



Prepared by:

Nathan Johnstone

Student Number:

2104271

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Lecturer Name:

Ian Penman

Table of Contents

1. Introduction	3
2. YouTube Business Model	4
3. The Challenges of the Music Streaming Business: YouTube Music	6
4. Copyright and Intellectual Property	7
5. Monetisation of Intellectual Property	8
6. Conclusion	8

<i>Bibliography.....</i>	<i>10</i>
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The critical analysis and review of the business strategies, challenges and revenue mechanisms relating to the commercialisation of music and entertainment on YouTube.

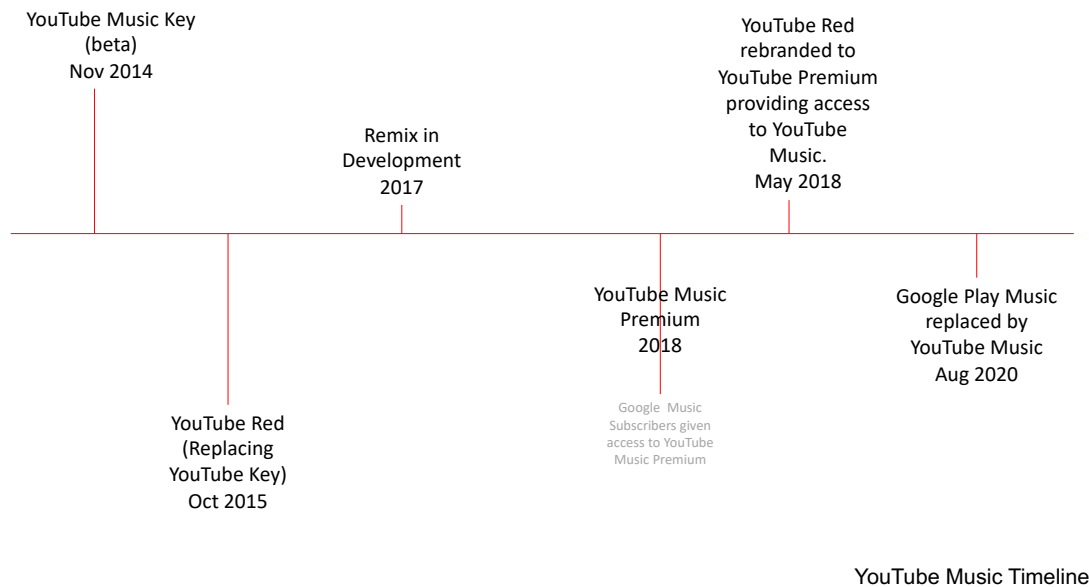
1. Introduction

YouTube was founded in 2005 by Jawed Karim, Chad Hurley and Steve Chan, three ex-employees of PayPal who had decided to create a solution that would make the sharing of video content easier than other, more cumbersome video sharing systems available on the internet at the time. Inspired by the online dating app, HotOrNot which allowed users to upload pictures and videos of themselves, the team realised that consumers particularly enjoyed the ability to create content and upload their own content directly onto the internet. In addition, they realised that advertisers and businesses controlled the content that users could access through the internet. (BMI , 2021) It was this realisation that formed the foundation of the YouTube model.

Bought by Google in 2006, today YouTube has over 2 billion monthly users and offers a multitude of content, from user generated content and music through to original TV programmes. (Insider , 2020)

In November 2014 YouTube Music Key was launched in beta version and had a public launch slated for September 2015. In October 2015, YouTube Red was launched at a cost of \$9.99 per month. (Music Business Worldwide, 2021) This service offer provided a service that allowed users to view video content within the system ad-free, whilst allowing content to be downloaded to be viewed offline. This service also provided access to the new YouTube Music app. YouTube offered its subscribers the ability to not only listen to and stream music but also view musical video content. This was an MTV for the 21st century. (Leske, 2015)

When the service was launched in the UK in 2018 the cost of a standard subscription was £11.99 with a family plan priced at £17.99. A subscription to YouTube Music only costs £9.99 per month for ad-free access to music.



In August 2020, Google Play Music was replaced in its entirety by YouTube Music. At this point YouTube was firmly fixed within the music streaming industry.

2. YouTube Business Model

YouTube operates a platform business model. This type of model creates value by facilitating exchanges by two or more independent parties usually between consumers and producers. In order to promote these exchanges, the platform model creates large networks of users and creators that are able to access or upload content directly to and from the platform. (Moazed, 2021). The third ingredient to this model is advertising. With around 79% of internet users stating they have a YouTube account, advertisers had very clear access to a large pool of consumers and along with the digital tools and analytics available through the Google model, advertisers are now able to target consumers directly depending on their viewing and listening habits. This process of being able to target consumers in such a controlled and targeted manner has pathed the way for Digital Marketing. (BMI, 2021)

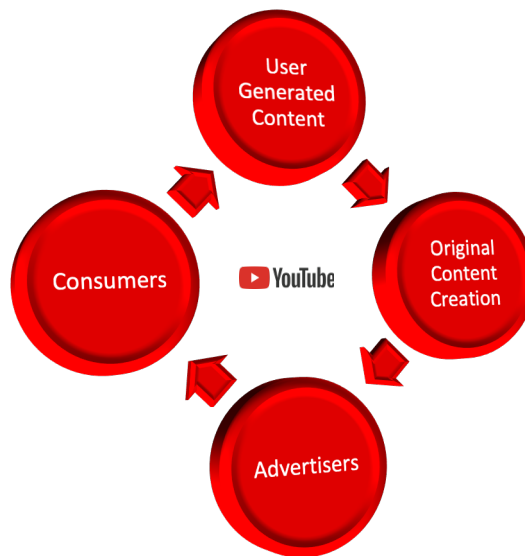


Figure 1: YouTube Business Model

The YouTube Music streaming service builds upon the platform model and provides a system that is closely related to its competitors within the music streaming industry. Again, the facility for User Generated Content is present, however with established relationships with Universal (UMG), Sony and Warner music, (Plausic, 2017) YouTube is able to compete with the leading music streaming services. Whilst YouTube launched their new service and app into an already crowded market, it had a number of advantages over its competitors.

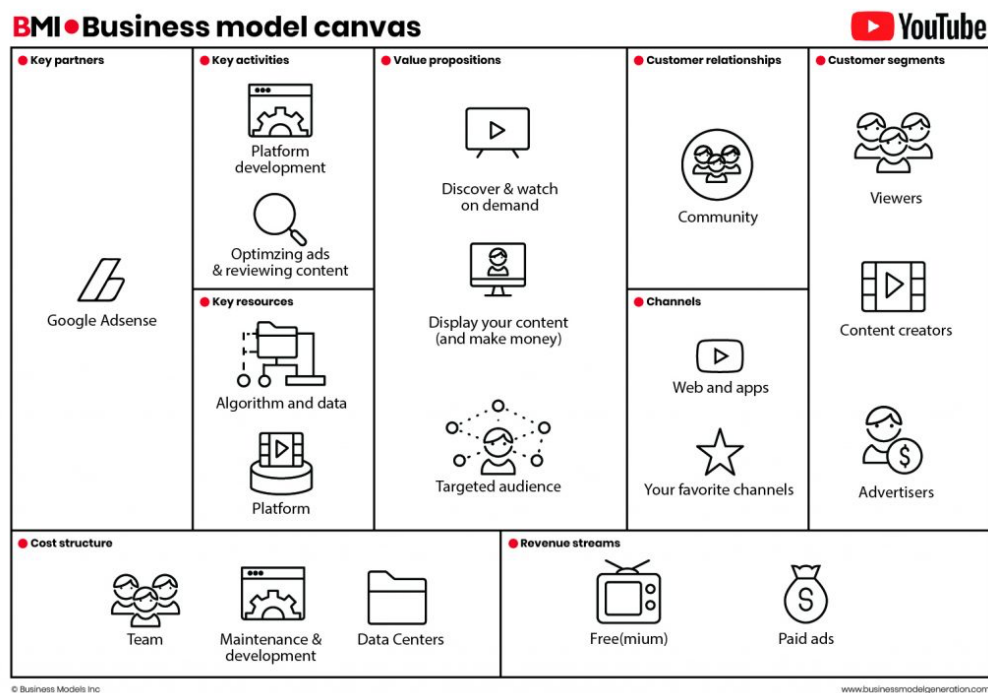


Figure 2: YouTube Business Model Canvas (BMI , 2021)

Much of the success of the service has been attributed to the launch of the service in such markets as such as India and Brazil where the company capitalises on the popularity of its free video streaming platform on mobile services. YouTube is arguably the biggest free music streaming service in the world and has proven to be a formidable contender in the music streaming marketplace. (The Motley Fool , 2020)

For example, in India the service saw 3 million downloads within its first week of launch and has about 10 million active users as at the end of 2019. Of this figure only approximately 800k pay for the ad-free service. It is this figure that makes YouTube music the most popular service in the country. (The Motley Fool , 2020). The tactic of providing free streaming services without restrictions places YouTube music at an advantage in such markets where individual budgets are limited. This approach places pressure not only on Spotify, but its competitors.

During the latter part of 2020 Google made YouTube music its default music player on Android phones, which is an effective approach to pushing the product to consumers of their hardware. For example, Apple has stated that Apple Music is more popular with Apple consumers, however Apple Music has struggled to grow its user base with consumers outside of its loyal hardware driven customer base. (The Motley Fool , 2020) The support of Google and its ability to promote the service across its platforms make YouTube a serious contender for Spotify.

In terms of revenue, YouTube do not provide information for YouTube Music specifically, however all subscription data for YouTube as a whole increased by 22% year-on-year to \$4.4bn (£3.5bn) (Music Week, 2020)

3. The Challenges of the Music Streaming Business: YouTube Music

Music streaming has seen a considerable increase of activity over the past few years with 80% of music consumption activity in the UK being attributed to streaming in 2020 (BPI, 2020). However, there are concerns with music streaming and whether the system as a whole provides fair remuneration to artists and rights holders. Artists such as Thom Yorke and Taylor Swift have been vocal in their views of the streaming industry and in particular Spotify. In 2013 Thom Yorke and Atoms For Peace, his band with Radiohead producer Nigel Godrich decided to pull their music from Spotify and all streaming services. In an interview with Mexican website Sopitas, Yorke said “I feel as musicians we need to fight this Spotify thing. I feel that in some ways what’s happening in the mainstream is the last gasp of the old industry. Once that finally does die, which it will, something else will happen” (Dredge., 2017). It is interesting to note that Thom Yorke’s music along with the music of Atoms For Peace are available on music streaming service again since this interview.

Rates paid to artists vary drastically from service provider to service provider. The top 3 highest payers within the industry are Amazon Music at \$0.0119, maybe surprisingly, Napster at \$0.0106 and Tidal at \$0.0099. In comparison YouTube’s official music content payouts to rights holders is rather low at \$0.00164 (Pastukhov, 2019). These figures based on a weighted average from various sources and provide an indicative payout rate. This low

payment rate makes for some concerning reading. Artists say that 85% of YouTube's visitors go to the site to stream music revenue figures from 2017 show that music listeners and consumers contributed £2.33 billion in revenue to the websites overall revenue. Estimates of the rate YouTube Music actually pays to artists and rightsholders vary but claims that a song would need to be streamed 51.1 million times in order to achieve the average UK salary of £27,600 based on a rate of \$0.00054 per stream clearly highlight the reason why in the eyes of some critics, music streaming royalty payments along with the model as a whole, needs to be addressed. (Ellyard, 2018).

Counter to the concerns raised by critics of music streaming in general and specifically YouTube Music, In February 2020, YouTube CEO, Susan Wojcicki claimed YouTube had handed music rightsholders over \$3bn from revenue accrued from advertisements and subscriptions in 2019. However in comparison to total revenue at \$15.15 bn (excluding subscriptions) in 2019 this represent 20% of total revenue. It should be noted that the \$3bn figure includes subscriptions and therefore this figure is not precise but provides an indication and raises the question as to whether this level of remuneration to rightsholders is fair.

In November 2020, after years of speculation and building tensions within the music industry in regard to this issue the Department for Digital Culture Media and Sport (DCMS) decided to undertake an inquiry into the Economics of Music Streaming in order to understand the impact of music streaming and how it affects the music industry as a whole. There are arguments for and against music streaming services and the relative benefits of working with a music streaming platform that facilitates worldwide access to the work of artists. For example, in the inquiry Guy Garvey of the band Elbow argued 'Elbow played a concert in Mexico in January as we know we have an audience there, an audience that definitely found us in part through streaming services'. (Garvey, Guy 2020). This recognition of the power of music streaming and the ability to support artists in building a global fan base provides some hope that if the likes of YouTube and their competitors can overcome the challenges in relation to fair remuneration music streaming will eventually provide a sustainable model for the future of the music industry.

4. Copyright and Intellectual Property

The UK Copyright Designs and Patents Act 1988 is the current UK Copyright Law. It gives the creators of literary, dramatic, musical and artistic works the right to control the ways in which their material may be used. (The UK Copyright Service, 2021)

As discussed earlier, YouTube works within a platform model. It is, in essence a facilitator for user generated content as well as providing a music streaming service for record labels such as Sony, Warner and Universal music. This places YouTube in a position where copyright infringement is a reality of impacting the business; more so of course than a conventional streaming service such as Apple Music or Spotify.

Article 13 of the European Copyright Directive has proven to be a controversial point of discussion and debate within the music streaming industry. This piece of EU Legislation is designed to hold services such as YouTube responsible for user generated content uploaded onto their platforms. Therefore, any copyright infringing material uploaded onto YouTube would result in YouTube being responsible for that infringement. Whilst the UK was amongst 19 of the European nations that supported the article, the UK has decided not to implement the law, with Prime Minister Boris Johnson claiming that "it was terrible for the internet"

With the UK rejecting Article 13, the question remains as to how copyright can be protected and infringement prevented on such platforms. In the United States, the Digital

Millennium Copyright Act (DCMA). The Act was passed in 1998 as an amendment to U.S. Copyright Law and aimed to address important aspects of the relationship between copyright and the internet. The three main aspects of this update included: 1) establishing protections for online service providers if their users engage in copyright infringement, which includes the take-down notice system, which allows copyright owners to inform service providers of infringing material so that it may be taken down; 2) encouraging copyright owners to give greater access to their work in digital formats by providing legal protection against unauthorised access to their works (for example hacking passwords or circumventing encryptions); 3) making it unlawful to provide false management information or to alter or remove information in certain circumstances. (Copyright.gov. U.S. Copyright Office , 2021)

The first main aspect regarding the protection of service providers and the establishment of the Take Down Notice system lead to congress enacting section 512 of the Copyright Act, which 1) enabled copyright owners to have infringing online content removed without litigation and 2) facilitated the development of internet industry by providing legal certainty for participating online service providers. Section 512 effectively shields online service providers from monetary liability for copyright infringement and other liabilities. Referred to as safe harbours, in exchange for cooperating with copyright owners to remove infringing material. (Copyright.gov. U.S. Copyright Office , 2021)

The approach taken by the United States is counter to that of Article 13 and takes a more pragmatic approach to the problem. However, this approach can lead to an element of scrutiny and concern in that services such as YouTube are then in a position where they are not held responsible for such infringements.

In the case of Viacom International Inc. Vs. YouTube, Inc. 2017, Viacom contended that the defendants had induced copyright infringement and deliberately built a business on third party copyright content. YouTube moved for dismissal via summary judgement, which was granted in 2010 on the grounds that YouTube had complied with all relevant provision of the DCMA safe harbour, therefore shielding themselves from liability and that YouTube had no duty to analyse each and every video uploaded to their site, as doing so would controvert the intentions of the DCMA. Viacom appealed to the Second Circuit Court of Appeals, and the summary judgement was partially overturned and the case remanded to the lower court. Again the judge granted summary judgement for YouTube in 2013. Despite evidence that YouTube had decided not to police content unless owners had licensed the material to YouTube, the judge found that YouTube had no duty to police the infringement, as long as they complied with the safe harbour requirement. Both parties eventually settled out of court in 2014. (Bargrede, 2017)

5. Monetisation of Intellectual Property

Intellectual Property (IP) is defined as something that you create using your mind – for example, a story, an invention, an artistic work or a symbol. (Gov.UK, 2021)

Owners and creators of Intellectual Property are automatically protected under the Copyright, Designs and Patent Act 1988 and there is no need to register copyright in the UK. YouTube provides opportunities for IP owners to monetise their property through their platform through their YouTube Partner Programme (YPP). This service allows IP owners access to their Copyright Match Tool. This system allows members of the programme to review where their original uploaded material is used on other YouTube Channels and allows

the IP owner to decide on the action required, such as a Take Down Notice being issued to the infringing party. (YouTube , 2021)

6. Conclusion

In conclusion YouTube and YouTube Music, provide a platform streaming service that provides a forum for creators, owners of intellectual property a forum not only broadcast and distribute their work to a worldwide audience but also build a relationship with the listening and viewing public. The ability to upload music performances straight into the system for example, builds connections with fans and listeners and also provides a way of engaging with fans on a worldwide scale.

YouTube is not without its challenges, and the fair remuneration issue in terms of how rightsowners and artists and compensated needs to be address. The recent DCMS enquiry into the Economics of Streaming should go some way in challenging this aspect and addressing the balance in ensuring there is a fair and consistent model for the future music industry. With streaming accounting for the major part of the music economy it is imperative that this imbalance is addressed.

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