INTERNET MUSIC STREAMING GROWING PAINS

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1. The Phases of the Recording Music Industry Between 1982 and 2014:

FROM CDs to INTERNET DOWLOADS to INTERNET STREAMING

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The Phases of the Recording Music Industry Between 1982 and 2014:

- 1. CDs 2. INTERNET DOWLOADS 3. INTERNET STREAMING
- PHASE 1: THE REIGN OF THE CD

CDs

1982 (1st commercial use) to 2000

SALES: About \$13 BILLION in the USA in 2000 about 85% of the Recording Music Industry Revenues

TYPICALLY

1 CD = 12 songs

Sold for about \$15

Very Little for the Performing Artist

CUSTOMERS ARE UNHAPPY
PAYING TOO MUCH for ONE (?) INTERESTING SONG
PACKED WITH 11 UNINTERESTING SONGS

The Phases of the Recording Music Industry Between 1982 and 2014:

PHASE 2: THE DIGITAL DOWNLOADS - 2001 ...

1. ILLEGAL DOWNLOADING

FACTORS:

MP3 FORMAT
BROADBAND INTERNET
PEER-to-PEER (FILE SHARING)

CONSEQUENCES

CD SALES IN 2013 = \$2.13 BILLION
A DECLINE OF OVER 83% since the year 2000!

FROM 5 MAJOR LABELS TO 3
DISAPPEARANCE OF TRADITIONAL MUSIC RETAILERS

2. LEGAL DOWNLOADING

KEY EVENT

2003 APPLE (iTunes) SIGNS AN AGREEMENT WITH THE MAJORS

APPLE IS THE MAIN BENEFICIARY, NOT THE LABELS: SALES of iPods JUMP

MILESTONES

2006. Apple Reaches 1 billion downloads

2008. Apple Beats Walmart as Top Music Retailer

2011 Increase of digital music sales (including streaming) compensates for decrease of physical sales

---→ DECREASE OF REVENUES CONTINUES UNTIL 2010

PHASE 3: STREAMING

STREAMING: THE CUSTOMER LISTENS IN REAL TIME as the Music streams from the Internet

The music file is NOT stored by the customer

STREAMING VS DOWNLOADING vs CDs

2010. OVERALL RECORDED MUSIC SALES (USA) REACH THEIR LOWEST POINT SINCE 2000: \$7.0 BILLION A DECREASE OF 10% FROM 2009

2011-2013: THOSE REVENUES STABLE AT ABOUT \$7.0 BILLION

MAIN FACTOR: INCREASE IN REVENUES FROM STREAMING

REVENUES FROM STREAMING (per RIAA)

(as % of RECORDED MUSIC)	2010	2011	2012	2013
	7%	9%	15%	21%
In \$ BILLION	0.49	0.64	1.05	1.41

REVENUES PER TYPE OF RECORDED MUSIC (2013)

DIGITAL DOWNLOADS	PHYSICAL (mostly CDs)	STREAMING
40%	35%	21%

REVENUES FROM DIGITAL SALES (MOSTLY DOWNLOAD + STREAMING)

(as % of RECORDED MUSIC)	2010	2011	2012	2013
	46%	51%	59%	63%
In \$ BILLION	3.22	3.62	4.13	4.41

STREAMING AND THE COPYRIGHT LAW:

TWO TYPES OF ROYALTIES MUST BE PAID BY STREAMING PROVIDERS

1. ROYALTIES PAID To the Composer/lyricist of the song.

rate decided by the Copyright Royalty Board

members selected by the Library of Congress)

About 9c a minute per "short" song and listener (CD, dowload only?)

broadcasting, webcasting: more complex fomula

collected by rights societies, which, in turn, pay the composer/lyricists

TREAMING AND THE COPYRIGHT LAW

- ROYALTIES PAID To the label (owner of the song), who, in turn, pays the performing artist (based on contract)
- → for an on-demand music provider:

royalties negotiated with label

for a (non-interactive) webcaster:

rate decided by **SoundExchange**, a performing rights organization

members selected by Library of Congress

complex rate structure, very controversial

rate is higher for pay streams than for free streams

3. The TWO DIMENSIONS OF STREAMING

ON-DEMAND STREAMING vs WEBCASTING ADVERTISING vs SUBSCRIPTION

ON DEMAND STREAMING

ROYALTY FEES FOR PERFORMERS NEGOTIATED WITH LABELS

US COMPANIES: SPOTIFY

FRENCH COMPANY: DEEZER

WEBCASTING – SIMILAR TO RADIO-BROADCASTING
BUT OVER THE INTERNET
MAY BROADCAST OVER MANY "CHANNELS"

ROYALTY FEES PAID TO PERFORMERS (via SoundExchange)
VERY HIGH COMPARED TO SATELITTE RADIO
RADIO STATIONS NOT SUBJECT TO THOSE FEES

EXAMPLE OF US WEBCASTER: PANDORA YOUTUBE?

8. A SECOND DIMENSION OF STREAMING: ADVERTISING vs SUBSCRIPTION

ADVERTISING

STREAMING IS FREE FOR THE CUSTOMER

CUSTOMER MUST LISTEN/View Advertisements

MANY RESTRICTIONS (number of songs, ...)

Aims to bring Customers to subscribe

SUBSCRIPTION

NO ADVERTISEMENT TO WATCH

ABOUT \$5 to \$10 per month

Less restrictions than free streaming

CURRENT ECONOMIC STATUS OF MAJOR MUSIC STREAMING PROVIDERS

PID INCREASE IN REVENUES

PID INCREASE IN NUMBER OF CUSTOMERS

PID INCREASE IN SUBSCRIBERS

LARE LOSING MONEY

ASON: 70% OF REVENUES USED TO PAY ROYALTIES ??

OTIFY: ON-DEMAND STREAMING

FROM SWEDEN TO THE USA

FROM ILLEGAL DOWNLOADING TO LEGAL STREAMING

13 REVENUES: \$1.03 BILLION - UP 74% FROM 2012

3 LOSSES: \$80 MILLION (LESS THAN IN 2012)

13 PAYING CUSTOMERS: 8 MILLION (now 12.5 million)

13 FREE CUSTOMERS: 28 MILLION

3: 70% OF REVENUES PAID AS ROYALTIES

NDORA: WEBCASTING (NON-INTERACTIVE STREAMING)

2013 REVENUES: \$600 MILLION?

FROM SUBSCRIPTIONS: \$110 MILLION?

FROM ADVERTISING: \$490 MILLION?

LOSSES: about \$40 MILLION

CUSTOMERS in 2014: about 71 MILLION??

PANDORA IS STRUGGLING TO STAY IN BUSINESS

RFORMING ARTISTS AGAINST STREAMING

RECENT NEWS:

Taylor Swift quits Spotify
Google removes Adele from its new streaming services
Thom Yorke (Radiohead) against SPOTIFY
David Byrne (Talking Heads) against SPOTIFY
Coldplay Removes Album from Deezer, Spotify

ARTISTS GET LITTLE FROM STREAMING

LABELS OFTEN GIVE LITTLE TO ARTISTS (what's new?)

ROYALTIES FOR FREE STREAMING ARE VERY LOW

ITAL MUSIC IN CHINA (1)

8-99% of all Downloads ILLEGAL

rly 2007. USA READY TO FILE COMPLAINT WITH WTO

arch, 2007. Sina.com to provide copyrighted music on line

nina's website Sina.com to team up with five MAJORS to provide music online lared Revenues from Advertising. Did it WORK??

PRIL 2009. MAJORS and Google to offer free downloads of music inside China.

Google, hopes to build traffic/win new advertisers.

Majors and Google to Share Advertising Revenues. DID IT WORK??

JLY 2011 Baidu AGREEMENT WITH 3 MAJORS

nese users to legally download and stream songs for free.

t Too Successful

DIGITAL MUSIC IN CHINA (2) -STREAMING

May 2014 Streaming is the answer for Chinese music industry (after R. Cookson, Digital Media) China's music business to grow substantially thanks to streaming services,

China: less than 1% of the \$15bn in global revenues last year by Labels

Changing: Consumers increasingly listening to STREAMING music via the biggest companies including Tencent, Alibaba and China Mobile.

COMPANIES ARE WILLING TO PAY LICENSED MUSIC enforcement of copyright laws by Authorities to move into other countries

Last 3 years: 8 Chinese Internet Companies SIGNED wit Majors (and smaller) LABELS (starting with Baidu, 2011)

DIGITAL MUSIC IN CHINA (3) -STREAMING

DECEMBER 2014. Taylor Swift Takes Her Music Off Chinese Streaming Services (like in USA: Too Little from advertising for the artist)

Hoping to force Public to pay

BUT According to trade site China Music Business:

Chinese public NOT accustomed to pay for digital music

share of music consumption via pay download (as opposed to free streaming) is shrinking.

DISCUSSION

STREAMING FASTEST GROWING in RECORDING MUSIC INDUSTRY (USA, CHINA)

BUT * STREAMING MUSIC PROVIDERS ARE LOSING MONEY (USA)

* ARTISTS GET LITTLE FOM STREAMING in PARTICULAR FROM FREE STREAMING (USA, CHINA)

QUESTIONS

WILL the FREE CUSTOMERS BECOME PAYING CUSTOMERS? (NEEDED FOR PROFITABILITY)

WILL ARTISTS ABANDON STREAMING? Which Consequences?

CURRENT MUSIC STREAMING PROVIDERS: WHO WILL WIN AMONG THEM?

HOW WILL THEY FARE (USA) AGAINST THE ANNOUNCED ENTRY OF GIANTS LIKE APPLE AND GOOGLE?