Scales tip in favor of labels in the global value of copyright

Omdia view

Summary

Music should know how much it's worth. Calculating the global value of music copyright provides the answer. Will Page, former chief economist of Spotify and PRS for Music, and author of the book *Tarzan Economics: Eight Principles for Pivoting through Disruption*, has performed this exercise for the sixth year and has very kindly detailed the process for *Music & Copyright*. In short, the annual reports from labels, publishers, and collective management organizations (CMOs) have been added together and then the double counting has been stripped out. The purpose of the process has remained the same: Whether you're investing, operating, or earning from music copyright, you ought to know how much it's all worth—and how each piece of the puzzle is trending. The 2020 headline marks a first, as we've got divergence: Labels and artists saw their piece of the pie grow thanks to streaming, whereas songwriters, publishers, and their CMOs saw theirs shrink due to the pandemic. Two ships, albeit temporarily, passing each other in the night.

Calculating the global value of copyright

In 2020, music copyright was worth $32.5bn—considerably more than the $21.6bn reported in the IFPI *Global Music Report* earlier this year. The pandemic stalled growth unevenly: Streaming was a "stay-at-home stock" that helped labels increase their revenue by $1.5bn, whereas combined collections for both publishers and their CMOs fell almost $0.7bn. All in, copyright's value grew by just over $0.8bn, to a new all-time high.

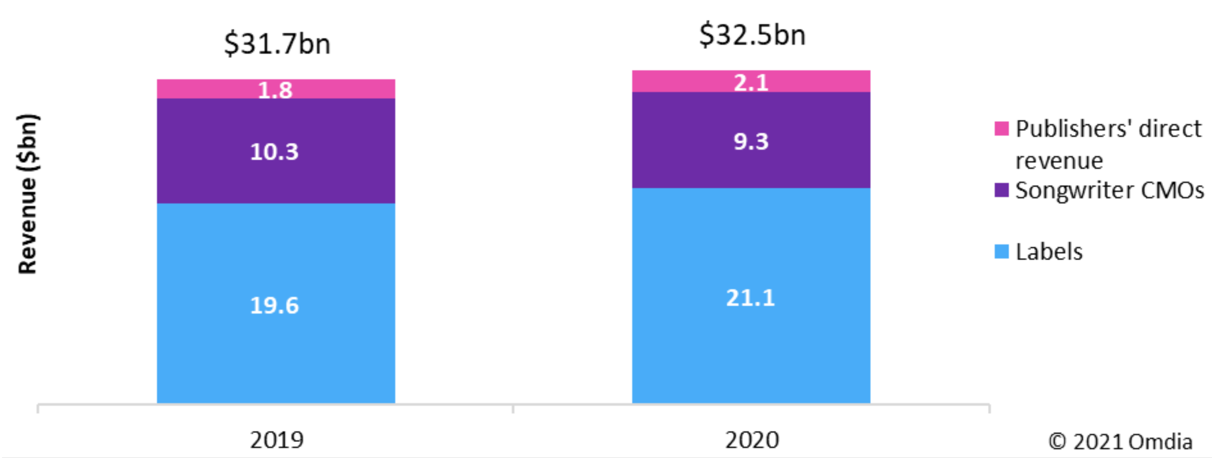
To get there, three (partly overlapping) sources of industry analysis are brought under one umbrella: (i) IFPI's *Global Music Report (GMR)*, (ii) CISAC's annual *Global Collections Report*, and (iii) *Music & Copyright*'s analysis of music publishing. Labels and publishers both reported growth; but CISAC reported its first revenue decrease since 2013. Next the annual game of snakes and ladders begins, to "track and trace" how these three sources of revenue hang together.

Tracking and tracing the different copyright constituents

To measure the true global value of music copyright, we need to remove all double counting, then add back the missing parts. If you look closely at the IFPI *Global Music Report*, you will find label revenue from CDs (and in some cases downloads) included. When a CD is sold, the retailer pays the label and the GMR report chalks up that value. However, this payment from retailer to label also includes a mechanical royalty that is "passed through" to the publisher—and that's what needs to be tracked, traced, and relocated in this exercise. Another example of tracking and tracing is the special purpose vehicles (SPVs) that European publishers have set up to license their rights and collect revenue from digital services. In this case, this revenue circumvents the CISAC report and needs to be added back in.

The chart below hops, skips, and jumps over all that complexity and gets us to our final figure of $32.5bn, an increase from 2019 of $840m, or 2.7% (see Figure 1). What's striking is how the growth rates change after these adjustments: Labels are up 8%, CMOs saw collections shrink 9%, while publishers' direct collection of license revenue (namely European digital, along with global sync and grand rights) grew an impressive 12%.

Figure 1: Global value of copyright, 2019 and 2020

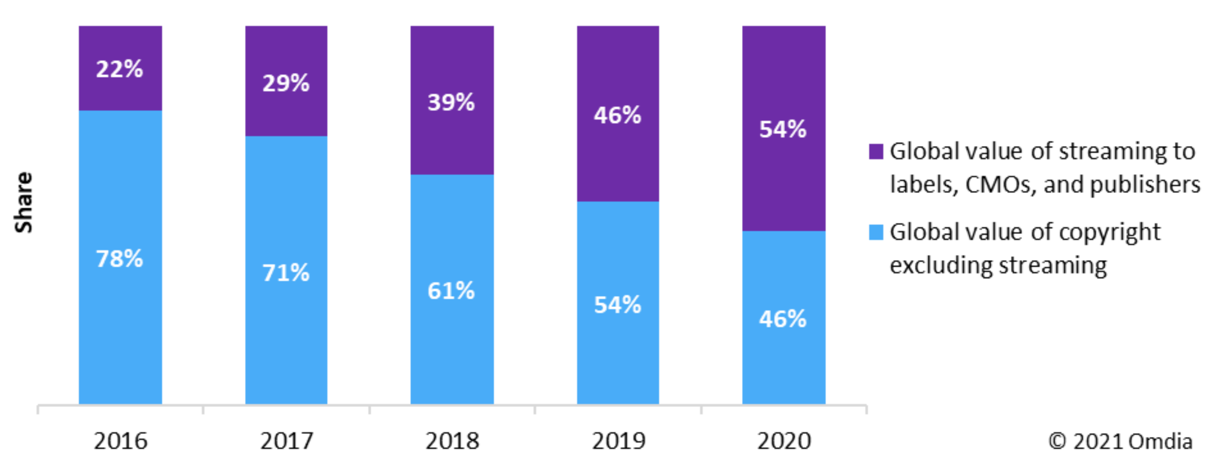


Source: IFPI Global Music Report, CISAC Global Collections Report, Music & Copyright, and Will Page

Streaming makes up the majority

Copyright has never been this valuable in nominal terms. Back in 2001, global recorded-music revenue totaled $23.6bn, meaning revenue reported in 2020 was just 8% off its historical peak in nominal terms. However, as this peak was dominated by CDs, around $21bn would belong on the label side of the coin (the rest being passed through to publishers) and CMO collections were broadly half what they were in 2020. Performing right collections were not just a shadow of what they are now, but they were overshadowed by mechanical rights—how the tables have turned! The driver of these changes is streaming: Its contribution to labels, publishers, and their CMOs has risen, from 22% in 2016 to 54% in 2020. Streaming now accounts for the majority of copyright's value (see Figure 2). Fifteen years ago, streaming revenue didn't even exist in the IFPI report.

Figure 2: Contribution of streaming to global value of copyright, 2016–20

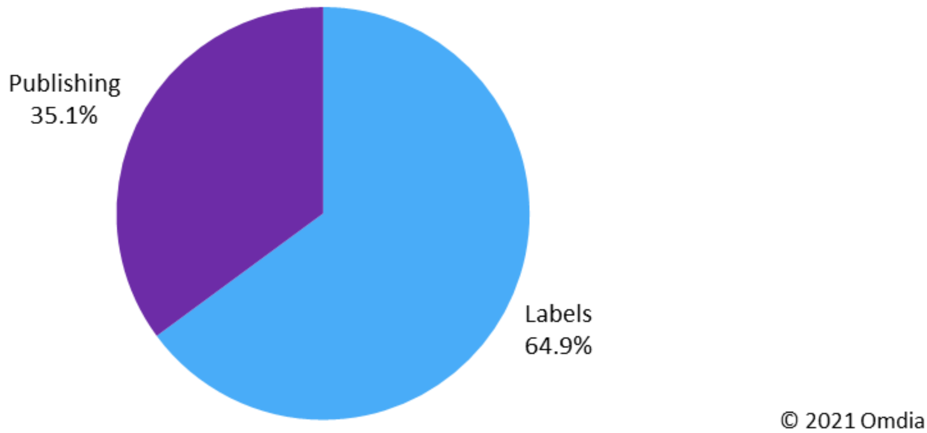


Source: IFPI Global Music Report, CISAC Global Collections Report, Music & Copyright, and Will Page

Scales tip toward labels, for now

A record-breaking valuation and an ascendant role of streaming is one thing, but who gets what share? The lockdown boom of streaming revenue and bust to performing rights collections gave labels almost two-thirds of the pie and publishers just over one-third (see Figure 3). When this exercise was first conducted in 2014, the split was more even, at 55% for the labels and 45% for publishing. The scales have really tipped. But will they tip back toward publishers as bars and restaurants reopen and public performance collections recover? Or will labels cement their lead as streaming revenue grows even faster? Lest we forget, there's a policy angle at play, with a UK parliamentary inquiry having amplified the cries for a more balanced distribution of streaming between labels and publishers. These cries may yet grow louder, and more contagious.

Figure 3: Allocating the global value of copyright between labels and publishers



Source: IFPI Global Music Report, CISAC Global Collections Report, Music & Copyright, and Will Page

Measuring the impact of tailwinds and headwinds

So, what happens next? What tailwinds could accelerate growth even further as we recover from the pandemic? Furthermore, what headwinds might bring this decade-long streaming success story to a halt? And how might the balance of value flow between labels and artists on one side of the coin, and songwriters, publishers, and their CMOs on the other? For investors, owners, and creators alike, it's this debate about fair division that will dominate the discussion for years to come.

Tailwinds—fitness, TikTok, and livestreaming

The exercise app business grew 53%, to reach $4.4bn last year, according to Grand View Research, and this is expected to swell, to $15.5bn by 2028. The rising tide of fitness experiences like Peloton has lifted the music-copyright boat. However, the balance of copyright value may favor publishers because of (i) the licensing of the sync right that typically secures a 50:50 split between labels and publishers and (ii) the prominence of covers, which could tip the scales further in publishers' favor. A third factor favors publishers as well: Library music. If a fitness company finds its music bill prohibitively expensive, library music becomes relatively more attractive, creating a lucrative runway for library platforms like Epidemic Sounds.

After fitness, TikTok symbolizes our second tailwind, and signals what's been termed "the post-Spotify economy." In 2014, a series of case studies showed how Spotify led the conversation and radio followed. Now, it's arguable that TikTok leads, and Spotify follows. Take Fleetwood Mac's 30 second *Dreams* video—over 82.7 million views, 12.9 million likes, and 685,000 shares (along with 19 million more views for Mick Fleetwood's own version!). There have also been 633,000 individual video creations (or impersonations) using that track. Combined, those videos have generated millions of additional views. Today, a whole new generation has discovered the music of Fleetwood Mac, regardless of listening to a song from start to finish. TikTok's contribution to the global value of copyright will favor labels, as its largely an on-demand music video service. However, that could tip toward publishers should those impressions of *Dreams* resemble Karaoke and forego use of the master recording.

The third tailwind is livestreaming. Many artists have turned to livestreaming during the pandemic and won't be turning back. The question is how will livestreaming and (real) live music coexist? We could have a situation where five million fans are backstage livestreaming with their favorite band before they go out to perform to 50,000 fans in a muddy field. With respect to the balance in copyright, this is all publisher upside. First, there is the return of live performance—silenced during the pandemic—which will add to publisher coffers. Second, there's the addition of livestreaming, which creates a new revenue stream for songwriters, publishers, and their CMOs.

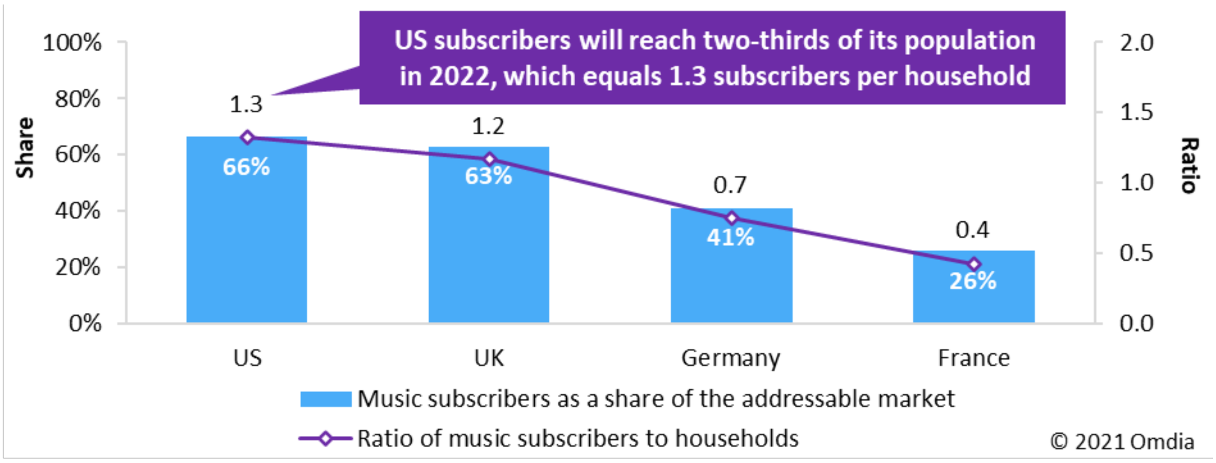
Headwinds—attention, saturation, and regulation

"A wealth of information creates a poverty of attention," said the US economist and political scientist Herbert Simon. Music finds itself contesting for our scarce attention. Based on the tailwinds above, it may be winning—bringing water to the horse and putting music into fitness, games, TikTok, and livestreaming. What one hand giveth, however, the other taketh away. Every music streaming service now has skin in the podcast game, and this demands more listener attention than music: If I choose to "lean into" a podcast instead of a song, I'm giving up 40 minutes of my scarce attention as opposed to "leaning back" to enjoy just 4. If podcasts are winning attention (and music is losing it), one simple solution is to put music licensing into podcasts, yet progress on this remains limited to library music solutions like Songs for Podcasters and Podcast Music.

Saturation—the point where subscription businesses run out of room to grow—resembles the story of the boy who cried wolf. Every year, we fear subscriber growth will peak, yet this never seems to come to pass. How close we are to peak subscription streaming depends on whether its arrival has more to do with the number of potential subscribers or the number of households they're in. When subscribers as a share of the addressable market passes 50%, it resembles peak oil, where we've extracted more oil than there's left to extract. When the number of subscribers exceeds the number of households, it's a reminder that propositions like Apple One (six accounts with blanket-like coverage of media for $30) are really serving the home, irrespective of the individuals inside.

Omdia presents a forecast for 2022, where the number of subscribers within a country as both a percentage of the total addressable market and as a ratio of subscribers to households (see Figure 4). The four big western markets are featured. The higher the percentage and ratio, the closer we get to saturation. The US is estimated to end next year with 154 million subscribers, equaling two-thirds of the addressable market as measured by individuals. Its ratio of subscribers to households of 1.3:1 means more subscribers than households, and therefore not much more room to roam. Similarly, the UK has passed the 50% mark for individuals and reached the 1.2:1 ratio for households, suggesting their close to the edge too. Late adopters France and Germany have yet to reach the halfway point with respect to their market penetration of individuals and households. The US and UK—remarkably half of all global streaming revenue—are nearing their peak; so the question then becomes will late adopters (and emerging markets) drive headline streaming growth?

Figure 4: Subscriber details in selected markets, 2022



Source: Will Page from Omdia

Regulation has a "transatlantic headwind" feel to it. The aforementioned inquiry in the UK into streaming economics has resulted in an investigation into major label dominance from the Competition and Markets Authority and an exploration by the Intellectual Property Office of introducing equitable remuneration—essentially treating streaming like radio for "money in" (licensing tariffs) and "money out" (splitting net distributable revenue evenly between labels and artists). Across the pond, the US' creation of the Music Licensing Collective in addition to the forthcoming Copyright Royalty Board, has shown a similar appetite for greater government involvement in collective licensing, rate setting, and perhaps even regulation.

Former US President Harry Truman is widely attributed with the quote "give me a one-handed economist." His point was that economists abuse the get-out-of-jail-free card by saying "on one hand this, on the other hand that." With apologies to President Truman, on one hand, tailwinds could take the "post-Spotify economy" to even greater heights. On the other hand, the headwinds could burst the bubble, resulting in trouble—especially for those paying record multiples for music catalogs based on simple extrapolative logic. What we can say for sure is twofold: (i) as the economy returns, performing right income for publishers will return with it, and (ii) much of the tailwinds favor publishers over labels, as library music, sync, and covers all gain primacy. A timely reminder that anyone can record a song, but only someone can compose it.

Acknowledgements:

Chris Carey (Media Insights Consulting); Adrian Strain and Sylvain Piat (CISAC); John Blewett (IFPI); Tom Frederikse (Clintons); Shannon Nitroy (Spotify); Bill Gorjance (peermusic); David Safir (Music Economics); Bill Colitre (Music Rights International); Simon Dyson and Matthew Pougher (Omdia); Sam Blake (copy editor); and many music industry executives from streaming services, labels, publishers, and CMOs who made this possible.

Appendix

Author

Will Page, author of Tarzan Economics (www.tarzaneconomics.com)

Simon Dyson, Senior Principal Analyst, Music and Digital Audio

askananalyst@omdia.com

Citation Policy

Request external citation and usage of Omdia research and data via citations@omdia.com.

Omdia Consulting

We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Omdia's consulting team may be able to help you. For more information about Omdia's consulting capabilities, please contact us directly at consulting@omdia.com.

Copyright notice and disclaimer

CONTACT US

omdia.com

askananalyst@omdia.com