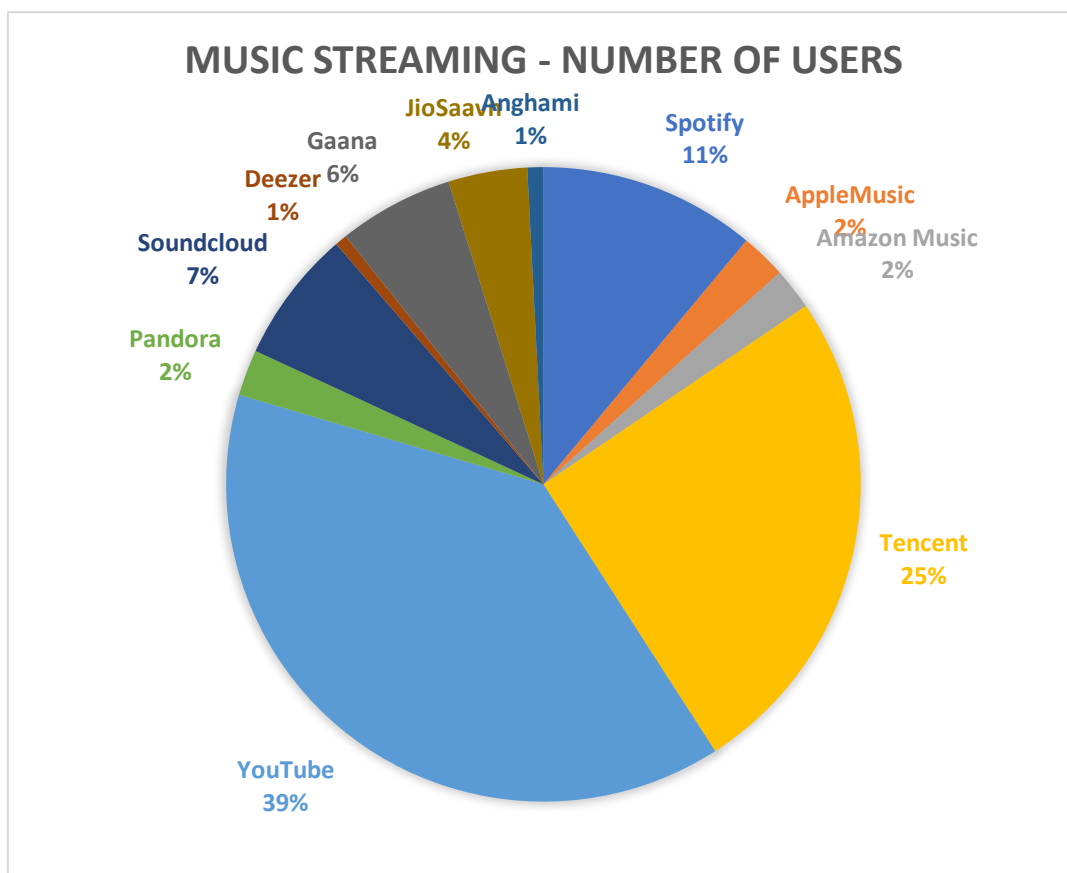


Fig. 2 (Dredge, 2020).

The way that royalty rates are determined is very complex and therefore difficult to understand. For Music Streaming Services like Spotify, Apple Music and Tidal, there is a consistency in their rates, and any fluctuations have been minimal. Territory, type of advertising, season and whether the video is on the paid or free platforms that YouTube

offers will establish exactly how much each view generates. Therefore, it would be extremely challenging for content uploaders to calculate how much there are due (Pernicone, 2020). The revised Songtrust blog post did fail to take into consideration the addition of the RPM analytic in July 2020, which now allows content creators to track revenue performance on each video. Although it does not affect earnings, it offers more transparency and insight (Hale, 2020).

In July this year, the Danish collection society Koda disagreed with the royalty remuneration paid to artists and songwriters, leading to YouTube threatening to remove all Danish content unless Koda agreed to its latest temporary licensing deal which was rumoured to have a colossal reduction of 70% in royalty payments (Ingham, 2020). However, Polaris (which covers collection societies for the Nordic region – including Koda) struck up a deal in October, meaning that Danish music has been made available once again on the platform (Stassen, 2020a). However, the details of royalty rates have yet to be disclosed.

### THE VALUE GAP

YouTube claims to have contributed \$3 billion to the music industry in 2019. This equates to approximately 20% of the \$15.15 billion it generated in advertising revenues for the same period (Ingham, 2020). While this seems a substantial amount, it should be considered that as of January 2020, music videos were responsible for 93% of YouTube's most-watched videos (Smith, 2020).

RIAA claims that YouTube exploits a "safe harbour" within the law that allows them to avoid paying music creators fairly. A safe harbour within law was introduced to protect user generated content platforms as they can't be fully aware of all content that is being uploaded. But given Google and YouTube's dominating position, RIAA CEO Cary Sherman believes this law is being exploited to give YouTube a competitive edge, by avoiding fair payment to music creators given their immense advertising revenues (Sherman, 2017). The Value Gap term has been adopted by the music industry as slang for the small amount distributed per-stream by YouTube compared to other significant streaming services (Ingham, 2018). Christophe Muller, the head of music partnerships at YouTube, was dismissive of this sentiment when he published an article in 2016 claiming it was unfair to compare the site to other streaming giants. Instead, he argued due to its ad-based model that YouTube operates more like a traditional radio station, except it pays far more to the music industry than radio, while trying to undermine the Value Gap notion between ad revenue and royalty payments (Muller, 2016). However, based on 2018 streaming figures, Trichordist (a

community blog who fight for ethical internet use and artist rights protection) found that based on their first comprehensive data set that YouTube's Content ID is responsible for 48% of all streams, but only generated a meagre 7% of overall revenue (Sanchez, 2019) adding, "This is your value gap." Geoff Taylor, CEO of the British Phonographic Industry (BPI), was even more damning in his evaluation:

*Article 13 has been carefully scrutinised over four years by the European Commission, Council and Parliament. These three institutions have rightly concluded that the Value Gap is real and that YouTube ought to take some responsibility for the content it publishes, just like other publishers (Taylor, 2018).*

Despite the strides taken by the European Commission alongside other organisations' best efforts to push for data transparency and fairer pay-outs, artists have launched a renewed attack on streaming sites demanding an increase in royalty payments. In lieu of the impact of COVID-19 cutting off the live music revenue for active musicians, the #BrokenRecordCampaign was set up on behalf of UK artists (Harris, 2020), while more recently, Justice At Spotify has taken hold in the US, demanding at least one cent per stream from Spotify (Cooke, 2020). Whether YouTube is equally held to account by these campaigns remains to be seen, but given its share of the market, it is certainly warranted.

### **COPYRIGHT ISSUES**

In 2009, research from Burgess and Green found that the most viewed videos came from predominantly traditional media sources, for example music videos. However, a significant number of uploaded videos were found to be guilty of copyright infringement, as the users uploading the content (UGC) were found to have no association to the original artists or copyright holders (Latta & Thompson, 2011). Within two years of its launch, YouTube was already battling separate copyright infringement claims from US company Viacom (who had claimed over 60,000 videos to be breaking copyright law) and The FA Premier League, and a whole host of music and media companies. The Viacom case was eventually settled in 2010, with the decision finding YouTube not liable, emphasising that responsibility is on the copyright holders to issue DMCA (Digital Millennium Copyright Act) takedown notices.

Google developed a digital fingerprinting system in 2007 and was seen as a necessary step given the mounting legal cases against YouTube regarding copyright infringement. This

system was called Content ID. Content ID enables YouTube to match music with rightsholders so that content within users' videos can be automatically identified by songwriters and publishers (Soundreef, 2018). This allows the rightsholders to capitalise on any royalties and/or allow them to remove any songs used without permission.

Article 13, which was previously mentioned by Geoff Taylor, was part of The European Directive on Copyright in the Digital Single Market and voted by the member states of the European Commission (EC) in 2018. This aspect of the bill has proven to be most controversial, as it requires content-sharing giants such as YouTube and social media platforms Facebook and Twitter to burden more responsibility for the illegal use of copyrighted material (Reynolds, 2019), ultimately making them legally liable. This would mean filtering out or removing such material from their sites, and lead to fairer remuneration for the copyright holders. The initial plan was also for the likes of YouTube to obtain licenses to stream music videos on their platform.

YouTube responded with a hashtag campaign #SaveYourInternet being advertised to YouTube users, and directing them to an anti-Article 13 landing page to gain favour for their cause (Ingham, 2018). Susan Wojcicki, CEO of YouTube, also put forward the notion that some of the site's most successful videos may never have had chance to succeed given that some rightsholders are currently unknown. This argument was collectively dismissed by the music industry, with Taylor even calling their attempts, "Carpet-bombing propaganda" (Taylor, 2018). Despite YouTube's best efforts to thwart the bill by building public pressure, it was voted through and YouTube was forced to comply. However, in a follow-up article by Ingham shortly after, the proposed Article 13 appeared diluted, and would be unlikely to eradicate the Value Gap (Ingham, 2018). This is partly believed, but not proven, to be as a result of YouTube's lobbying efforts. An open letter by leading industry bodies pointed out that provisions were now open-ended, leading to a lack of legal certainty as rightsholders would likely be responsible for flagging unauthorised use of their work. Furthermore, the bill could be hampered further by the UK government claiming it won't be enforcing the now ratified Article 17 after Brexit passes (Stassen, 2020b), ultimately diminishing the EC's political clout.

Nevertheless, this legal battle between YouTube and the EC is likely to be seen as a watershed moment with regards to copyright infringement. Since the case in 2018, YouTube have been far more active in issuing copyright strikes or de-monetizing videos which have been flagged by labels and publishers as unauthorised use. Three copyright strikes to a particular uploader will lead to the channel (and all its content) being deleted from the site. It

also signifies a pendulum swing in power, as it has now become incredibly challenging for users to counter and dispute these takedown notices (NYU, 2019). However, this hard-line approach from labels and publishers has seen a lot of push-back from YouTube creators, such as musician Paul Davids or record producer Rick Beato, who have claimed fair use for teaching purposes and song analysis (Alexander, 2019) after having popular videos demonetised. Accordingly, many prolific YouTubers are now trying to funnel their audience out to subscription video sites like Curiosity Stream and Nebula or crowd-funding sites like Patreon to create an alternate, primary revenue stream in order to monetize their fan-bases, after using YouTube merely as a marketing tool to drive traffic to ‘extra content’.

In response, Boshier (2019) argues that YouTube is taking copyright into their own hands regarding this issue, by changing their manual claims policy to improve “fairness”. Previously, copyright holders could claim on any video that pertained to use their works without a license, regardless of the amount of work used, which supposedly triggered aggressive use of the manual claim tool. However, very short excerpts or unintentional use is now exempt from being flagged. Although the blog doesn’t disagree with the move per se, Boshier notes the discomfort at how YouTube has the power to essentially create its own copyright rules.

In a further slight to viewers and content creators, 2020 has seen a surge in multi-ad mid-roll placements on videos due to the impact of COVID-19 on advertisers. While creators are getting some of this additional revenue, more ad space will bring down the general price for advertising on YouTube. This currently means more advertising time at the frustration of viewers, with probably little or no difference in monetary gains for the channels themselves (Hutchinson, 2020). Another impact of COVID-19 has meant despite an increase in YouTube usage from users, the EC once again applied its pressure for the site to limit the streaming quality of their videos, and YouTube complied. This shows that, despite its size, YouTube has had to acknowledge the forces of a powerful political body and a shift in advertising market demand.

## CONCLUSION

At this point in time, YouTube stands at an impasse as it struggles to balance the needs of its users, content creators and copyright holders, with little to no sympathy from the record industry. It should also be acknowledged that there appears, to date, to be no clinical research as to how successfully YouTube or other streaming services convert music

discovery to active fan engagement through the purchase of physical CDs, vinyl, merchandise or concert tickets.

While the ad-based model is still the most viable and widely used version, users will largely not be tempted to move towards the subscription style unless there are drastic changes to the platform's format, restrictiveness or usability. YouTube Premium's most attractive selling point is the advertising-free content, but this could prove to be a hard sell as these increasingly invasive advertisements during videos can be easily overcome by users installing (often free) ad-blockers onto their internet browsers.

For future sustainability, YouTube has finally realised, through pressure from large corporations and governments, the need for more transparency. And while Boshier's arguments would normally be alarming, this is perhaps the best course of action the site could take, albeit far too late. Nevertheless, YouTube's practices in press relations could be considered unprofessional given their status, with lack of responsibility partnered alongside an argumentative narrative from company CEO's, which has ultimately led to so much industry distrust. Given the increasingly volatile dynamic between the site, its content creators and respective rightsholders in recent years, there is little sign of this changing unless YouTube drastically alters its business practices and revenue mechanisms. Until then, the company will continue to be problematic for the entertainment industry and YouTube users alike.

***Word Count: 2,653***

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