

THE ECONOMICS OF MUSIC STREAMING – SUMMER 2023

A white paper from the Council Of Music Makers

This white paper provides an overview of the economics of music streaming work that has been ongoing in the UK since the Digital, Culture, Media & Sport Select Committee in Parliament published its report on the digital music business in 2021.

It summarises the key issues being addressed, the work to date and the current objectives of the CMM organisations, setting out a vision for how the music industry at large can build a truly transparent, dynamic and equitable streaming music business.

THE STREAMING MARKET IN 2023

Streaming is now by far the biggest revenue generator for the recorded music business. In 2022, streaming services generated 67% of global recorded music revenues. Premium streaming services alone accounted for 48.3% of revenues.

Credit and thanks must be given to the streaming services whose innovation has established such a strong market of consumers paying for music. The revenues generated by these services took a record industry that had been in decline for fifteen years back into growth. As a result the global recorded music business has been making more money every year since 2015.

STREAMING AND THE MUSIC INDUSTRY

Streaming services access music by negotiating deals with record labels, music distributors, music publishers and collecting societies.

The labels and distributors provide the actual tracks that the streaming service needs, as well as licences allowing the service to exploit the copyright in each sound recording.

Each track also contains a song. The publishers and societies provide the licences that allow the streaming services to exploit the separate song copyrights.

STREAMING DEALS

Premium streaming services operate a revenue share based on consumption share business model. Each month each service allocates money to each track based on what percentage of total consumption it accounted for. That allocation is then shared with the label or distributor that provided the recording and the publisher or society that controls the song.

Every deal is different and every deal is secret. But on average 50-55% of the allocation is paid to the label or distributor, 10-15% is paid to the publisher or society. Some licensing entities may also



negotiate minimum guarantees, advances or other kickbacks in their deals with the services that increase the total income they receive.

The free tiers of the premium streaming services work in a similar way, sharing advertising revenues with the music industry. However, the user-generated content platforms that are an increasingly important part of the streaming business often operate different business models which might involve the service paying a regular lump-sum fee to each licensing entity.

MUSIC-MAKER BUSINESSES

At the heart of the music industry is a large network of music-maker businesses. Each music-maker is also an entrepreneur running their own individual music-maker business.

Featured artists – who release music under their own name or brand – run consumer-facing businesses, building a fanbase around their music.

Other musicians, songwriters, composers and producers also run music-maker businesses via which they provide their creative expertise to featured artists, media, studios, brands and other music companies.

Many music-makers then partner with a manager or management team who help them run their individual music-maker businesses.

STREAMING AND MUSIC-MAKER BUSINESSES

Streaming is now a key part of most music-maker businesses. However, music-makers do not usually have direct licensing relationships with the streaming services.

They rely on labels, distributors, publishers and societies to get their music streaming, and to then claim and manage the royalties that music is due from the streaming services.

This often puts music-makers at a disadvantage. Because music-makers are often in the dark about the business model each streaming service is operating and the licensing deals they have negotiated with the music industry.

So while streaming is a key part of each music-maker business, the music-maker and their team isn't allowed to know how that crucial revenue stream works.



HOW MUSIC-MAKERS GET PAID

What portion of any money generated by each recording and song is paid through to the music-maker depends entirely on the deals they have done with the labels, distributors and publishers that they work with.

Featured Artists

When it comes to recordings, featured artists that release music through their own labels using a distributor usually get a majority of the money allocated to their recordings.

However, featured artists that work with labels will get a smaller share, often a minority share. That's because the label has invested money, marketing and other support into the artist's releases. The split between the artist and the label may well be equitable, depending on the specifics of the record deal.

However, traditionally in the music industry when an artist signed with a record label, that label would have control over any recordings released under the deal for 'life of copyright'. That means the artist is locked into the deal with the label for 100+ years.

During that time, new revenue streams will inevitably emerge that are not mentioned in the old record deal. Which means the artist and label need to decide how to interpret the old deal in the context of the new revenue stream. Although usually the label unilaterally makes those decisions without consulting the artist – or even communicating what decisions have been made.

Which means as streaming has exploded, labels have unilaterally interpreted decades worth of old record deals in the context of streaming. And those old record deals are crucial. With streaming, all the music is available all the time on-demand, so the music industry's catalogue is more important and more valuable than ever before.

When making these decisions, some labels have opted to share streaming income with their artists in an equitable way that factors in how the music business works today.

However, others have chosen to apply royalty rates and other contract terms designed entirely with physical discs in mind to streaming, which means many artists receive a much smaller portion of income, sometimes a single figure percentage.

Session Musicians

Session musicians have traditionally been paid an upfront fee and then not shared in future income from their recordings, except when those recordings are broadcast or played in public, in which case copyright law provides them with additional remuneration.



This means that, as the music industry’s catalogue has surged in value because of the streaming business model, the session musicians who appear on those recordings do not see any benefit. Even when streaming services provide broadcast-style experiences.

Songwriters & Composers

On the songs side, publishing deals usually pay a majority of any income generated by any one song through to the songwriter. Though remember, only 10-15% of any money allocated to a track is shared with the song at the start of the process.

Meanwhile – for various reasons – the way songs are licensed and song royalties are processed is much more complex than with recordings. Those complexities often add extra administration costs that further reduce what money a songwriter receives.

Those complexities also make it absolutely vital that the music industry’s metadata – all the data and information about each recording and song – is accurate and complete, because bad data can delay and stop payment. The music industry’s metadata is far from accurate and complete.

And not only that, the lack of transparency about what databases are being used makes it hard for songwriters and their managers to identify and address the data issues.

Studio Producers

Studio producers earn in a number of different ways. They are often paid upfront fees for their time. But may also earn royalties from the recordings they produced.

Producers may also be session musicians on a recording. And many producers are co-writers on the songs they work on.

So studio producers can be impacted by all the issues outlined above when it comes to sharing in the streaming income generated by the recordings they helped create.

ISSUES WITH STREAMING BUSINESS

As you can see, while it is great news that streaming is booming – fuelling significant growth in the record industry – from a music-maker perspective there are many issues with the way the streaming business currently works.

Music-makers and their representative organisations have campaigned for years for the music industry to come together to acknowledge and address the many issues with streaming. Some of those issues were dealt with during that time, but most have remained unresolved.



THE ECONOMICS OF STREAMING INQUIRY

In 2020, the Digital, Culture, Media & Sport Select Committee in the UK Parliament announced that it was instigating an inquiry into the economics of music streaming.

That was partly in response to campaigns run by the music-maker community and organisations within the Council Of Music Makers. The inquiry provided an opportunity for the music-maker community to set out the various issues with the way streaming works.

Based on hundreds of written submissions and a series of oral hearings, MPs produced a detailed report summarising all those issues and proposing a number of solutions, including possible reforms to copyright law.

Their headline conclusion was that a “complete reset” of the streaming business was required.

THE ECONOMICS OF STREAMING PROJECTS

On the back of that inquiry, the UK government announced a number of initiatives to further investigate the issues and seek industry-led solutions, while also considering further possible changes to the law.

Most of that work has been led by the Intellectual Property Office. At the recommendation of ministers, the Competition & Markets Authority also undertook a market study.

The IPO organised its work around three strands...

Music-Maker Remuneration

Three pieces of research were commissioned to consider the copyright reforms proposed by the select committee, all of which would address issues around music-maker remuneration, especially for featured artists on old record contracts and session musicians.

Those proposals include:

- a reversion right that would allow music-makers to reclaim copyrights previously assigned to business partners;
- a contract adjustment right enabling music-makers to renegotiate old deals in the context of the modern music business;
- a new remuneration right that would see performers – including session musicians – receive at least a portion of streaming income allocated to their recordings through the collective licensing system at industry standard rates.

That research work is now complete. There are also other ways that the issues around music-maker remuneration could be addressed. That includes industry-led solutions like a minimum



royalty rate; setting aside unrecovered advances and costs after a set time period; and a session musician fund. These are yet to be formally discussed.

With that in mind the music-maker community has been calling for a working group to be convened to discuss both the proposed copyright reforms and the other possible solutions.

MPs on the Digital, Culture, Media & Sport Select Committee backed those calls in early 2023, and in May 2023 the government confirmed it would convene such a working group.

Transparency

A transparency working group was convened in autumn 2021 to discuss the transparency issues and possible solutions.

This working group was led by officials at the IPO, and involved experts and representatives from across the music industry who have contributed significant time to considering how to ensure a more transparent digital music business.

Music-makers stressed that they need more information about:

- each streaming service’s business model;
- how streaming monies are calculated and paid;
- how labels, distributors, publishers and societies process and report payments;
- what third parties are involved in the process and what fees they charge;
- what databases are used to process song royalties.

Without this information music-makers cannot effectively manage their own music-maker businesses or properly choose which business partners to work with in the music industry.

Through the working group, a voluntary code has been negotiated which we hope will see streaming services, record labels, music distributors, music publishers and collecting societies commit to make more of this information available, where possible on a proactive basis.

This code is now close to being completed. It only provides some of the information music-makers need, but it is a definite step in the right direction.

And if labels, distributors, publishers and societies choose to fully embrace the code – recognising it as a good starting point from which they can further build and expand their music-maker communications – then this work could truly enable the kind of transparency that is required to allow music-makers to properly manage the digital side of their individual music-maker businesses.



Metadata

A metadata working group was convened in autumn 2021 to discuss how bad data is negatively impacting music-makers and how each stakeholder group in the industry could change their practices to overcome these problems.

This working group was led by officials at the IPO and involved experts and representatives from across the music industry who proposed and assessed various different solutions.

To ensure a fully functioning streaming business, the industry needs to ensure that when recordings are provided to streaming services all the music-makers involved in a track – including songwriters, session musicians and studio producers – are fully credited.

The metadata should also identify what song is contained in each recording using the industry's unique identifier for songs, the ISWC. If possible the writers and publishers with an interest in the song should also be identified.

Currently most of this data is not provided with new recordings. This means that the music-maker's moral right to attribution is routinely infringed. And for songwriters, it often causes significant delays to payment, and can result in monies not getting through at all.

A voluntary code has been negotiated that will see each stakeholder in the music industry commit to work a little harder to ensure the necessary data is available and provided to streaming services ahead of release.

The code does not guarantee that the necessary data will be provided. However, if properly embraced by the industry, it will move things in the right direction. Especially if – as proposed – the impact of this code is closely monitored and targets are set for everyone to meet.

WHERE WE ARE AT: MAY 2023

It took years to get all the key stakeholders from the UK music industry around the table to discuss and address the many issues with the streaming business.

This would not have been possible without the work and support of the Culture, Media & Sport Select Committee, the UK government and the Intellectual Property Office.

The Council Of Music Makers is hugely grateful for that work and support. And is also keen to acknowledge the streaming services, record labels, music distributors, music publishers and collecting societies that have stepped forward over the last two years to work with the music-makers to identify and implement practical and meaningful solutions.

This has been a slow process. But we have now made a number of steps in the right direction. Though we should stress, these are small steps on a long journey towards building a truly transparent, dynamic and equitable streaming music business. There is much more to be done.



We would encourage everyone in the industry to embrace the codes that have been negotiated and to use them as a starting point not an end game.

We would urge everyone working at music companies to engage with their leadership teams to identify their personal role in bringing about positive change.

And we look forward to addressing the ongoing issues around music-maker remuneration through the new working group.

THE FIVE FUNDAMENTALS

To help everyone keep track of this long journey, the CMM has identified five fundamental objectives that we believe everyone in the music industry should seek to achieve.

We will be tracking each of these objectives each month to assess how close the industry is to achieving that truly transparent, dynamic and equitable streaming music business.

The five fundamental objectives are as follows...

1. All featured artists should receive a modern, minimum digital royalty rate, with unrecouped balances written off after a term, on a rolling basis, without any additional conditions.
2. All session musicians should see the benefit of the streaming boom, on both new recordings and catalogue.
3. All music-makers should have an opportunity to revise outdated old contract terms, making old deals fit for purpose in the modern music business. Remuneration should always be fair and appropriate.
4. All songwriters and artists must be given transparency on how their music is monetised by each digital platform. That includes proactively communicating how monies are allocated to each music-maker's songs and recordings, and then shared with and paid through to them.
5. The whole industry should ensure that all required music rights data is in the system before release. Every music-maker should always be credited for their contribution and digital royalties must reach songwriters as quickly and accurately as they do for artists.

