



RIGHTS + CONSUMPTION: DIGITAL DEVELOPMENTS + INNOVATIONS

PRESENTED BY:



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EXECUTIVE SUMMARY

Digital now accounts for 70% of global recorded music revenues, with premium streaming alone bringing in 48.3% of income. Ad-funded streaming, including when music is used on user-generated content and social media platforms, accounts for another 18.7% of income.

Although the digital market continues to diversify, a small number of platforms and business models continue to dominate and bring in the vast majority of revenue.

However, the streaming services are constantly evolving their platforms and apps, introducing new discovery experiences, utilising and sharing data in different ways, and providing new promotional and upsell tools for artists and labels. Meanwhile, the business models employed by the big digital music companies are slowly evolving too, often in response to concerns raised by the industry.

In this report from One Step Ahead we review some of the big developments and innovations of the last year, consider how the licensing of rights and consumption of music is going to change in the years ahead, and explain how all this impacts on independent music businesses.

SUBSCRIPTION STREAMING MODELS

There has been lots of debate about changing the streaming business model over the years

– and in particular how services allocate revenues to specific tracks and catalogues each month. But so far little actual change has occurred.

However, this year the major record companies, which had previously been less vocal about changing the model, have also started to call for reform. And, through a research partnership with Universal Music, Deezer will start making changes to its track allocation processes from later this year. It seems likely other services will do likewise in the next few years.

PRICE POINT

Until recently the baseline price of subscription streaming in key markets had been €9.99 a month ever since the original services launched in the late 2000s. When inflation is factored in, that means subscription prices have been declining year-on-year.

However, prices in those markets have finally increased to €10.99. Assuming these increases do not result in increased churn – and Deezer has said they did not – many now expect semi-regular increases in line with inflation.

AUDIO QUALITY

Many streaming services have made higher quality audio a priority. And whereas higher quality audio was originally seen as something that would be offered at a higher price, it is increasingly seen as standard.

Both Apple and Amazon have also made spatial audio part of their standard subscription packages, both being keen to sell the devices on which enhanced audio experiences are consumed.

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These moves raise consumer expectations and labels will likely need to deliver content at a higher quality. That said, when it comes to spatial audio, the return on investment for labels delivering content in this format is less clear.

DISCOVERY

The streaming services continue to develop new discovery tools, with visual and video content a priority. These are a mixed blessing for artists and labels, though music marketing teams should consider experimenting with the new tools, especially where existing content can be repurposed.

There remains concerns that the streaming services do not do enough to promote the discovery of more niche genres or to champion domestic repertoire in smaller markets. That said, there have been some positive developments, such as Apple Music launching a standalone app designed to better enable search and discovery of classical music.

UGC PLATFORMS

UGC platforms have become key revenue generators for the music industry in recent years, contributing to overall sector growth. That said, the industry will seek better financial terms from these platforms each time licensing deals come up for renewal.

There are also potentially additional revenues to be tapped in this domain by the industry getting better at licensing music to professional creators and influencers, whose use of music is technically not covered by the user-generated content licences.

DIRECT-TO-FAN

Although the streaming services continue to control access to their users, many have integrations with merch and ticketing platforms, which allow artists to promote and sell merch and tickets via their profiles in the streaming apps. The streaming services may also start to add their own tools in the

future that allow artists to sell memberships or access to extra content. Currently, Spotify and Apple are developing tools of this kind for podcasters, but could roll them out to music.

Labels may or may not get directly involved in this activity, depending on the nature of their deals with their artists. Although there may be opportunities to sell CD and vinyl releases, or for labels to partner with artists on premium content experiences.

CREDITS + METADATA

The streaming services have been under increased pressure to display more extensive credit information alongside tracks.

In the main, the services rely on their label and distributor partners to provide that data. Songwriter credits are now more commonly provided, but there is additional data that could be submitted, providing labels have easy access to it.

If services can access better data and make use of it, the result could be a more compelling user experience, with more navigation by music-maker, which could benefit the independent community in particular.

STREAM MANIPULATION

Stream manipulation and streaming fraud remains a key concern for the music industry. It is a multi-layered problem and involves a number of different groups of people and companies, each with different motivating factors. It's important to understand the role of each of those different groups.

Fully addressing streaming fraud requires industry-wide initiatives, with the active participation of the services and distributors, and possibly the support of law enforcement. However, individual labels can seek to ensure that they are not contributing to the problem by communicating to employees, artists and any agencies they employ that stream manipulation services must not be used.

01: SUBSCRIPTION STREAMING MODELS

EVOLVING THE BUSINESS MODEL

Subscription streaming operates a revenue share based on consumption share business model. Each month a streaming service allocates a portion of its revenues in each market to each licensor based on what percentage of total consumption its catalogue accounted for. It then pays the licensor a share of that allocation according to the terms of its licensing deal.

So each month the process basically begins with the service allocating each track a sum of money based on what percentage of consumption the track accounted for in any one market. This will usually be done separately for the free tier and the premium tier.

Various issues have been raised with this 'track allocation' approach over the years by artists, songwriters and the independent label community, with a number of alternatives proposed.

In particular, the user-centric model, where each subscriber's payment is allocated to the specific tracks they listen to, rather than income and usage data being pooled before allocation. Deezer, Tidal and SoundCloud have all supported shifting to a user-centric model, however only SoundCloud has done so, and – even then – only for a portion of the music on its platform.

IMPALA has also proposed a number of other alternatives, including the artist growth model which applies a discount when money is allocated to the most streamed music, with monies then redistributed to less streamed music; and a system that allocates more to music that a user selects, and less to music that is pushed to a user via playlists and algorithms.

Previously the major record companies had been less vocal about the need to change the current model. It was generally felt that the major record companies would have to be in agreement for any significant changes to the track allocation system to be implemented.

However, since the start of 2023 all three majors have also been calling for reform, noting the high quantity of music available on the platforms, and questioning how monies are allocated...

Universal Music CEO Lucian Grainge in an internal memo in January 2023: *"What's become clear to us, and to so many artists and songwriters – developing and established ones alike – is that the economic model for streaming needs to evolve. As technology advances and platforms evolve, it's not surprising that there's also a need for business model innovation to keep pace with change".*

Sony Music CEO Rob Stringer in an investor presentation in May 2023: *"At Sony Music our attention is on identifying quality and not purely quantity ... we are convinced that consumers want the same quality and remain concerned that [streaming services] are watered down by low quality and meaningless volume which negatively impacts music fans and real artists".*

Warner Music CEO Robert Kyncl during a Q2 2023 investor call: *"I think we have a misaligned model at this point now that the industry is healthy and has grown incredibly well. I think it's time to re-evaluate how we're licensing [the streaming services], do it together with them, because there are ways to make all of this win-win".*

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FUNCTIONAL AUDIO

A key concern for the majors is the prevalence and popularity of 'functional audio' on the streaming platforms. This is audio that could be seen as serving a practical function rather than providing a more conventional music experience, often facilitating sleep or relaxation. It includes things like white noise, rainfall, birdsong and so on.

A lot of content of that kind has been pushed to the streaming services via the music industry's distributors and it is therefore treated as music for track allocation purposes. In a recent study, Deezer estimated that approximately 2% of streams were of this kind of content (what it referred to as "streams tagged as noise"). Which means a not insignificant portion of revenue will be allocated to this kind of content each month.

Deezer CEO Jeronimo Folgueira in a Billboard interview in March 2023: *"The sound of rain is not as valuable as a proper album created by an artist recorded in a studio. The fact that the recording of rain gets more streams than Lady Gaga, I find that astounding. We have to do something about it. It is hurting the user experience. We cannot flood the catalogue with poor-quality stuff".*

It was heavily implied that the major record companies, and especially Universal Music, were proposing that each service's catalogue be segmented for track allocation purposes, so that different kinds of content is treated differently, with some segments being allocated more money and some segments being allocated less. Functional audio would become a distinct segment and it would be allocated less money, or possibly no money at all.

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DEEZER'S "ARTIST-CENTRIC" MODEL

As the major record companies became more vocal about the need to reform the track allocation process, Universal Music announced it was entering into research partnerships with both Tidal and Deezer to investigate alternative approaches.

Both of those streaming services were previously advocates of the user-centric model, but shifting to user-centric was not seemingly being considered as part of this work.

In early September 2023, Deezer announced the results of its study and a number of changes it will make to the track allocation process, initially in France, its biggest market.

The first major change is that third party functional audio will basically be removed from the service, meaning it is no longer allocated any revenue. Deezer intends to create its own content of this kind which will not be allocated any money from the royalty pool.

From Deezer's announcement of the changes: *"Deezer is planning to replace non-artist noise content with its own content in the functional music space, and this won't be included in the royalty pool".*

There are two other key changes.

First, Deezer will segment music on its platform into that made by 'professional artists' and that made by 'non-professional artists'. This will be defined based on number of streams and listeners, with 1000 streams by 500 unique listeners each month the threshold to qualify as 'professional'. Music made by 'professional artists' will then receive a "double boost" during track allocation.

Second, Deezer will also apply a "double boost" for songs that "fans actively engage with, reducing the economic influence of algorithmic programming".

These proposed reforms – which Deezer and Universal Music refer to as the "artist-centric model" – do pose a number of questions. First, how is 'functional audio' defined? While white noise and birdsong obviously fall into this category, what about ambient chill out music which may also be used for relaxation purposes, but is nevertheless music.

Second, is the segmenting of tracks from 'professional artists' and 'non-professional artists' fair? Is the threshold set for being defined a 'professional artist' fair? There is likely to be a lot of debate in the artist and independent community on this point.

Olivier Nusse, CEO of Universal Music France, commenting on the changes to track allocation being implemented by Deezer: *"After extensive engagement with Deezer throughout 2023, we are very proud to be pioneers in France in the highly anticipated roll out of their version of the artist-centric model. This comprehensive initiative will much more effectively value fan engagement and active streaming of music created by artists".*

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KEY TAKE AWAYS

There has been lots of debate about changing the streaming business model over the years, but so far little actual change has occurred. However, Deezer is now making changes to its track allocation processes and it seems likely other services will do likewise in the next few years.

The independent community needs to ensure it is actively involved in informing and deciding what these changes will be, via Merlin, its trade organisations and distributors with direct deals with the services.

02: PRICE POINT

\$9.99 BASELINE BARRIER

The baseline price of subscription streaming in most markets went unchanged for fifteen years, set at 9.99 euros or pounds per month in Western European countries.

The price in emerging markets is lower due to local economic factors, and streaming services have escalated subscriber growth through bundles and promotions that discount down from the baseline. As a result, the 'average revenue per paying user' is significantly lower than the baseline – in any one market and when you take a global average.

Where services have ad-funded free tiers, advertising income is generally significantly lower than subscription revenue, even though the free tier often has more subscribers. Therefore an 'average revenue per user' that also factors in a free tier will be even lower.

It is worth noting that whenever people talk about 'average revenue per user' – or ARPU – in the music industry, it is important to be clear how that is being defined, especially when comparing services that operate a free tier with those that do not.

Because, with only a small number of exceptions, the baseline price of subscription streaming had not increased, when inflation is factored in, the price was actually falling year-on-year. And with music streaming being a revenue share business, that meant there was less revenue for the music industry to share in. Here is a guide to what the current prices would be if they had kept up with inflation.

COUNTRY	LAUNCH	LAUNCH PRICE	2023 PRICE ADJUSTED FOR INFLATION*
Sweden	2008	99 krona	128 krona
France	2008	€9.99	€12.34
UK	2008	£9.99	£14.47
Spain	2008	€9.99	€13.05
US	2011	\$9.99	\$12.99

**These prices are calculated using World Bank inflation data, which is just one inflation index. If you were to apply the Retail Price Index (RPI) – which, for example, sets price increases for mobile networks in the UK – a UK Spotify subscription in 2023 should be priced at £17.39.*

In video-on-demand streaming there were regular price increases from early on. However, music streaming services were more cautious, likely because – unlike with VOD – the music services all offer more or less the same catalogue of content. Which meant there was a fear that, if one service increased its prices, subscribers would move to a rival.

However, the baseline price has now increased, so those European markets that were previously 9.99

euros or pounds are now 10.99. In the US and Canada, it is now \$10.99. Deezer began increasing prices in 2022, with Apple Music announcing a price increase in October 2022 and Amazon Music in January 2023. YouTube Music and Spotify then confirmed they were increasing their prices in July 2023.

Spotify confirming its price increase in July 2023: *"The market landscape has continued to evolve since we launched. So that we can keep innovating, we are changing our premium prices across a number of markets around the world. These updates will help us continue to deliver value to fans and artists on our platform".*

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ONGOING INFLATIONARY INCREASES

Now that the 9.99 baseline price barrier has been broken, many in the music industry hope that semi-regular increases will be instigated moving forward, at least in line with inflation.

While the services were cautious about price increases, they too benefit from subscriptions keeping up with inflation. Though their pricing policies moving forward will obviously be influenced by what the data tells them about the first major round of price increases.

Deezer, as one of the first to instigate an increase in price, has said that the move did not result in any significant uplift in churn. Both investors and the industry will be watching closely when Spotify publishes its 2023 Q3 financial report later this year to see if its price increases had any noticeable impact on churn among its users.

However, there is some optimism that the impact across the board will be in line with what Deezer has reported, meaning semi-regular prices increases should be possible.

Deezer CEO Jeronimo Folgueira during a Q2 2023 investor call (according to MBW): *"Deezer was the first player to raise prices in early 2022, with pretty much no impact on churn, which has clearly demonstrated that music is highly undervalued and that platforms like us have more pricing power than initially anticipated. Since then, all other global platforms have followed our move, which gives us the opportunity to review pricing again in the near future".*

Bill Ackman of Pershing Square Holdings, an investor in Universal Music, in a letter to his investors in April this year: *"We believe that breaking the \$10 barrier is a watershed moment ... and regular price increases will become the norm in the audio streaming industry as they are in the video streaming industry".*

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KEY TAKE AWAYS

There has been a lot of debate within the music industry in recent years about music being undervalued and there being a need to 'grow the digital pie'. While the price increases are no panacea, assuming inflationary increases now become the norm, one of the issues around the undervaluation of music should have been addressed.

03: AUDIO QUALITY

INCREASING AUDIO QUALITY EXPECTATIONS

A number of streaming services have been seeking to offer more music in higher quality audio in recent years, arguably raising consumer expectations in this domain.

It is worth defining what is meant by 'higher quality' audio. The term could be used to describe any audio format without compression, although it might also be more specifically used for audio files above 'CD quality' or those employing spatial audio formats.

We could group audio formats into four categories...

Standard Definition (SD)	Audio files that use 'lossy compression'. Sometimes referred to as 'MP3 quality'.
High Definition (HD)	16-bit audio, with a minimum sample rate of 44.1 kHz. Sometimes referred to as 'CD-quality'
Ultra HD	Tracks with a bit depth of 24 bits, with sample rates ranging from 44.1 kHz up to 192 kHz.
"Spatial Audio"	Proprietary formats such as: Dolby Atmos, Sony 360 Reality Audio, THX Spatial Audio. Certain hardware manufacturers augment an underlying spatial audio format to create their own spatial audio experiences, such as Apple's Spatial Audio with Dolby Atmos.

Higher quality audio in streaming was originally seen as an added-value service that could command a higher price. Tidal – then still operating as WiMP – was the pioneer, offering higher quality audio as part of a higher priced premium offering. Other services, including Deezer and Amazon Music, subsequently also offered higher quality audio at a higher price.

Given streaming is a revenue share business, if subscribers pay a higher price then there is more revenue in which the music industry can share. With many in the music community believing that music has been undervalued with the 9.99 (or now 10.99) price point, the idea of finding ways to encourage subscribers to spend more was very attractive.

However, most services have now started offering higher quality audio as standard. When Apple added higher quality audio to its music service in 2021 it announced it would be available with a standard premium subscription. Apple, of course, also has an interest in selling devices via which users can experience the higher quality sound.

Amazon immediately followed suit, and since then most streaming services have added higher quality audio – at least HD – to their standard premium packages.

The big exception is Spotify which, despite promising for some time now that higher quality audio will be available soon, is yet to make it available on any subscription tier.

There has been speculation that Spotify is planning a higher price premium option which will include access to higher quality audio. However, given its rivals have made higher quality audio a standard offering, it will be interesting to see if Spotify ultimately follows their lead.

The move by some services to make more catalogue available in what we describe above as Ultra HD poses some challenges. Most labels and distributors made 16 bit 44.1khz the standard for providing audio to streaming services.

This means that any shift from SD to HD by a streaming service is relatively easy to achieve, for both the service and the industry. However, to move to Ultra HD, labels will likely need to master and deliver new files in that format.

How easy this is for labels will depend on their master recordings. Where a label has analogue masters, outputting files in Ultra HD will be extra work, but will be possible. Where a label has digital masters, it will depend on the quality of those masters, because you cannot upscale digital resolution.

With discs and downloads, enhanced audio offerings – such as surround sound album releases and download stores that sold WAVs and FLACs rather than MP3s – were always a niche premium product. Most consumers were happy with standard quality audio and didn't feel the need to pay for higher quality audio.

However, as the streaming services make higher quality audio standard, and as new devices – including headphones and personal audio devices such as AirPods – expose more consumers to enhanced audio experiences, consumer expectations will increase.

SPATIAL AUDIO

A number of streaming services, including Apple Music, Amazon Music and Tidal, have been encouraging labels to deliver music in spatial audio formats, usually created using Dolby Atmos or Sony 360 Reality Audio.

Both Apple and Amazon offer access to music in these formats as part of their standard premium subscription package, whereas for Tidal it is part of a higher price package.

That's because, for Apple and Amazon, pushing the spatial audio formats isn't about driving subscription sales. For Apple, it's part of a wider hardware ecosystem strategy – ie spatial audio is primarily about selling AirPods. For Amazon, it's about more generally driving sales of the products used to experience this audio, such as headphones, which many users will then purchase via the Amazon platform.

In general terms, 'spatial audio' refers to digital surround sound formats where the origin points of different sounds can appear to envelop you from all directions. Apple also brands its immersive audio technology as 'Spatial Audio', therefore when using the term it is useful to identify if it is being used in the general or Apple-specific sense.

Apple Music employs both Spatial Audio and Dolby Atmos, though the former is only available on certain Apple devices. Spatial Audio doesn't need Dolby Atmos to work, although it arguably works best when audio is in that format.

The key difference between the two technologies becomes apparent when wearing headphones. If someone wearing headphones listens to a Dolby Atmos audio source and moves their head, then the audio moves with them – which is to say the point from which the audio originates moves with your head, and if you turn your head to the left the audio landscape you hear will remain the same. With Apple's Spatial Audio – and the correct headphones – your head moves within the audio. By this we mean that if you turn your head to the left, the audio landscape you hear will change.

The website GearPatrol describes the difference between the two technologies as follows: "Dolby Atmos creates the effect of watching a movie at a cinema or listening to music at a live concert – the sound comes from all around you – and Spatial Audio adds another layer that makes you feel like you're in the movie or moving around at the concert".

Providing music in these formats obviously creates another expense for labels. There are also significant set-up costs for studios and engineers, which limits the pool of people able to master music in this way. As a result, many studios are fully booked, which can make it hard to access this service to meet release schedule deadlines even when there is budget available.

And, whereas the general shift to Ultra HD likely means delivering music in that higher quality format will become a standard requirement, it remains to be seen just how high consumer demand really is for spatial audio. Therefore many labels are understandably cautious about incurring these extra costs at this time.

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KEY TAKE AWAYS

Many streaming services have made higher quality audio – including spatial audio – a priority. And whereas HD audio and especially Ultra HD was originally seen as something that would be offered at a higher price, it is increasingly seen as standard.

This raises consumer expectations and labels will likely need to deliver content at the higher quality. That said, when it comes to spatial audio, the return on investment is less clear.

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04: DISCOVERY

SHORT-FORM VIDEO FEEDS

Streaming services have long hyped up the discovery and navigation tools they provide within their apps and platforms. Given music streaming services all have more or less that same catalogue of content, these tools can be differentiators between rival services. And with more than 100 million tracks in those catalogues, such tools are obviously helpful for users.

In this domain, both Spotify and YouTube have recently launched new vertical short-form video feeds within their apps which they say will play an important role in discovery.

These developments are clearly in response to the huge popularity of short-form video on TikTok, Instagram and YouTube. Although both stress that these new feeds aim to direct users to full tracks rather than being a content experience in their own right.

Spotify Chief Product & Technology Officer Gustav Söderström on its new discovery tools: *"The world today pulls us in a million different directions. So the most important thing we, at Spotify, can do for creators is to reduce the distance between their art and the people who love it ... or who would love it as soon as they discovered it".*

YouTube Music Director Of Product Management T Jay Fowler on its new short-form video feed, which is called Samples: *"We didn't build this experience to be a means to an end in itself, but instead to be the appetiser to a whole meal. We wanted to make it as easy as possible for you to dive deeper into the songs and artists you discover and love all without leaving YouTube Music. And for artists, the Samples tab provides another way to find a new audience and build a community on YouTube".*

Spotify is also encouraging artists to create and upload TikTok-style videos – called Clips - via Spotify For Artists which are connected by default to the artist's profile, but which can also be tagged with and then connected to specific tracks.

For the music industry, these developments are arguably a mixed blessing. More tools to promote artists and releases within the streaming apps are on one level a good thing, especially if there is no cost associated with using them and existing content can be repurposed.

However, they may require more or new content to be generated, and even with repurposed content this activity needs to be managed, so these tools add another task to the to-do list of music marketers.

The new feeds also further empower the streaming service algorithms. There remains concern within the industry about the lack of transparency regarding how these algorithms work, and that the algorithms – possibly inadvertently – prioritise certain genres and categories of music to the detriment of others.

It also remains to be seen to what extent these video feeds are embraced by users within what are first and foremost audio apps.

Enhanced integration between the general short-form video apps and the music services will likely have more impact. This will happen with TikTok as it rolls out its standalone music service. And YouTube

is keen to integrate the various strands of its platform, including Shorts, longer-form video and the YouTube Music service.

DISCOVERY BY LYRICS

Although it generally gets less attention, there have been a number of important digital innovations in relation to song lyrics over the years, both within the streaming service apps and platforms, and via standalone lyric websites like Genius.

Lyrics can also now play an important role in music discovery. Where a fan hears a song but does not know its title, they may use a key lyric as a search term instead. Obviously Google can be used for such searches, but search tools in some music streaming apps also allow search by lyric, and voice assistants like Alexa can usually identify a song by a key lyric as well.

Lyric search can be particularly important when a fan is first exposed to a track via short-form video feeds on apps like TikTok, Instagram and YouTube Shorts.

If a user, when creating a video on one of those platforms, inserts music from the in-built audio clips library, then the app will identify the track to people who subsequently watch the video.

However, there are various scenarios where this doesn't happen. A user may insert music outside of the app, and might insert a remix, mash-up or alternative version. Therefore, the featured track probably won't be identified by the app. Other users may then take this audio for their own videos, meaning the unidentified audio clip proliferates across the platform.

Given the user has the short-form video app open on their device when watching these videos, it is not usually practical to concurrently use a music-recognition tool like Shazam to identify the music. Therefore, the user may instead do a search using a key lyric.

As a result, there is a tangible benefit for labels in ensuring that lyrics for all their releases are available via the lyric websites and databases that tend to appear at the top of Google searches, and that they are available within the streaming apps. The search engines and streaming services generally rely on lyric aggregators like Musixmatch and LyricFind.

The challenge here, of course, is that lyrics belong to music publishers not record labels, therefore it is not the label's role to distribute these lyrics.

However, with new releases in particular, it is worth checking that lyrics are available through the main websites and databases and, if not, working with an artist's other business partners to ensure they are delivered to the necessary places.

GENRE FOCUSED EXPERIENCES

An ongoing concern for the independent sector is that the discovery tools of the streaming services often prioritise certain genres of music. Meanwhile the playlisting and editorial operations of the

platforms tend to be much more prolific in bigger markets, arguably putting artists and labels in smaller markets at a disadvantage.

Streaming is obviously dominated by a small number of global platforms, with only a handful of mainly emerging markets also boasting significant regional services. And there are only a small number of genre-focused platforms, such as Idagio and Qobuz for classical, and Beatport in electronic music.

The scale required – in terms of user-base – in order to have a commercially viable music streaming service makes more niche offerings hard to develop, unless they can be part of a wider proposition. Which is what Beatport has sought to achieve by also providing various services to the dance music community, where many fans also produce music or DJ on the side.

However, more generally, streaming is dominated by that small number of big global services. Which means, whereas before digital the record industry worked with national retailers and media – and often enjoyed support from genre specialist independent stores and magazines – that has not been widely replicated in the streaming sector.

The industry continues to put pressure on the streaming services to do more to aid the discovery of niche genres and domestic talent in individual markets, although it feels like there has been only limited progress so far.

Indeed, some are now calling on law-makers to put legal obligations on services in this domain similar to those that traditionally applied to media, and especially broadcast media, in some countries.

One interesting new development is the launch earlier this year of Apple Music's standalone app for classical music. Apple says that this app acknowledges that, for classical music, discovery and navigation needs to be handled differently.

Apple's announcement when launching Apple Music Classical in March 2023: *"Classical works have multiple movements and tracks; famous pieces have hundreds of recordings with different orchestras, conductors, and soloists; and many composers have their own special catalogue classifications, from Bach's BWV to Mozart's K. With these complexities in mind, Apple Music Classical has redesigned search to instantly deliver exactly what users are looking for".*

Opinion of Apple Music Classical seems to be divided. Some reviewers have noted that classical music is the one genre where there are already standalone services available – indeed, Apple acquired one, Primephonic, in order to build this app.

PC Mag's review of the new Apple app stated: "Classical aficionados may instead want to consider using Idagio for its superior search options or Qobuz for its higher-quality recordings".

However, some have reacted positively to the new classical app, and in particular the fact it is available as part of a standard Apple Music subscription. Which means classical music fans can access a genre specific experience, while also having access to the main service.

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KEY TAKE AWAYS

The streaming services continue to develop new discovery tools, with visual and video content a priority. These are a mixed blessing for artists and labels, though music marketing teams should consider experimenting with the new tools, especially where existing content can be repurposed.

Labels should also ensure that lyrics for all their releases are available via the key lyric websites and databases.

In terms of the need for services to better support niche genres through their discovery and recommendation tools and editorial activities, despite developments like the Apple Music Classical app, there is still a lot more work to be done in this domain.

05: UGC PLATFORMS

EVOLVING UGC DEALS

User-generated content platforms like TikTok, Instagram and YouTube are now a significant secondary digital revenue stream for the record industry, and income from these services has been a factor in the ongoing growth of both digital music and the recorded music sector more generally.

That said, it is no secret that the industry feels that music continues to be under-valued by many of these platforms. Especially with the short-form video feeds that include in-app audio clip libraries, where music is an even more central part of the overall experience.

The most recent annual music consumption study by the International Federation Of The Phonographic Industry estimated that a similar amount of music is consumed on social and video platforms as on the music streaming platforms, and yet the latter generate significantly more revenue for the industry.

Obviously, platforms like TikTok and Instagram do also deliver a marketing benefit for many artists and labels, but record companies and music distributors have nevertheless been pushing for better financial terms as these platforms have negotiated their next round of licensing deals.

As part of that, the nature of those deals has also been reviewed. TikTok and Meta's original deals with the music industry were lump-sum rather than revenue share arrangements, meaning each licensing entity gets a fixed sum for each licensing period oblivious of actual usage. This then creates the challenge of how that income is allocated to specific tracks, so that distributors can share the money with their clients and labels with their artists.

With TikTok, licensing talks have also had to factor in the launch of TikTok Music, the company's standalone music service. TikTok owner Bytedance already operated a music service called Resso in India, Indonesia and Brazil, which the new service will replace. However, TikTok Music will be more closely aligned with the main TikTok app, and will be rolled out into more markets.

As it currently stands, we expect the next round of licensing deals with the UGC platforms to bring more benefits to the music industry, and labels will need to understand what the differences are as they are agreed and announced. Warner Music announced it had agreed a new licensing deal with TikTok, that also covers TikTok Music, in July 2023.

Although the industry believes music is being undervalued on the UGC platforms, at the same time, these are complementary revenues, which is why this income stream plays an important role in overall market growth. So, whereas the rise of subscription streaming saw download stores go into decline – because streaming and downloads were competing business models – the rise of UGC platforms has not, so far, had a negative impact on subscription streaming.

Of course, UGC platforms do compete with the streaming services for user attention, in that when users spend more time consuming short-form video they may spend less time listening to music on a streaming platform. However, providing the average consumer still has a subscription with a music service, in terms of revenue, that doesn't have an impact.

That said, some labels are monitoring consumption data closely to see if we start to see a trend where some users make so little use of a music service, because they mainly consume short-form video, that they cancel their music subscription, or downgrade to the free tier. It could also be that younger consumers, who may mainly consume content on UGC and livestreaming platforms, are not motivated to sign up to a music service for the first time.

If either of these things happen, then UGC platforms become a competing rather than complementary revenue stream. However, there may be factors that make this outcome less likely.

For example, there are, of course, scenarios where it is only practical to consume audio, such as when driving, making music subscriptions attractive even to users who make less use of a music service overall.

And as TikTok rolls out its standalone music service, and with YouTube keen to cross-promote its different products, the key UGC platforms have a vested interest in promoting music services to their wider audiences. Although they will use this fact as a negotiating tactic when agreeing future licensing deals with the music industry.

MICRO-LICENSING ONLINE CREATORS AND INFLUENCERS

The UGC platforms' licensing deals with the music industry only cover user-generated content. When brands use music in videos posted to these platforms, they need to negotiate sync deals with the relevant rightsholders.

However, there is a bit of a grey area with online creators and influencers. These creators are not strictly 'users' in the licensing sense, so should also be negotiating bespoke deals. But many are not really in a position to do so.

On the main YouTube platform, where Content ID allows labels and distributors to take the creator's share of video income when their music is used, creators are more savvy on rights issues. Although this has often resulted in them making use of primarily production music from companies like Epidemic Sound. On TikTok and Instagram, it is likely creators are more frequently assuming that their use of music is covered by the platform licences.

Licensing music directly to online creators and influencers is arguably a significant opportunity for the music industry, but to capitalise on this opportunity a micro-licensing platform is required to make buying a licence as easy and efficient as possible. Each creator will have limited budgets, but there are millions of creators and videos.

There are some start-ups and initiatives in the industry seeking to build micro-licensing solutions of this kind, in particular the UK-based start-up Lickd.

YouTube is also developing its own micro-licensing solution for creators called Creator Music. Although, because most creators now post content to multiple platforms, they really need a platform agnostic solution that allows them to publish videos containing music to TikTok, Instagram, YouTube and elsewhere.

KEY TAKE AWAYS

UGC platforms have become key revenue generators for the music industry in recent years, contributing to overall sector growth. That said, the industry will seek better financial terms from these platforms each time licensing deals come up for renewal.

To date UGC platforms have provided complementary revenues for the industry – because these platforms do not compete head on commercially with the music services – however, labels need to closely monitor consumption data to see if that changes.

Meanwhile, there are likely significant additional revenue opportunities in this space if the music industry starts more proactively directly licensing professional creators and influencers, some of whom currently rely on the platform licences, even though those licences technically do not apply, and some of whom currently use mainly production music.

06: DIRECT-TO-FAN

INTEGRATING WITH TICKET AND MERCH PLATFORMS

Although the streaming services offer some promo tools for artists and labels, the platforms generally own the fan relationship, control fan communications, and limit the ability of artists and labels to direct fans to other products and experiences.

However, some services have sought to allow artists to upsell tickets and merchandise via their apps, usually by integrating with third-party ticketing and merch platforms.

This means that where artists are working with those ticketing and merchandise platforms, there is the option to promote and sell tickets and merch to fans via their artist profile on the participating streaming services. Quite how this works and how effective it is as a sales tool obviously varies from platform to platform.

In terms of merchandise, both Spotify and YouTube have integration with Shopify and Merchbar. YouTube also has integration with Spring. Amazon has its own merchandise service which is integrated with Amazon Music.

The fact different services integrate with different partners is frustrating, as artists will generally want to manage their merch in one place. However, where an artist is already using a merch platform they should definitely integrate with any streaming services that are connected. So, for example, where an artist is running their online merch sales through Shopify anyway, it is minimal work to promote those sales through Spotify and YouTube.

Whether or not labels get involved in any of this depends on their relationship with the artist, of course. Though these tools could also be used to sell CD and vinyl releases, and it is worth labels and artists considering how to make this happen where they feel there is an appetite among the core fanbase for those products.

PREMIUM CONTENT + MEMBERSHIPS

In more recent years, some artists have been able to generate additional direct-to-fan income by offering the core fanbase access to premium digital content and experiences, or by selling memberships or taking donations, using services like Bandcamp and Patreon.

With these kinds of D2F products, it could make sense for the streaming services to provide their own proprietary monetisation tools. Although, in the main, this is yet to happen,

One challenge is that when streaming services take in-app payments they are obliged to use the Apple and Android transaction systems, which charge a 15-30% commission. There are also rules regarding sign-posting alternative payment options online. The streaming services have been trying for years now to get Apple and Google to change their rules to allow app-makers to take payments via their own systems, and law-makers may as yet force that change.

However, while those in-app payment rules are in place, it is harder for the services to introduce direct-to-fan tools where transactions happen within the app, because the Apple and Google commissions make it less viable for both the service and the artist.

That said, both Spotify and Apple have been innovating in this space when it comes to podcasters, with both companies developing tools to allow podcast producers to sell extra content or memberships to listeners, with the member-only content then accessed via their respective apps.

If these tools gain momentum, both companies might look to extend them into music – although for Spotify the in-app payment rules of Apple and Google will remain a problem.

That said, as with merch, artists would probably prefer to be able to manage this kind of direct-to-fan activity in one place, rather than having to set things up separately on every streaming service.

Which means integration with platforms like Bandcamp or Patreon may be more attractive. Indeed, Spotify has already entered into a partnership with Patreon around podcasts.

KEY TAKE AWAYS

Although the streaming services continue to control access to their users, many have integrations with merch and ticketing platforms, which allow artists to promote and sell merch and tickets via their profiles in the streaming apps. Where artists are already using a connected platform for merch sales, they should definitely take advantage of this integration.

The streaming services may start to add their own tools in the future that allow artists to sell memberships or access to extra content. Currently, Spotify and Apple are developing tools of this kind for podcasters, but could roll them out to music in the future. Again, artists should monitor these developments and consider new D2F opportunities as they emerge.

Labels may or may not get directly involved in this activity, depending on the nature of their deals with their artists. However, there may be opportunities to sell CDs and vinyl via these integrations. And when it comes to selling access to premium digital content, there may be a role for the label, given it is often producing marketing content for its artists which could be repurposed for this activity.

07: CREDITS + METADATA

CREDITS DUE

Streaming services have long been criticised for not providing sufficiently extensive credits alongside each track, ie listing all the people involved in creating each song and recording.

Providing extensive credit information respects each creator's moral right to attribution under copyright law, but also provides additional context for the fan. And in the digital domain, this data could be used to enhance user-experience, allowing and encouraging consumers to navigate music by the people who wrote, recorded and produced it.

Services mainly rely on record labels and music distributors to provide this metadata alongside each recording. For practical reasons, from the early days of digital, only basic metadata was made mandatory. Most services therefore didn't build functionality that utilises credit information into their platforms, reducing the incentive to provide the data.

There have been some improvements, especially in terms of labels providing and services displaying songwriter credits alongside main artist credits. And some services, most notably Tidal, have aggregated and displayed even more extensive credit information.

However, there is growing pressure coming from the music-maker community for more extensive data to be provided and displayed as standard.

That led to the launch in 2021 of the Credits Due campaign which calls for the industry to provide, with each track, unique identifiers for every performer and writer involved (IPN, IPI and ISNI), as well unique identifiers for both the recording (ISRC) and the song (ISWC). The ISRC is already provided as standard, but the ISWC is generally not.

Credits Due co-founder Björn Ulvaeus when launching the campaign in 2021: *"It's very simple, music recordings must credit all involved and thus ensure that the right people get paid. People ask me why this isn't the case already and I don't know what to say. Today, in 2021, there's really no excuse. If we achieve 'Credits Due' it's a win-win for the whole music industry".*

Within the music industry – and especially the collective licensing system - the International Performer Number (IPN) and Interested Party Information (IPI) are commonly used to identify performers and writers respectively. However, they have not been widely adopted by the streaming services, with the non-music specific International Standard Name Identifier (ISNI) being more readily embraced by digital companies, and especially YouTube and Apple.

UK METADATA AGREEMENT

In the UK, the government convened a music industry working group to consider metadata provision following the 2021 Economics Of Music Streaming inquiry in the UK Parliament.

It was tasked with considering how more extensive metadata could be provided alongside recordings as standard, both to enable better crediting of music-makers within the streaming platforms, and also to make the payment of song royalties more efficient.

In May 2023, an Agreement On Music Industry Metadata was published via which labels, distributors, publishers, services, managers, artists, songwriters and studio producers all commit to work together to gather, deliver and utilise more extensive metadata.

The code outlines a core dataset that the industry should ideally seek to provide with each track, which is basically in line with the demands of Credits Due.

	Core Data Element	Notes
Sound recording metadata	Recording Title and Sub-Title Recording Artist(s) Performers Studio Producers Artist and Performer IDs (IPN/ISNI) Recording ID (ISRC)	The use of IPN and ISNI identifiers is encouraged.
Song metadata	Song Title and Sub-Title Write name(s) and roles Writer IDs (IPN, ISNI) Song ID (ISWC)	IPI is preferred for writer or ISNI where not available (eg DIY artist). Ability to provide ISWC and IPI depends on their availability.

KEY TAKE AWAYS

Labels should consider their role in facilitating the delivery of more extensive metadata in relation to artist, performer, writer and studio producer credits, as well as copyright identifiers – ie ISWC as well as ISRC.

This will involve working closely with managers and studio producers. Where labels are also publishers of the songs in the recordings they release, gathering song and songwriter data should be easier to achieve.

If services have access to better data and are encouraged to make use of it, the result could be a more compelling user experience, with more navigation by music-maker, which could benefit the independent community in particular.

08: STREAM MANIPULATION

Stream manipulation has been a growing concern in the music industry for many years now.

This is where individuals or companies artificially inflate the number of streams of a specific track, manually or through automated processes, via free or premium accounts set up for this purpose, or by hacking otherwise legitimate user accounts.

Doing so breaches the terms of service of the streaming platforms, and also likely breaks laws around computer abuse and misuse.

This process can be used to make a track, catalogue or artist seem more popular than they really are. Plus, of course, a higher portion of a streaming service's monthly revenues will be allocated to any tracks where streams have been artificially inflated, to the detriment of all the other music that has been streamed that month.

NATURE OF MANIPULATION

There are a number of different parties involved in stream manipulation, each with different motivations. Some are actively involved in the process of artificially inflating streams, but many hire the services of another entity to actually do the manipulation.

A study by the Centre National De La Musique in France identified four parties...

1. Established artists who may seek to artificially boost plays to maintain a chart position or reach a certain stream threshold in the first week of release.
2. Emerging artists who may seek to artificially boost plays in a bid to positively impact search engine optimisation, influence streaming service algorithms or playlists, or to generally appear more popular with fans and potential business partners.
3. "Bad actors" who deliver their own music to the streaming services, and then automatically generate streams for that music, so that they are allocated a portion of streaming service revenues at the end of the month.
4. Artists, labels or other entities who seek to harm competitors by artificially boosting plays of other people's music in the hope that the manipulation is detected, and a track is therefore removed from a service, or demoted in terms of publicly visible data or chart position.

There are likely other parties involved as well...

Catalogue owners may seek to artificially boost plays to inflate the value of their catalogues, for example with a possible buyer.

Marketing agencies may artificially boost plays to make it appear to clients that their campaigns have been more successful.

Executives in music companies may artificially boost plays (either directly or through 'black hat agencies') to reach internal targets.

And of course, many of the companies who actually do the manipulation have turned the process into a profitable business.

There has also been regular speculation within the industry that criminal gangs are involved in streaming fraud, often as part of money laundering activities. In September 2023, an article in the Swedish newspaper Svenska Dagbladet highlighted this connection with allegations that gangs in Sweden have been using Spotify as a means of laundering money that they have obtained through criminal enterprises.

To do this, the criminals formed partnerships with artists in the music industry. The gangs would fund stream manipulation, usually converting criminally obtained monies into cryptocurrency and using that to pay for stream manipulation, and then sharing in the uplift of royalty income that flowed to that artist as a result of the artificial streams.

The newspaper cited sources from four different gang members from separate criminal networks in Stockholm, as well as an anonymous police investigator. It quoted one gang member as saying: "I can say with 100% certainty that this goes on. I have been involved in it myself".

It is important to appreciate that streaming fraud is multilayered and often involves individuals and companies within the music industry.

Some media reporting of stream manipulation has focused primarily on one kind of fraud, usually the third category as identified by the Centre National De La Musique above, where a "bad actor" uploads its own music, which it then artificially inflates in order to directly pull money out of the royalty pool. This, of course, is the one kind of manipulation that doesn't involve the music industry itself.

However, this is almost certainly the easiest kind of streaming fraud for the services to detect. And once detected, they can remove the tracks the bad actor uploaded, refuse to pay out any royalties and – if the bad actor set up its own accounts in order to artificially boost plays – they can cancel those accounts.

The other kinds of stream manipulation are almost certainly much more prevalent, and they can be harder to detect, because the tracks and artists being artificially boosted are also getting legitimate streams.

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SCALE OF MANIPULATION

It is hard to accurately quantify the scale of stream manipulation, because – obviously – this activity is designed to go undetected.

In terms of the fraudulent streams that are detected, in response to the Svenska Dagbladet story, Spotify said in a statement: "Less than 1% of all streams on Spotify have been determined to be artificial and

those are promptly mitigated prior to any payouts".

The Centre National De La Musique study crunched data from Spotify, Deezer and Qobuz in a bid to assess the scale of the problem. It estimated that up to 3% of streams serviced in the French market are identifiable as 'false'.

However, it also noted that the actual number could be considerably higher, depending on how much stream manipulation goes undetected.

Center President Jean-Philippe Thiellay on the study: *"In France, in 2021, between one and three billion streams, at least, are false, ie between 1% and 3% of total listening. [However, that is based on] the fraudulent streams detected by the platforms and eliminated from the sharing of revenue. It is certain that the reality of false streams exceeds what is detected".*

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ADDRESSING THE FRAUD

The streaming services all have systems in place that seek to identify stream manipulation, so that artificial streams are not counted, and no revenue is allocated to tracks based on those streams.

Opinion is divided on how effective those systems are, though most people agree they could be improved, and the streaming services insist that they are investing in enhancing this work.

The music industry itself has sought to address stream manipulation in a number of ways...

First, the IFPI coordinated an Anti Stream Manipulation Code Of Best Practice signed by both music companies and streaming services. Music companies commit to ensure that their teams and the agencies they hire do not participate in stream manipulation, while the services commit to do more to identify artificially boosted streams.

Second, the IFPI and national record industry trade bodies have pursued legal action against companies and websites that openly promote and sell stream manipulation services. There has been a particular focus on this work in Germany and Brazil.

Third, a number of trade organisations are seeking to facilitate a more coordinated cross-industry response to stream manipulation. While most services, labels and distributors have policies and systems in place that seek to block these activities, it is generally felt that better information sharing between companies could increase the impact.

Fourth, and linked to that, a group of music distributors have formed the Music Fights Fraud Alliance in partnership with Spotify and Amazon. Again, the aim of this alliance is to facilitate a more coordinated cross-industry response.

There is certainly additional work that could be undertaken in this domain.

That includes using similar tactics against stream manipulation services that have been employed by the music industry in the past against piracy sites. For example: pressuring internet service providers to block access to their websites; calling on search engines and social media to stop them from advertising their services; and requesting that payment processors stop processing payments for them.

Fully tackling streaming fraud – especially where criminal gangs are involved – will also likely require the involvement of law enforcement, or other government agencies with appropriate powers and responsibilities.

KEY TAKE AWAYS

Stream manipulation and streaming fraud is multi-layered and involves a number of different groups of people and companies, each with different motivating factors.

Arguably, too much attention has been given to certain kinds of streaming fraud, especially that which doesn't involve the industry itself. To tackle the problem, the industry needs to appreciate the different kinds of fraud and which kinds are most prevalent.

Fully addressing streaming fraud requires industry-wide initiatives, with the active participation of the services and distributors, and possibly the support of law enforcement.

However, individual labels can seek to ensure that they are not contributing to the problem by communicating to employees and any marketing agencies they employ – and to their artists and their managers – that stream manipulation services must not be used in any circumstances.

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ABOUT ONE STEP AHEAD

One Step Ahead is a digital intelligence facility from IMPALA to enable independent music companies across Europe to navigate and identify trends, developments, challenges and opportunities in the digital music market. Delivered in partnership with music business consultancy CMU and with support from Merlin, One Step Ahead provides reports, tools and training to help independent music businesses of all sizes to get the most out of today's digital opportunities in Europe.



ABOUT IMPALA

IMPALA was established in 2000 and now represents over 5000 independent music companies. 99% of Europe's music companies are small, micro and medium businesses and self-releasing artists. Known as the independents, they are world leaders in terms of innovation and discovering new music and artists – they produce more than 80% of all new releases and account for 80% of the sector's jobs. IMPALA's mission is to grow the independent music sector sustainably, return more value to artists, promote diversity and entrepreneurship, improve political access, inspire change, and increase access to finance. Read more about IMPALA's story in 20 milestones on our website. impalamusic.org



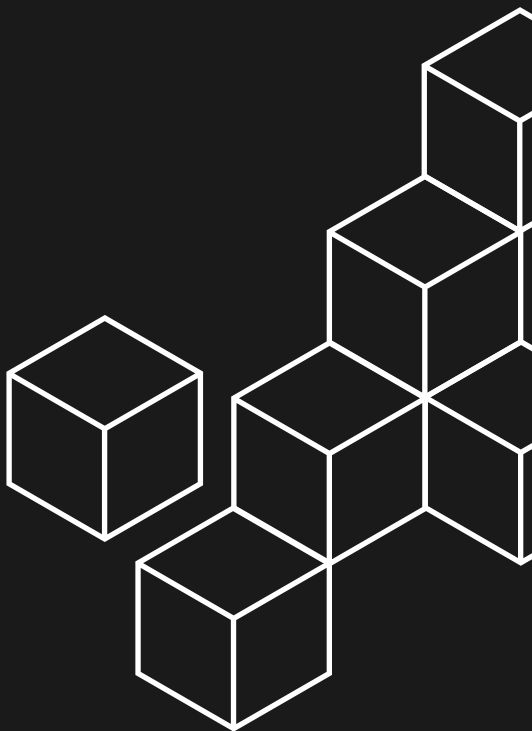
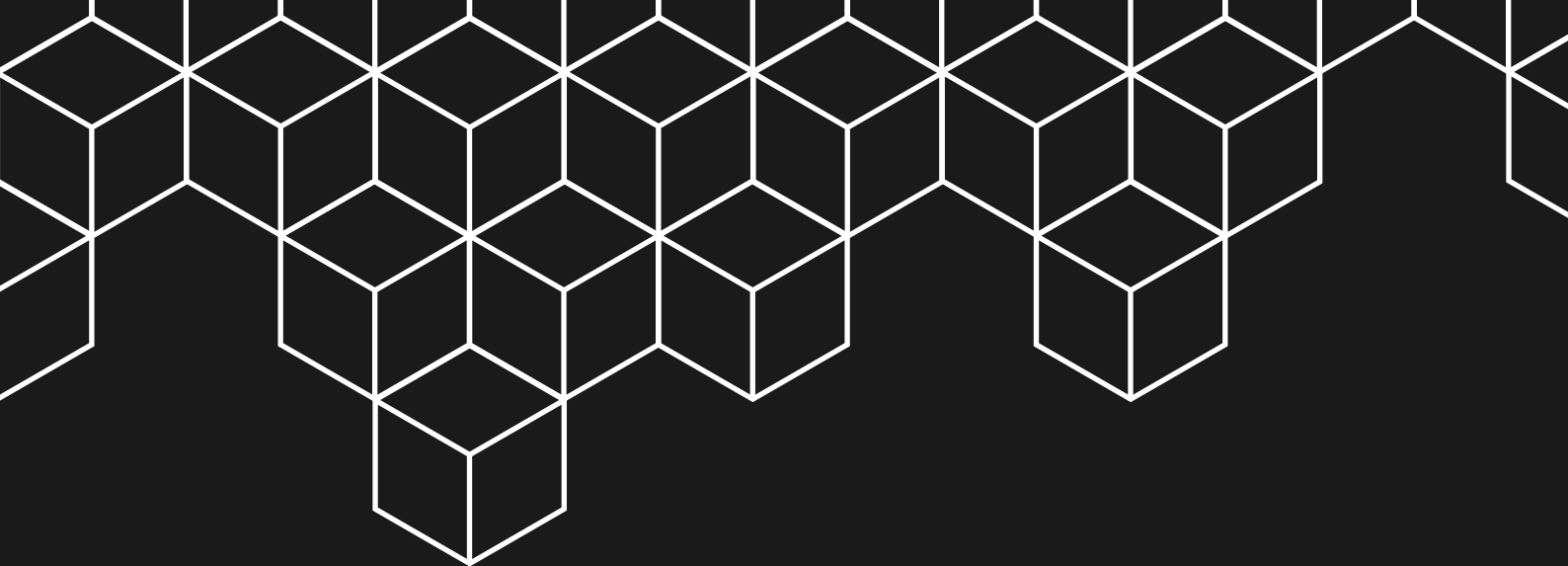
ABOUT CMU

CMU helps people navigate and understand the music business through media, training, consultancy and events. Our consultancy work sees us provide strategic support, intelligence and expertise to a wide range of clients in the UK, EU and around the world. We also regularly produce and publish research reports and white papers on the very latest trends in the music business. completemusicupdate.com



ABOUT MERLIN

Merlin provides independents the means to own their future. Members work directly with key digital partners, but benefit from Merlin's premium deals with over thirty digital music services around the world. Merlin's membership consists of independent labels, distributors, and other rights-holders, representing tens of thousands of labels and hundreds of thousands of artists from every country in the world, representing 15% of the global market share. As a member-led, artist-focused organisation, Merlin's mission is to deliver best in class services and work collaboratively with its digital partners to drive incremental benefits to members, while delivering value back to digital music services. merlinnetwork.org



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