Value Gap or Growth? How Digital Music Boosts Music Industry Growth

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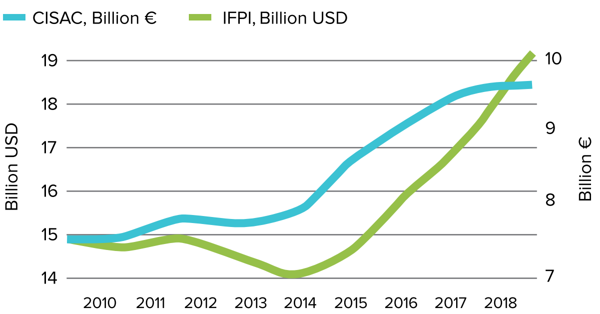
Executive Summary

Today, consumers have access to a greater choice of lawful music services than ever before and can listen to music anywhere, anytime, on a broad range of devices. With these increased choices has come an explosion of sharing and creativity.

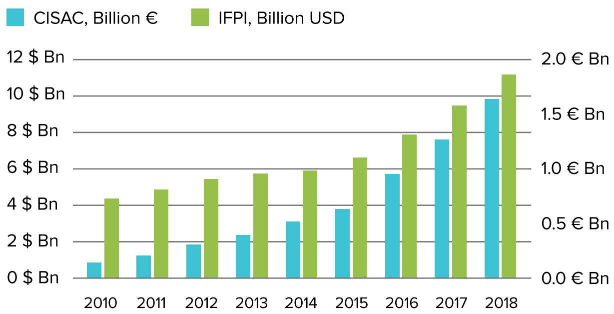
From the content industry side, the Internet has also enabled new business models for creators and the emergence of new artists and music intermediaries. It has also allowed independent labels to thrive — in Adele's producer's own words, digital music is a "more level playing field".[1] The supply side of music is more diverse and competitive than ever.

Have these benefits come at the expense of legacy music players, such as major labels and collecting societies? For the fourth consecutive year, the global recorded music industry grew in 2018.[2] Since 2014, collecting societies' income for music has also grown continuously, with global income rising by 26.8% between 2014 and 2018.[3]

Revenue Growth, Record Labels and Collecting Societies, Since 2010



Digital Growth, Record Labels and Collecting Societies, Since 2010



While we often hear about the so-called "value gap", figures from those creative industries reveal another story of healthy and consistent rises in revenue. These figures demonstrate that digital services' efficiency savings are passed on to both consumers and record labels — and hence that digital streaming services enable massive value growth.

1 "Tech advances alter hierarchy of music industry", Financial Times, 27.08.2017, available at: https://www.ft.com/content/50db5d76-89e2-11e7-bf50-e1c239b45787.

2 IFPI 2019 Global Music Report 2019, p. 12, available at: https://ifpi.org/news/IFPI-GLOBAL-MUSIC-REPORT-2019.

3 CISAC Global Collections Report 2019, p. 6 and p. 14, available at: https://www.cisac.org/CISAC-University/Library/Global-Collections-Reports/Global-Collections-Report-2019

This paper revisits data from major record labels and collecting societies surveyed in 2017 to study developments in the intervening two years.[4] This shows a lasting trend of growth for legacy music industry players, is driven by digital services.

The International Federation of the Phonographic Industry (IFPI), representing the recording industry worldwide, reported in its Global Music Report 2019 that the market grew by 9.7% in 2018. Streaming revenue grew by 34% (29.2% in Europe) and accounted for 46.9% of global revenue, driven by a 32.9% increase in paid subscriptions.[5] Among the top ten music markets, Germany and France are the fourth and the fifth markets.[6] In 2018, Austria was the market with the most impressive growth (20%), followed by Ireland (7.5%).[7]

Wholesale revenues of the record industry grew by 15% in 2018 in the United States.[8] Music collecting societies' collections increased by 1.8% globally between 2017 and 2018.[9] This is the fifth consecutive year of growth.[10] Since 2014, the global collections by CISAC, a global association of collecting societies, are up by 26.8%.[11] This trend does not only touch the music industry as worldwide royalty collections for creators of music, audiovisual, visual arts, drama and literature also grew by 0.9%, reaching a record €9.65 billion in 2018.[12]

4 "Value Growth and the Music Industry: The Untold Story of Digital Success", CCIA, October 2017, available at: https://www.ccianet.org/wp-content/uploads/2017/10/CCIA-Paper-Value-Growth-2017.pdf.

5 IFPI 2019 Global Music Report 2019, op. cit., p. 6.

6 Ibid., p. 13.

7 Ibid., p. 17.

8 IFPI 2019 Global Music Report 2019, op. cit., p. 17.

9 CISAC Global Collections Report 2019, op. cit., p. 9.

10 Ibid.

11 Ibid., p. 14.

12 Ibid., p. 7.

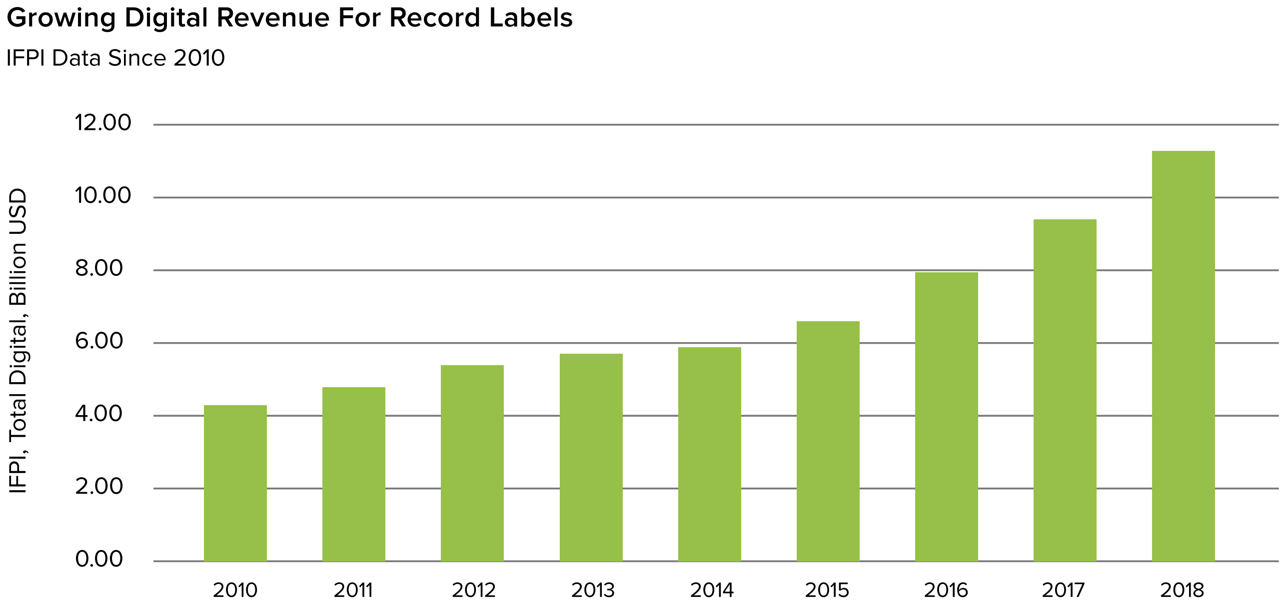
Introduction

After intense years of discussions, European Union Member States are now implementing the EU's new Copyright Directive. The discussion often stressed a "value gap" which, according to IFPI, undermines the ability of record labels to generate revenue online. However, recent figures published by the record industry and collecting societies show that tales of the music industry's demise have been exaggerated. Instead the data shows a pattern of healthy and steady growth.

Record industry figures confirm four years of strong revenue growth.

In April 2019, IFPI, which represents the recording industry worldwide, published its Global Music Report 2019 which includes its revenue figures for 2018. IFPI data shows a global revenue growth of 9.7% with a 32.9% increase in paid streaming revenues and 34% of growth in overall streaming revenue.[13] These figures look quite different from the "value gap" the music industry is allegedly experiencing. The efficiency gains of the digitisation of music result in increased consumer welfare and revenues for record labels — a textbook illustration of a healthy, competitive market.

Looking at the 2018 year-end music industry revenue report of the Recording Industry Association of America (RIAA), an industry group of major record labels, revenues measured at wholesale value grew 12% to $6.6 billion.[14] Over the last six years there has been a consistent revenue growth for the music industry in the United States. This trend seems to continue, in the first half of 2019 wholesale revenues increased by 26% to $4.3 billion.[15]

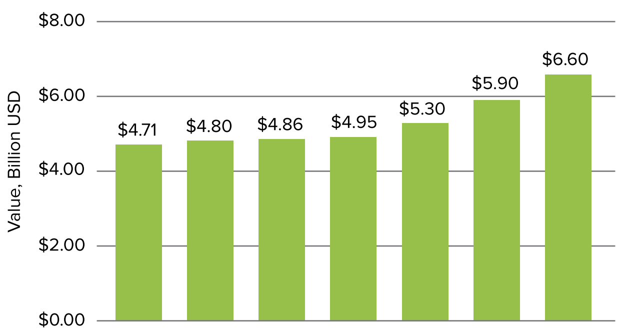


13 IFPI 2019 Global Music Report 2019, op. cit., p. 6.

14 RIAA 2018 Year-End Music Industry Revenue Report, p. 1, available at: https://www.riaa.com/wp-content/uploads/2019/02/RIAA-2018-Year-End-Music-Industry-Revenue-Report.pdf.

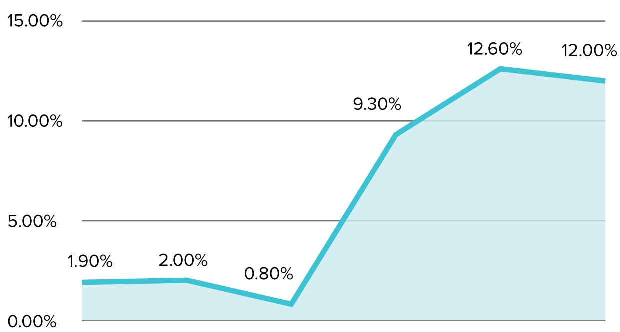
15 RIAA Mid-Year 2019 Music Revenues Report, p. 1, available at: http://www.riaa.com/wp-content/uploads/2019/09/Mid-Year-2019-RIAA-Music-Revenues-Report.pdf.

Recorded Music, Wholesale Value, Billion USD (2012-2018)



Source: RIAA 2013, 2014, 2015, 2016, 2017, 2018[16]

Recorded Music, Growth Rate, Wholesale Value (2013-2018)



Source: RIAA 2013, 2014, 2015, 2016, 2017, 2018[17]

These figures challenge the existence of a "value gap". The main drivers for the growth of record labels' revenue are streaming music platforms. "The streaming category includes a wide variety of formats including premium paid subscription services, ad-supported on-demand services (i.e. YouTube, Vevo, and ad-supported Spotify), and streaming radio services including those that distribute revenues through SoundExchange (including Pandora, SiriusXM, and other Internet radio services)".[18]

Selective use of data better explains the appearance of a value gap

How can the difference between this growth and the rhetoric about a "value gap" be explained?

First of all, it is unlikely that the rest of the world is dragging revenue down, as many regional markets are growing.[19] The continued use of selective calculations may better account for the difference between the "value gap" narrative and the reality of the record industry's revenues.

To make the case that there is a value gap and that record labels are entitled to more money, those alleging the "gap" generally talk only about "retail value" instead of "wholesale value." According to the RIAA, however, the wholesale value of music is the "better metric of the revenues that are going to music labels for sales and listening".[20] In other words, wholesale value takes into account all revenues paid to record labels — from physical sales, streaming and other sources. Retail value is "the value of shipments at recommended or estimated list price".[21] It is not the money the labels get, it is merely an estimate of what consumers ultimately pay for music — if a price is paid. Therefore, talking only about "retail value" raises many issues:

- There is no "retail value" for ad-funded models such as free-to-air radio or TV or ad-funded streaming services, even though rightsholders are compensated, directly or indirectly, for these uses. Instead, the RIAA just adds up wholesale revenue for those services to retail revenue from other channels (an "apples to oranges" comparison).

16 RIAA Music Revenue Reports for 2013, 2014, 2015, 2016, 2017 and 2018.

17 RIAA Music Revenue Reports for 2013, 2014, 2015, 2016, 2017 and 2018.

18 RIAA 2018 Year-End Music Industry Revenue Report, op. cit., p. 1.

19 IFPI 2019 Global Music Report 2019, op. cit., p. 16 and p. 17.

20 Josh Friedlander Sr. VP Strategic Data Analysis for the RIAA, Music Business Worldwide, 15.10. 2015, available at: https://www.musicbusinessworldwide.com/why-the-riaa-still-focuses-on-retail-data-in-the-streaming-age/.

21 RIAA 2018 Year-End Music Industry Revenue Report, op. cit., p. 3.

- More importantly, it is a wildly inaccurate proxy for revenues that labels make. They take a bigger share of the “retail value” in the digital world than they did in the analog era. The simple reason is that distribution and production costs are consistently lower in digital. Some 66% of revenues from a digital download now go to the artist and label, compared to around 32% for CD sales.[22]

Data shows that digital markets work better for consumers and labels

True, there are some distortions in the digital music market. Record labels take the lion’s share of music rightholders’ revenues — taking up to 5 times what publishers and collecting societies take. Artists complain that their contracts do not reflect the lower cost structure of record labels, instead getting royalty rates based on old CD sales models. Furthermore, artists and their managers have condemned labels for years for not sharing with them the detailed and valuable data provided by music services, cutting them off from essential insights into how their music is used.[23]

Nonetheless, a market where music consumption is up and offers more choice than ever before, and where the amount record labels make (wholesale value) increases at a higher rate than the amount paid by consumers (retail value) is a very healthy market — one where the efficiency savings of digital are passed on to both consumers and record labels.[24]

22 “Technology is Culture”, 2016, available at: http://www.techisculture.eu/benefits/.

23 “Dissecting the Digital Dollar”, Music Managers Forum, 2015, available at: https://themmf.net/digitaldollar/.

24 RIAA 2018 year-end music industry revenue report shows an increase of wholesale value of 11.86% and of a growth of 11.36% for the retail value.

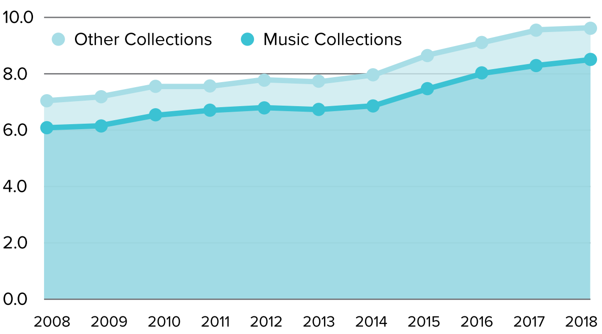
Collecting societies demonstrated strong and steady growth over the past decade.

Similarly to the record industry's latest figures, the data from collecting societies themselves undermines the case for a "value gap" by demonstrating constant and healthy revenue growth, driven by digital services. This data also finds that Europe is where consumers and businesses pay collecting societies the most in the world.

Strong and consistent revenue growth

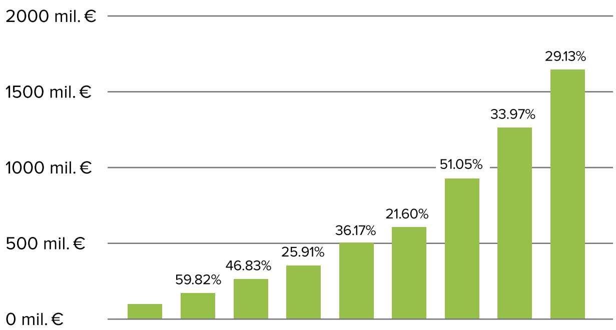
The first piece of good news is that the revenues of collecting societies have been growing steadily across the world to reach a record of €9.65 billion in 2018, a 25.4% increase since 2014 – according to CISAC,[25] an umbrella organization representing 239 collecting societies worldwide. The music repertoire drives growth as it accounts for 88% of total collections and grew by 26.8% between 2014 and 2018[26], to reach €8.49 billion,[27] and as such continued to provide a healthy source of revenue. Europe collects more than half of global music revenue of collecting societies.[28]

CISAC Collections, 2008-2018 (Billion €)



Other collections refers to non-music related income, including dramatic works, audiovisual and literature, which are less frequently managed through collective rights organisations.[29]

Digital Revenue, 2010-2018



Bars indicate total digital revenue, in €mil; percentage figures in blue indicate the year on year growth.

Digital is driving close to half the growth of collecting societies' revenues

The second piece of good news is that digital music is driving growth. Contrary to some popular beliefs, the Internet does not appear to have undone collecting societies. In 2018, digital income is the leading force behind the growth of music collections, accounting for 19.1% of the total. Digital income rose by 15% over the last year and 185% since 2014.[30]

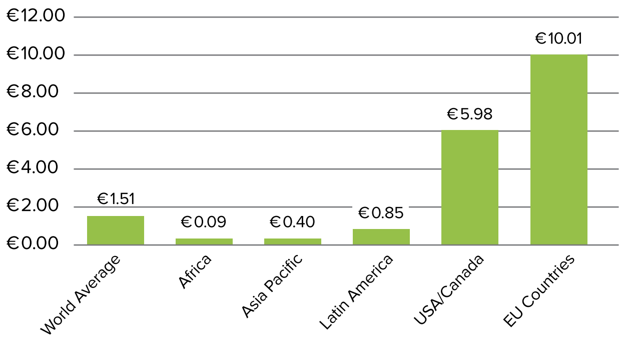
25 CISAC Global Collections Report 2019, op. cit., p. 7.
26 Grew by 1.8% in 2018.
27 Ibid.
28 Ibid., p. 14.
29 See Annex, part 1.
30 CISAC Global Collections Report 2019, op. cit., p. 15.

European consumers and businesses are the highest contributors globally to collecting societies' revenues

Global and regional data from CISAC also yields a very clear finding: Europe is the region where collecting societies are paid the most in the world. This is true in absolute terms. Europeans are also those who pay collecting societies the most per capita, as well as relative to wealth (GDP). Among the top 15 list,[31] 14 are European countries.[32]

- In absolute terms, **Europe is the highest contributor to collecting society revenues globally**. Over 56.4% of CISAC's €9.65 billion in revenues are collected in Europe.[33]
- Per consumer, EU countries contribute more to collecting societies than any other region in the world. **Collecting societies obtain over €10.01 per capita in EU countries[34], compared to a world average of €1.51**.[35] This means that EU citizens are paying more to collecting societies than anyone else.

Average Collecting Society Collections Per Head (2018)



- The difference in wealth between those regions does not explain this large difference. **As a share of GDP, EU Countries pay collecting societies more than twice the world average (0.033% of GDP, against a world average of 0.0141% of GDP)**,[36] almost three times as much as North America (0.012%) and more than five times as much as the Asia-Pacific region (0.006%).[37]

Conclusion

While we often hear about the so-called "value gap," the data from major record labels and collecting societies show another reality as they report healthy growth in revenue. Digital music is driving this growth. Contrary to some popular beliefs, the Internet does not appear to have undone record labels and collecting societies. Moreover, the Internet enables new business models for creators and the emergence of a broader range of artists and music intermediaries. Last but not least, consumers have more choice than ever before.

The digitisation of the music industry is not harming the business, quite the opposite, it provides a positive impetus.

31 Collections per capita by country (EUR): Denmark (24.54); Switzerland (23.72); France (19.61); Finland (17.74); Austria (14.25); Iceland (13.83); Netherlands (13.68); Sweden (13.34); Norway (12.32); Belgium (11.46); United Kingdom (11.13); Australasia (10.89); Germany (9.72); Italy (9.65); and Luxembourg (9.13).

32 CISAC Global Collections Report 2019, op. cit., p. 12.

33 CISAC Global Collections Report 2019, op. cit., p. 9.

34 The data is based on 24 EU Member States (AT, BE, CZ, DK, DE, EE, ES, FI, FR, HR, HU, IE, IT, LT, LU, LV, NL, PL, PT, SE, SK, SL, RO, UK) as CISAC did not release the data for the 28 EU countries. The data is missing for BG, CY, EL and MT.

35 CISAC Global Collections Report 2019, op. cit., p. 68.

36 CISAC Global Collections Report 2019, op. cit., p. 69.

37 Ibid.

ANNEX

Part 1: The Growth of Collecting Societies' Revenues

	Total collections, entire repertoire (mil. Euros)	Europe region total collections (mil. Euros)	Music collections (amount, mil. Euros)	Non-music collections (difference)
2018	9,650.00	5,438.00	8,490.00	1,160.00
2017	9,580.00	5,401.00	8,336.00	1,244.00
2016	9,156.00	5,201.00	8,006.00	1,150.00
2015	8,641.60	5,045.20	7,497.50	1,144.10
2014	7,935.00	4,868.00	6,909.00	1,026.00
2013	7,757.00	4,702.00	6,765.00	992.00
2012	7,804.00	4,600.00	6,800.00	1,004.00
2011	7,584.00	4,537.00	6,700.00	884.00
2010	7,545.00	4,601.00	6,500.00	1,045.00
2009	7,152.00	4,482.00	6,136.00	1,016.00
2008	7,035.00	4,506.00	6,120.00	915.00
Growth 2010-2018 (%)	+27.90	18.19%	+30.15%	+13.50%
Growth 2010-2018 (€ mil.)	2,105.00	837.00	1,967.00	138.00
Growth 2008-2018 (%)	+37.17%	**+20.68%**	**+38.73%**	+26.78%

Sources:

2018: CISAC Global Collections Report 2019, p. 7 and p. 9, available at:
https://www.cisac.org/CISAC-University/Library/Global-Collections-Reports/Global-Collections-Report-2019

2017: CISAC Global Collections Report 2018, p. 10, p.11, and p. 14, available at:
https://www.cisac.org/CISAC-University/Library/Global-Collections-Reports/Global-Collections-Report-2018

2016: CISAC Global Collections Report 2017, p. 7, p. 12, and p. 35, available at:
https://www.cisac.org/CISAC-University/Library/Global-Collections-Reports/Global-Collections-Report-2017

2015: CISAC Global Collections Report 2016, p. 33, p. 36 and p. 34, available at:
http://www.cisac.org/Cisac-University/Library/Royalty-Reports/Global-Collections-Report-2016

2014: CISAC Global Collections Report October 2015, p. 6, p. 7 and p. 9, available at:
http://www.cisac.org/Cisac-University/Library/Royalty-Reports/Global-Collections-Report-October-2015

2013: CISAC Global Collections Report January 2015, p. 5, p. 10 and p. 9, available at:
http://www.cisac.org/Media/Studies-and-Reports/Publications/COM15-0058_CISAC_2015_Global_Collections_Report_EN

2012: CISAC Sustaining Creativity Report 2014, p. 6, p. 3 and p. 14, available at:
http://www.cisac.org/Media/Studies-and-Reports/Publications/2014-Royalties-Report-EN

2011: CISAC On the Lookout for Growth, Authors' Royalties in 2011, p. 6 and p. 11, available at:
http://www.cisac.org/Cisac-University/Library/Royalty-Reports/Global-Collections-Report-2013

2010: CISAC Authors' Royalties in 2010, published in 2012: An Unexpected Rebound, p. 6, p. 18 and p. 40, available at:
http://www.cisac.org/Media/Studies-and-Reports/Publications/Royalty-Reports/2012-Royalties-Report-EN

CISAC data for collections in a given year may vary according to which annual report is used. To ensure consistency and where possible, the report for year X was used as a source for collections in year X and subsequent adjustments were ignored.

For the years 2008 to 2009 included, the data from the report CISAC Authors' Royalties in 2010, published in 2012 (p. 15, p. 18 and p. 41) is used as there is no report covering specifically those years available online

Part 2: Digital Collections' Growth

	Total Digital collections (mil. Euros)	Digital collection YoY growth
2018	1,640.00	29.13%
2017	1,270.00	33.97%
2016	948.00	51.05%
2015	627.60	21.60%
2014	516.10	36.17%
2013	379.00	25.91%
2012	301.00	46.83%
2011	205.00	59.82%
2010	128.27	

Growth 2010-2018 (%)	+1,178.55%
Growth 2010-2018 (€ mil.)	1.511,73

Sources:

2018: CISAC Global Collections Report 2019, p. 7, available at:
https://www.cisac.org/CISAC-University/Library/Global-Collections-Reports/Global-Collections-Report-2019

2017: CISAC Global Collections Report 2018, p. 9, available at:
https://www.cisac.org/CISAC-University/Library/Global-Collections-Reports/Global-Collections-Report-2018

2016: CISAC Global Collections Report 2017, p. 17, available at:
https://www.cisac.org/CISAC-University/Library/Global-Collections-Reports/Global-Collections-Report-2017

2015: CISAC Global Collections Report 2016, p. 33, available at:
http://www.cisac.org/Cisac-University/Library/Royalty-Reports/Global-Collections-Report-2016

2014: CISAC Global Collections Report October 2015, p. 30-32, available at:
http://www.cisac.org/Cisac-University/Library/Royalty-Reports/Global-Collections-Report-October-2015

2013: CISAC Global Collections Report January 2015, p. 28-30, available at:
http://www.cisac.org/Media/Studies-and-Reports/Publications/COM15-0058_CISAC_2015_Global_Collections_Report_EN

2012: CISAC Sustaining Creativity Report 2014, p. 10, available at:
http://www.cisac.org/Media/Studies-and-Reports/Publications/2014-Royalties-Report-EN

2011: CISAC On the Lookout for Growth, Authors' Royalties in 2011, p. 3, p. 7 and p. 9, available at:
http://www.cisac.org/Cisac-University/Library/Royalty-Reports/Global-Collections-Report-2013

2010: CISAC Authors' Royalties in 2010, published in 2012: An Unexpected Rebound, p. 22, p. 23, p. 30, available at:
http://www.cisac.org/Media/Studies-and-Reports/Publications/Royalty-Reports/2012-Royalties-Report-EN

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