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A Critical analysis of the business strategies, challenges and revenue mechanisms relating to the commercialisation of music and entertainment content on YouTube.

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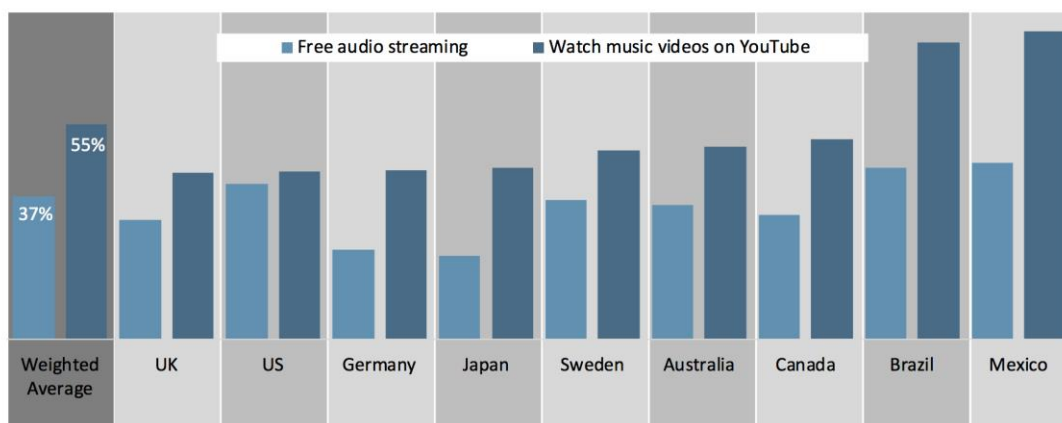
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1. INTRODUCTION

YouTube is an online American Video-Sharing platform. Created in 2005, by three former PayPal employees, YouTube quickly attracted \$3.5 million investment from Sequoia Capital, then another \$8 million from Artis Capital Management. The company was finally sold to Google for \$1.6 billion just a year later in 2006. Estimated to be currently worth \$140-160 billion, there are 500 hours of content uploaded to YouTube every minute. The company's basic functions are connecting users with videos, users to users, and videos to videos. YouTube boasts a dedicated and expansive user base, with 2 billion monthly active users and one billion of hours of content viewed every day. The effects that these staggering statistics have on the Music and Entertainment industries and Individual content creators are significant. The music industry especially has undergone substantial changes in the way people buy and listen to music. With streaming revenues continually increasing, paid subscription services are now by far the most popular option for the consumer. The Music Consumer Insight Report 2018, published by The International Federation of the Phonographic Industry (IFPI), stated that video-streaming makes up more than half of on-demand music streaming time (52%). 47% of that 52% is time spent listening to the music on YouTube. This has attracted both musicians and labels to its marketing potential, and also the importance of music videos. Therefore, it is important to understand the extent of influence that YouTube has on both the entertainment and music industries, and how they operate to achieve these results.

With Video, Unrivalled Catalogue and Fully-On-Demand Free Music, YouTube Takes Much of the Oxygen of the Global Streaming Market

Consumer Music Streaming Behaviour (at Least Monthly), Q3 2018, US, Canada, Mexico, Brazil, Australia, Japan, Germany, Sweden, UK



Source: MIDiA Research Consumer Survey Q3 2018, US, Canada, Mexico, Brazil, Australia, Japan, Germany, Sweden, UK n = 8,756

MIDiA

This Critical Analysis will identify the key Business strategies, challenges and revenue streams relating to the commercialisation of the music and entertainment content on YouTube. These key points will be researched by exploring the relevant resources and literature available. After analysing the research, a conclusion will be given, to help further the understanding of YouTube's methods and position in the modern music and entertainment online market.

2. BUSINESS STRATEGIES

Since first being launched 2005, YouTube has been at the forefront of the rapidly evolving music and entertainment industries. The most notable and significant change being the internet, and how we consume information and entertainment. Streaming has now engrained itself into Music and Video culture and has provided new innovative ways to expand the industries themselves and the global reach of their works. YouTube has always recognised the importance of innovation and adaptability, with the company's chief executive calling the 'continues evolution crucial to long-term strategy'. YouTube have managed to retain their dominant position in the market due to introducing innovative strategies that further enhance peoples experience using the platform and connecting with one another utilising its ever evolving and extensive interactive capabilities. Notable examples of these effective innovative strategies include viewer ratings, livestreaming, below-the-line comments, content algorithms, simple embedded functionality and voice recognition. YouTube business model is very much centred over the income from advertisements from large and emerging companies. The way in which YouTube generates revenue from advertisements will be looked into in further detail in a later chapter.

Developing innovative business strategies has been the most effective policy for YouTube, the company has introduced many new services including YouTube Premium, YouTube Music and YouTube TV. Enhanced features on the main site such as livestreaming, creators being able to make money through ad banners and channel subscriptions are all further evidence of YouTubes evolving strategies. YouTube premium (previously named YouTube Red) was set up in 2018 and includes YouTube Music, YouTube originals, offline video downloads and ad-free viewing for \$11.99 a month, whilst offering discounts for family or student plans. YouTube TV can be seen as a replacement of cable, giving you access to Live TV without contracts or costly subscriptions. The service's main selling points are the low fees and being able to watch Live TV without having to pay for many channels you will never watch.

2.1 PARTICIPATORY CULTURE

YouTube's core business strategies are centred around participatory culture. Jenkins listed key parameters of what defines a participatory culture and can be summarised in a few key attributes; one with relatively low barriers to artistic expression and civic engagement, with strong support for creating and sharing one's creations with others, with some type of informal mentorship whereby what is known by the most experienced is padded along to novices (Jenkins, 2006). YouTube fulfils the purpose of participatory culture because of the various way's individuals are able to interact (Chau, 2010). Participatory culture on this scale and in this scenario has a huge impact on the entertainment industries, this due to the amounts of original content being created constantly and people's exposure to various works.

2.2 YOUTUBE MUSIC

YouTube Music is a paid subscription service launched in 2018 and is the newest attempt by Google to enter the online music streaming market after the decline of Google Play Music. Much like Spotify, YouTube users can access the app and services for free in an ad-restricted capacity. Benefits of \$9.99 subscription fee include screen-lock play, ad-free videos and playlist personalisation. The

Freemium business model has been incredibly successful in many other entertainment industries such as gaming and apps (DropBox, LinkedIn). The original advertising model that many online firms championed in the early 2000s, is proving to be less profitable than the monthly subscription fee strategies (Kumar, 2014). The move into the music streaming market was a necessary step for YouTube, as according to the IFPI's Global Music Report, the site was home to 46% of listening time for music streaming across the world (IFPI, 2018). As streaming now accounts for nearly half of market revenue and is still growing, it is important to identify the impact that YouTube has on this and ultimately how it has influenced the industry. YouTube is by far the largest music streaming platform, with 56% of consumers regularly watching music videos on the platform. This in comparison to other free music streaming sites with 37% combined. If YouTube could convert its viewers into paying subscribers, then it would easily overtake platforms such as Apple Music and Spotify. However, YouTube has an incentive not to push for subscription fees too much as its primary revenue is still advertising, and advertisers pay to reach the best possible consumers.

2.3 INFLUENCE

As has been mentioned, YouTube's various strategies has enabled it to be the largest source of music consumption globally. Streaming now has significantly more influence on charts and label behaviour than radio. 68% of those under 45 watch YouTube music videos, this is compared to only 41% who still listen to music via the radio. Another strategy that has benefitted YouTube and influenced the content uploaded and shared on the site, is making itself appeal to all demographics, whilst targeting particular groups for maximum engagement. YouTube has a particular impact on the Young, in emerging markets. For example, in Mexico YouTube music penetration for 20 to 24yr olds is 84%, whilst radio music is at 37% (Mulligan, 2019).

3 CHALLENGES

3.1 LEGAL

From launch, YouTube has always taken the stance of being a neutral content web sharing platform, and not a content producer itself, ultimately delegating responsibility of copyright infringements to the content uploaders themselves. This stance is to be tested with the new European Union Directive on Copyright in the Digital Single Market. This form of legislation is aimed at limiting how copyrighted content is shared online. Ultimately, this will make online platforms such as YouTube bear more of the responsibility for removing the copyright material that is uploaded onto the site. This requirement is drawn up in Article 13 of the directive. The aim of these measures is to direct a higher proportion of revenue towards the journalists and artists, and away from established tech giants. It is argued that currently the extent of copyright sharing on these platforms is hindering the original creators who aren't being properly paid for their work. YouTube itself is claiming that the Article will break its service, and due to the article's wording, it may have to blacklist videos like the Latin hit Despacito in the future. Lyor Cohen, the head of YouTube Music, explained that 'Remixes and covers, tutorials, fan tributes, parodies – these are such powerful promotional tools for the industry'. Ultimately this will require YouTube to thoroughly check every video uploaded to ensure that the copyright license is valid, resulting in less videos being uploaded out of fear of being sued by large corporations.

It is not only music and music videos that will be threatened, some have labelled the article as the 'meme ban'. Meme are essentially a comical mashup of pre-existing (copyrighted in most cases) content. In theory then, if a user wishes to upload their copyrighted online, they must seek a license from the used content's owners. The Article specifically gives exemptions from penalties to Educational material, memes and satire; however, this will only bring issues as to the extent memes and satire can be deemed copyright exempt.

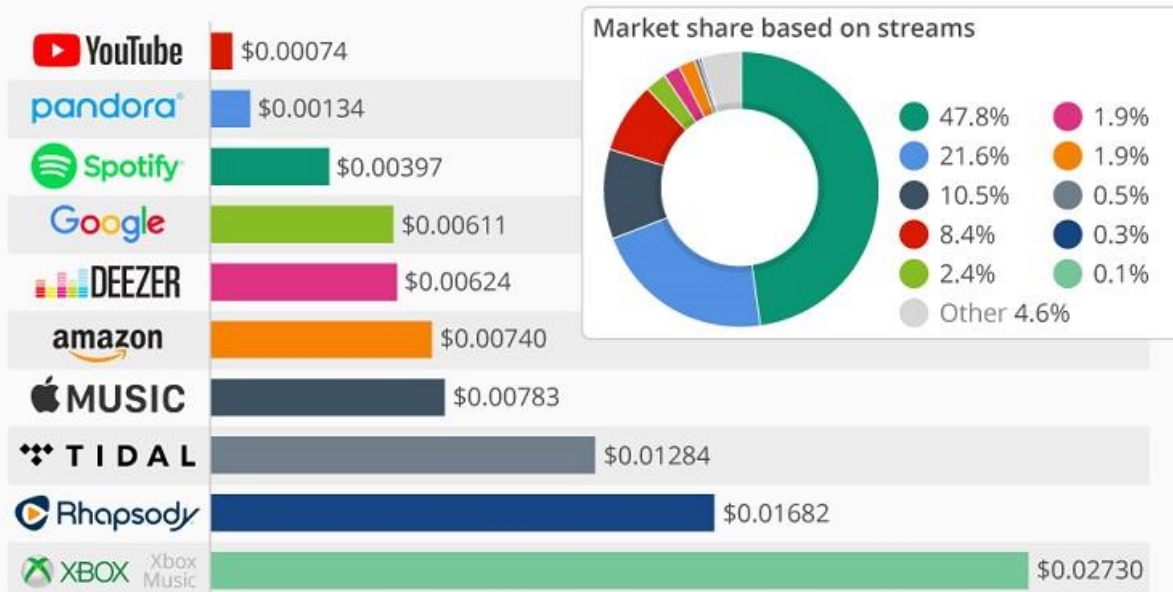
YouTube has experienced previous legal disputes regarding the responsibility of copyright breaches. An example of this would be YouTube being sued by Viacom in 2007. More than \$1 billion worth of damages were sought as a result of many thousands of videos allegedly using their copyrighted works. With the new laws, this should become less of an occurrence and is a benefit to many media organisations.

3.2 ROYALTIES CONTROVERSY

Artist's royalties from streaming has been the subject of much discussion and debate in recent years. Each streaming platform varies on how much is paid to the artist per stream, with Tidal paying the most (out of the most recognised platforms) at \$0.013 per play, and YouTube at the bottom with \$0.00074 per stream. This is even after YouTube recently raised the pay-out from \$0.00069. Whilst YouTube is much larger and more influential than Tidal, it is seen by many as severely underpaying creators and artists. Many artists hope that the new legislation mentioned previously will compel YouTube to take further responsibility in ensuring artists and creators get compensated adequately for their work. The money being generated by online advertising displayed in music videos is said to be disproportionately shared between the artists and YouTube. An article in The Guardian explains how 'YouTube took home the lion's share of the £10bn spent on internet advertising in the UK last year.' In a survey by IFPI, 77% of people who streamed music videos use YouTube (IFPI, 2019). This could potentially be a substantial revenue stream for the music industry, however music video streaming (dominated by YouTube), contributed only £25.5m to the industry. A spokesperson from YouTube spoke to The Guardian saying, 'YouTube is working with the music industry to bring money to artists, labels and publishers. YouTube is contributing a meaningful and growing revenue stream for the industry.' This is something that needs to be addressed by YouTube, however as previously mentioned, new legislation may help to naturally guide YouTube's policy on pay-outs due to copyright responsibilities.

Music-Streaming: Who Pays Best?

Gross payout to labels per stream by selected streaming services*



* Data based on a mid-sized indie label with an approximately 200+ album catalog now generating over 200m+ streams annually.
Source: The Trichordist

statista

3 REVENUE

As previously discussed, YouTube's business model relies heavily on advertisement revenue. However, due to innovative strategies taken by the company have introduced further revenue streams that have eased the reliance on a single source of income. YouTube has revenue streams in collaborations, affiliate earnings and sponsorships, however the most important sources are from YouTube Music, YouTube Premium and YouTube TV. As described in an article on SoundCharts, 'YouTube is a multi-sided platform in terms of pay-out. There are at least three separate pay-outs under the brands' umbrella: per YouTube Red/YouTube Music stream (\$0.008), per video-stream on the official artist's channels (\$0.00164) and videos monetized through Content ID (\$0.0087)' (SoundCharts, 2019).

YouTube Music charges \$9.99 a month and generates revenue away from advertising, this could possibly be a leading source of income in later years as the music streaming market generated \$8.9 billion in 2018, with \$7 billion from the subscription fees. The relationship between record labels and YouTube has been strained in relation to revenue. Labels and TV networks pull in the majority of revenue from YouTube Premium subscriptions. Anthony D'Angelo, a YouTube creator and former director of the Internet Creators Guild, claimed that record labels take 70% of every dollar spent by Premium subscribers. The remaining 30% is shared between creators and YouTube itself.

3.1 ADVERTISEMENTS

Advertising is Google's primary source of income with 84% of total revenue being generated from advertisements. YouTube utilises a variety of advertising methods on the site, such as Sponsored Videos (SERP advertising), Embedded Advertisements (Ads in the video and between videos), and Landing Page Advertisements (Banner style ads displayed on YouTube's home page). Unfortunately, it is no longer possible to see how much money YouTube brings in as Alphabet no longer displays revenue in each segment since 2017. However, in 2017 it generated \$9 billion with the vast majority coming from Advertisements. YouTube recommended websites come from Google's Advertising branch AdWords delivers targeted ads based on Google's algorithms. These are strong revenue sources as the companies must outbid each other to be on and further up the list. The company's advertising pay Google per click. The amount generated from each click can vary anywhere from a few cents to over \$50.

In relation to music videos, YouTube recently adjusted their charts so that views from paid ads would not count. This ends a controversial move by large labels essentially paying their way up the charts. YouTube stated that this move will 'provide more transparency to the industry', however it will not retroactively alter previous record holders and chart positions. In the past, this influence has been negatively looked upon as it further narrows the gap between independent labels and big record companies.

YouTube's advertising revenue model is very successful and one to be admired, however there is a loophole where companies can pay content creators directly and avoid any of YouTube's advertising fees. If YouTube could make it essential that all in-video sponsorships are made through the company, whilst being a risky strategy, it could provide further revenue streams.

3.2 YOUTUBE TV

YouTube TV, as previously mentioned, is a US-exclusive TV streaming service. It provides the user access to over seventy cable channels, such as Disney, Fox, ABC and NBC. It is a subscription service at \$49.99 per month compared to its main competitor Hulu (\$54.99). According to UBS, YouTube TV was the fastest growing Live TV streaming service, and accounted for 42% of all Live TV app downloads in the second quarter of 2019. Whilst the venture has grown recently, it operates in a difficult market where it is up against large rival companies such as AT&T, Disney and Hulu. The revenue generated from YouTube TV comes directly from subscriber fees and advertisements. This may call for expansions and give YouTube TV's users access to more networks, such as MTV. Both Hulu and Disney currently offer music channels, something that YouTube is still lacking. A Forbes article stated that 'many were quick to note the service's lack of offerings from Viacom (Comedy Central, MTV, etc) ... But don't fret yet, expansion is an inevitability and in the long view could come out in YouTube's favour.'

4. CONCLUSION

In conclusion, YouTube is a company that is to be carefully admirable of. The business strategies and willingness to adapt to a constantly evolving market and consumer base give YouTube many advantages when it embarks on new ventures such as paid TV and Music streaming services. All of these functions further bolster YouTube's importance in the music and entertainment industries. The commercialisation of music on YouTube's platform is stemmed from user experience and opportunities. YouTube has also successfully created a whole new creative work force complete with content creator guilds and organisations, who lobby on their behalf in shared interests. The new EU directive and article 13 in particular will be a test for YouTube, however the company has already made steps in reducing the reliance on certain revenue streams to ensure company security in the future. Many online companies (YouTube in particular) campaigned heavily against the directive. However, after researching the parameters of the legislation, especially Article 13, and how it will impact the industry, copyright will be fairly protected and rewarded whilst creativity and freedom online is not at significant risk.

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