



Value Growth and the Music Industry: The Untold Story of Digital Success

By Maud Sacquet

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Executive Summary

For music listeners, digitisation and the internet tell a story of increased consumer welfare¹. Today, consumers have access to a greater choice of music than ever before and can listen to music anywhere, anytime, on a broad range of devices. And with all these increased choices has come an explosion of sharing and creativity.

From the creative 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"². The supply side of music is more diverse and competitive than ever.

Have these gains been achieved at the expense of legacy music players, such as major labels and collecting societies?

In this paper, we look at data from major record labels and from collecting societies to answer this question. And the data tells a story that is not often heard: a lasting trend of growth for legacy music players, driven by digital services. Wholesale revenues of the record industry grew by 9.3% in 2016 in the USA. Collecting

societies' collections increased 26% globally between 2007 and 2015. Meanwhile, European consumers and businesses are the highest contributors globally to collecting societies' revenues.

These figures undermine the case for an alleged "value gap", showing instead healthy rises in revenue. These figures demonstrate that digital's efficiency savings are passed on to both consumers and record labels — and hence that digital streaming services enable massive value growth.

Introduction

The current debate in the European Union on copyright reform is in part focused on an alleged "value gap", defined in May 2016 by the International Federation of the Phonographic Industry ("IFPI") as "the dramatic contrast between the proportionate revenues generated by user upload services and by paid subscription tiers of services such as Spotify, Deezer and Rhapsody-Napster"³. However, recent figures published by the record industry and collecting societies show that tales of the music industry's demise have been exaggerated.

¹ "Technology is Culture", 2016, available at <http://www.techisculture.eu/>

² "Tech advances alter hierarchy of music industry", Financial Times, 27.08.2017, available at <https://www.ft.com/content/50db5d76-89e2-11e7-bf50-e1c239b45787>

³ "The value gap — the missing beat at the heart of our industry", Frances Moore, CEO, IFPI, 05.05.2016. Available at <http://www.ifpi.org/news/The-value-gap-the-missing-beat-at-the-heart-of-our-industry> and as previously discussed in "Value Growth, Not Value Gap", Project DisCo, 03.04.2017 available at <http://www.project-disco.org/innovation/040317-value-growth-not-value-gap/#.Wd041BOCx-U>

Record industry figures confirm 4 years of consistent revenue growth.

On 30 March 2017, the Recording Industry Association of America (RIAA), an industry group of major record labels, published its revenue figures for 2016. These figures look quite different from the “value gap” the music industry is allegedly experiencing. Instead, RIAA data shows that the cost savings of digital distribution are passed on to consumers and labels alike, and labels are seeing increasing growth as a result. In other words, the efficiency gains of the digitisation of music are resulting in increased consumer welfare and revenues for record labels — a textbook illustration of a healthy, competitive market.

Last year, the RIAA’s wholesale revenues grew a very strong 9.3%⁴. Looking at past data published by the RIAA, this is at least the fourth year of consistent revenue growth for the music industry. According to the latest mid-year RIAA revenue statistics, growth is accelerating. In the first half of 2017, wholesale revenues increased by 14.6% to \$2.7 billion. Retail revenues from streaming platforms grew from 48% to \$2.5 billion,

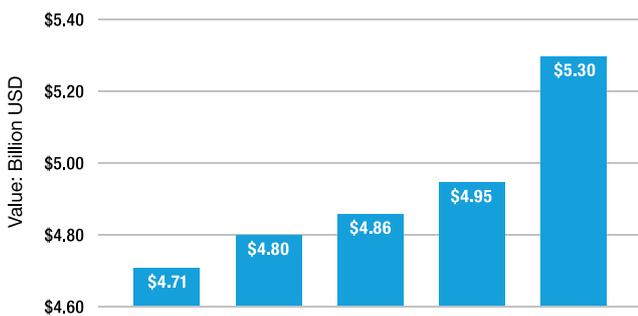
including revenues from ad-supported streaming platforms which grew 37% over the same period.⁶

These figures challenge the existence of a “value gap”. Quite the opposite: the main drivers for the growth of record labels’ revenue are streaming music platforms, including “subscription services (such as paid versions of Spotify, TIDAL and Apple Music, among others), streaming radio services [...] (like Pandora, SiriusXM and other Internet radio) and ad-supported on-demand streaming services (such as YouTube, Vevo and ad-supported Spotify)”⁷.

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

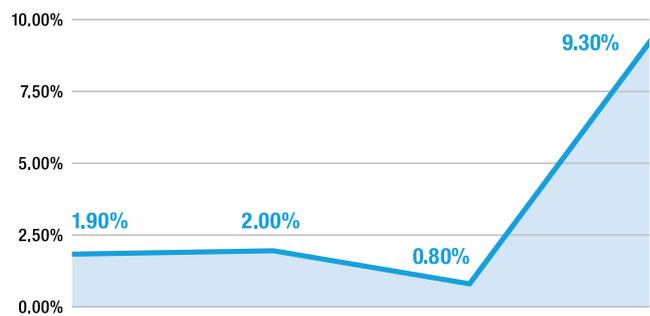
How can the difference between this growth and the rhetoric about a “value gap” be explained? It could be that the rest of the world is dragging revenue down — although that is unlikely, as many regional markets are growing⁸. The continued use of selective calculations may better account for the difference between the “value gap” narrative and the reality of the record industry’s revenues.

Recorded Music, Wholesale Value, Billion USD (2012-2016)



Source: RIAA 2013, 2014, 2015, 2016⁵

Recorded Music, Growth Rate, Wholesale Value (2013-2016)



Source: RIAA 2013, 2014, 2015, 2016⁵

⁴ “News and Notes on 2016 RIAA Shipment and Revenue Statistics”, available at <http://www.riaa.com/wp-content/uploads/2017/03/RIAA-2016-Year-End-News-Notes.pdf>

⁵ “News and Notes on 2013 RIAA Music Industry Shipment and Revenue Statistics”, available at <https://cdn.mbw.44bytes.net/files/2014/11/RIAA2013.pdf>; “News and Notes on 2014 RIAA Music Industry Shipment and Revenue Statistics”, available at https://www.riaa.com/wp-content/uploads/2015/09/2013-2014_RIAA_YearEndShipmentData.pdf; “News and Notes on 2015 RIAA Music Industry Shipment and Revenue Statistics”, available at <https://www.riaa.com/wp-content/uploads/2016/03/RIAA-2015-Year-End-shipments-memo.pdf> and “News and Notes on 2016 RIAA Shipment and Revenue Statistics”, available at <http://www.riaa.com/wp-content/uploads/2017/03/RIAA-2016-Year-End-News-Notes.pdf>

⁶ “News and Notes on 2017 Mid-Year RIAA Revenue Statistics”, available at <http://www.riaa.com/wp-content/uploads/2017/09/RIAA-Mid-Year-2017-News-and-Notes2.pdf>

⁷ See footnote 4.

⁸ “Global Music Report — Music Consumption Exploding Worldwide, State of the Industry Overview 2016”, IFPI, available at <http://www.ifpi.org/downloads/GMR2016.pdf>

To make the case that there is a value gap and that record labels are entitled to more money, it's easier to talk only about "retail value", instead of "wholesale value". According to the RIAA, the wholesale value of music is the "better metric of the revenues that are going to music labels for sales and listening"⁹. In other terms, 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"¹⁰. It's *not* the money the labels get, it's merely an estimate of what consumers ultimately pay for music — if a price is paid. Therefore, talking only about "retail value" raises many issues¹¹:

- There is no "retail value" for ad-funded models such as free-to-air radio or TV or ad-funded streaming services. Instead, the RIAA just adds up wholesale revenue for those services to retail revenue from other channels (an "apples and oranges" comparison).
- 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. 66% of revenues from a digital download now go to the artist and label, compared to around 32% for CD sales¹².

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 used¹³.

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 to record labels.

Authors collecting societies: 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 by a significant margin.

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 €8.6 billion in 2015, a 26% increase over the decade — according to CISAC, an umbrella organization representing 239 collecting

⁹ 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/>

¹⁰ See footnote 6.

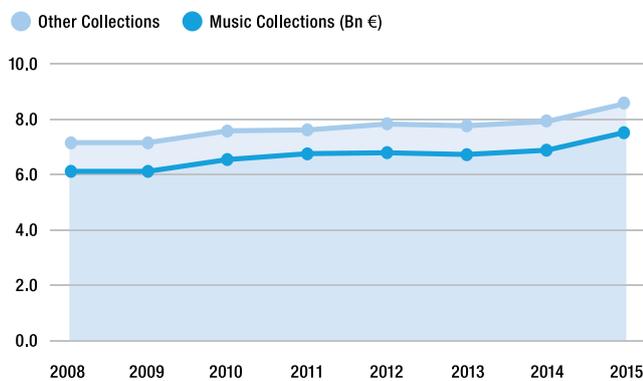
¹¹ "Despite Massive Streaming Revenue Gains, RIAA Still Lying & Crying", Timothy Geigner, Techdirt, 24.03.2016, available at: <https://www.techdirt.com/articles/20160323/10074433993/despite-massive-streaming-revenue-gains-riaa-still-lying-crying.shtml> ; "Land of the Free? Five Myths About the American Music Market", Tim Ingham, Music Business Worldwide, 12.10.2015, available at <https://www.musicbusinessworldwide.com/land-of-the-free-5-myths-about-the-american-music-market/>

¹² "Technology is Culture", 2016, available at <http://www.techisculture.eu/benefits/>

¹³ "Dissecting the Digital Dollar", Music Managers Forum, 2015, available at <https://themmf.net/digitaldollar/>

societies worldwide¹⁴. The music repertoire alone grew 22% between 2008 and 2015¹⁵, to reach €7.5 billion¹⁶, and as such continued to provide a healthy source of revenue. The European market is also thriving, growing 12%¹⁷ over the same period to reach €5 billion¹⁸. Germany's GEMA, the largest collecting society in Europe, collected a record €1 billion in 2016¹⁹ up from €893.8 million in 2015²⁰ — an increase of almost 15%; in the same year French collecting society SACEM's revenues grew 3.9% to reach €1.37 billion²¹.

Collections, 2008-2015 (billion €)



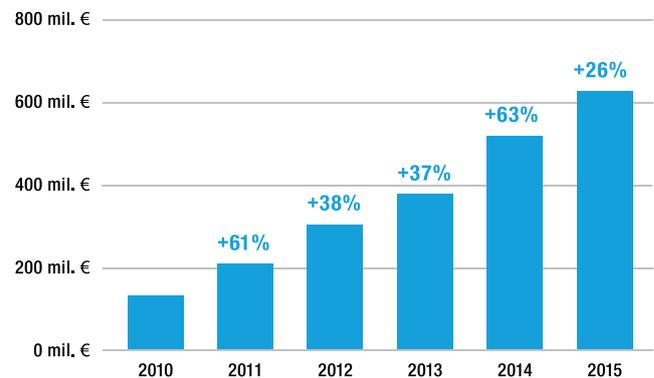
Other collections refers to non-music related income, including dramatic works, audiovisual and literature, which are less frequently managed through collective rights organisations²².

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 the five years between 2010 when CISAC started reporting digital revenue and 2015, digital performance rights income has increased by over 500%²³. Over the same five year period, close to half of the growth in collecting societies' income (46%)²⁴ came from digital.

Digital revenue and growth of digital performing rights revenue, 2010-2015



Bars indicate total digital revenue, in mil (EUR); percentage figures in red indicate the year on year growth of digital performing rights revenue²⁵.

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 by far the region where collecting societies are paid the most in the world, by a considerable margin. 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).

¹⁴ CISAC Global Collections Report 2016, p. 8, available at <http://www.cisac.org/Cisac-University/Library/Royalty-Reports/Global-Collections-Report-2016>

¹⁵ See Annex, part 1.

¹⁶ See footnote 14, page 34.

¹⁷ See Annex, part 1.

¹⁸ See footnote 14, page 36.

¹⁹ GEMA Press Release, 13.04.2017, available at https://www.gema.de/aktuelles/gema_erzielt_erstmals_gesamteinnahmen_von_ueber_einer_milliarde_euro/

²⁰ GEMA Press Release, 31.03.2016, available at <http://www.cisac.org/Newsroom/Society-News/GEMA-press-release-GEMA-Announces-2015-Financial-Results>

²¹ "La SACEM annonce ses résultats en 2016", 19.05.2017, available at <https://societe.sacem.fr/actualites/notre-societe/la-sacem-annonce-ses-resultats-en-2016>

²² See Annex, part 1.

²³ See Annex, part 2.

²⁴ See Annex, part 2.

²⁵ See Annex, part 2.

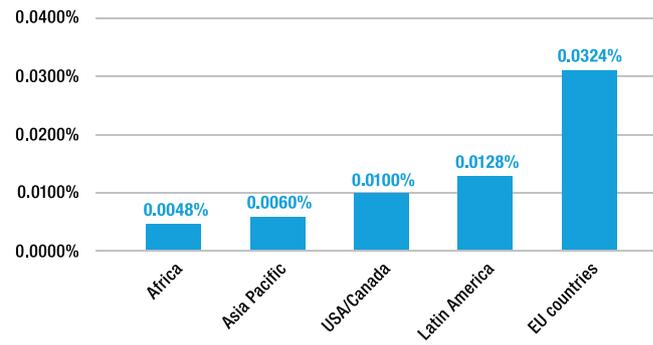
- In absolute terms, **Europe is the highest contributor to collecting society revenues globally**. Over 58% of CISAC's €8.6 billion in revenues are collected in Europe²⁶.

as much as the world average (0.032% of GDP²⁹, against a world average of 0.014% of GDP³⁰), over three times as much as North America and five times as much as the Asia-Pacific region³¹.

Average collecting society collections per head (2015, Euro)



Collecting society collections as a share of GDP (2015)



- Per consumer, EU countries contribute more to collecting societies than any other region in the world. **Collecting societies collect over 10€ per capita in Europe²⁷**, against a world average of 1.43€²⁸. That's twice as much as in North America.
- The difference in wealth between those regions does not explain this large difference. **As a share of GDP, Europe pays collecting societies twice**

It is also interesting to note that there are strong disparities within the EU. Collecting societies in Denmark, Luxembourg and France collect the most per capita in the EU — 6 times more than in countries where the ratio is the lowest³². Collecting societies in Hungary, France and Denmark collect the most as a share of GDP in the EU — 2.5 times more than in countries where the ratio is the lowest³³.

²⁶ See footnote 14, page 37.

²⁷ Based on Eurostat data and CISAC Global Collections Report 2016 for the EU countries listed in this report: BE, CZ, DK, DE, EE, IE, ES, FR, HR, IT, LU, HU, NL, AT, PT, SI, FI, SE, UK. CISAC ranks a sample of countries by collections per capita, giving a rounded figure of collections per capita for each. Eurostat population data is used to calculate total collections per EU Member State listed, and a figure for Europe is calculated on that basis. Because the "collections per capita" figure published by CISAC is rounded, slight variations are found between the collections per country found in calculations for collections per capita and collections as a ratio of GDP. These variations do not significantly impact the findings. Further, in those calculations, we assume that CISAC uses Eurostat population and GDP data, as CISAC does not publish its methodology.

²⁸ See footnote 14, page 30.

²⁹ Based on Eurostat data and CISAC Global Collections Report 2016 for the EU countries listed in this report: BE, CZ, DK, DE, EE, ES, FR, HR, IT, LV, LU, HU, NL, PL, PT, SI, FI, SE, UK. CISAC ranks a sample of countries by collections per GDP, giving a rounded figure of collections per GDP for each. Eurostat GDP data is used to calculate total collections per EU Member State listed, and on that basis a figure for Europe is calculated.

³⁰ See footnote 14, page 31.

³¹ See footnote 14, page 31.

³² See footnote 27.

³³ See footnote 29.

ANNEX

Part 1: The Growth of Collecting Societies' Revenues

	Total collections, entire repertoire (mi Euros)	Europe region total collections (mi Euros)	Music collections (amount, mi Euros)	Non-music collections (difference)
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 2010-2015 (%)	+14.53%	+9.65%	+14.94%	+9.48%
Growth 2010-2015 (€ mi)	1,096.60	444.20	974.50	99.10
Growth 2008-2015 (%)	+22.84%	+11.97%	+22.51%	+25.04%

Sources:

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

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

2013: CISAC Global Collections Report January 2015, p. 5, 10 and 9.
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, 3 and 14.
<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 11.
<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, 18 and 40.
<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, 18 and 41) is used as there is no report covering specifically those years available online

Part 2: Digital Growth

	Total Digital collections (mi Euros)	Digital Performance (amount, mi Euro)	Digital Performance YoY growth
2015	627.60	483.45	25.90%
2014	516.10	384.00	62.71%
2013	379.00	236.00	37.21%
2012	301.00	172.00	38.18%
2011	205.00	124.48	61.13%
2010	128.27	77.252	

Growth 2010-2015 (%)	+389.30%	+525.81%
Growth 2010-2015 (€ mi)	499.33	406.20

Growth 2010-2015 (all collections)	1,096.60 million Euros
Growth 2010-2015 (digital collections)	499 million Euros
Digital share of collections growth 2010-2015	46%

Sources:

2015: See above, p. 33 (Total Digital Collections calculated by adding up digital performance, digital reproduction and other digital rights figures).

2014: See above, p. 30-32 (Total Digital Collections calculated by adding up digital performance, digital reproduction and other digital rights figures).

2013: See above, p. 28-30 (Total Digital Collections calculated by adding up digital performance, digital reproduction and other digital rights figures).

2012: See above, p. 10.

2011: See above, p. 3, 7 and 9.

2010: See above, p. 22, 23 and 30.

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