

A MUSIC COMPANY

Hello

I'm writing today to raise the issues present in the economics of the music industry in the age of streaming.

Around 2 years ago my business partner and I started a record company.

We started it primarily because we love music and we wanted to showcase artists whose music we love. If it broke even we would be happy.

Our income comes from the monetization of recording masters, which is separate from publishing income. We do not receive anything from our artists' songwriting.

Income from recording masters comprises:

Streaming (Spotify et al) - easy access to market, but difficult to generate revenue in competition with major labels for listener's attention, and due to the low payout for each stream. Major labels have very close ties with streaming platforms and these can be used to get preferential treatment.

Broadcasting (Radio) - difficult to access in competition with major labels who have deep ties within the system. The BBC is the highest paying client when music is played. Commercial stations are much lower.

Sale of physical media - difficult to access in competition with major labels. 1 run of a very popular major label artist's vinyl can set back pressing of an independent record by months due to manufacturers favouring the bigger volume. It is also a much higher upfront cost to manufacture, distribute and market.

Fees for synchronization to moving picture or games ("Sync"). - difficult to access in competition with major labels and publishers, who have deep ties to the system, links to companies under the same holding company, and deep pockets.

Royalties from use of our IP from online and other sources, but mainly online (Facebook, Youtube, Instagram, others globally) - simple to access but the royalties generated are very low. Not enough to offset any of the above.

We signed artists to our label. All of the artists were debutantes, that is to say, they hadn't released music before.

Our contracts are on a project-by-project basis (one single/one EP/one album) and are profit-sharing.

This means that the artist and us split any profits 50/50 after all costs have been covered.

This is in contrast to many major label contracts that split 80/20 in favour of the label, and load recoupment of the costs on to the artist's share of income, often for a term of multiple albums.

Producing a song using professional producers and engineers costs around £3000. This is doing it as cheaply as possible while making a product that can compete with a major label release in terms of its sonic and musical quality.

In order to market this to a minimum level we hire a publicist for around £500, a radio plugger for £500, and we could spend £500 on Facebook or Google advertising. These are minimum figures. We could spend more, much more, on all of these, online advertising especially.

So let's say we do all that. The bare minimum to get a song out there, and a minimum promotional spend. The song has cost us £4500 to make and bring to market in a very small way.

(There are some economies of scale present when making a whole album, but the total cost would be prohibitive for us or all but the personally richest independent artists).

1 million streams on Spotify will bring in roughly £2500 of revenue.

1 million streams on Apple Music brings in £4860.

1 million streams on Youtube Music (separate from Youtube videos) brings in £5292.

1 million streams on Tidal brings in around £6300.

These figures are estimates, as not all streams are as valuable as others, depending on the kind of streamer (subscribed vs. not subscribed) and their geographical location (listeners in wealthy countries generate a higher royalty than those in less wealthy countries).

We have released 21 songs in total on our label, and our streaming income for one year is £25, from about 8000 streams.

Release Downloads	0	£0.00
Video Downloads	0	£0.00
Track Downloads	8	£5.29
Streams	8,049	£19.74
Totals	8,057	£25.03

As you can see, just 8 digital downloads generate 25% of the revenue of 8000 streams. However, hardly anyone downloads music any more because it is inconvenient compared to streaming.

So we could have spent £94500 on bringing these songs to market for revenue of £25 after 1 year.

Obviously we haven't done that. That would be insane and ruinous. We have found ways of reducing the costs of production, we have taken decisions not to promote some songs as heavily as others - we have reduced costs as much as possible, but with a direct effect on our ability to compete for space in the market.

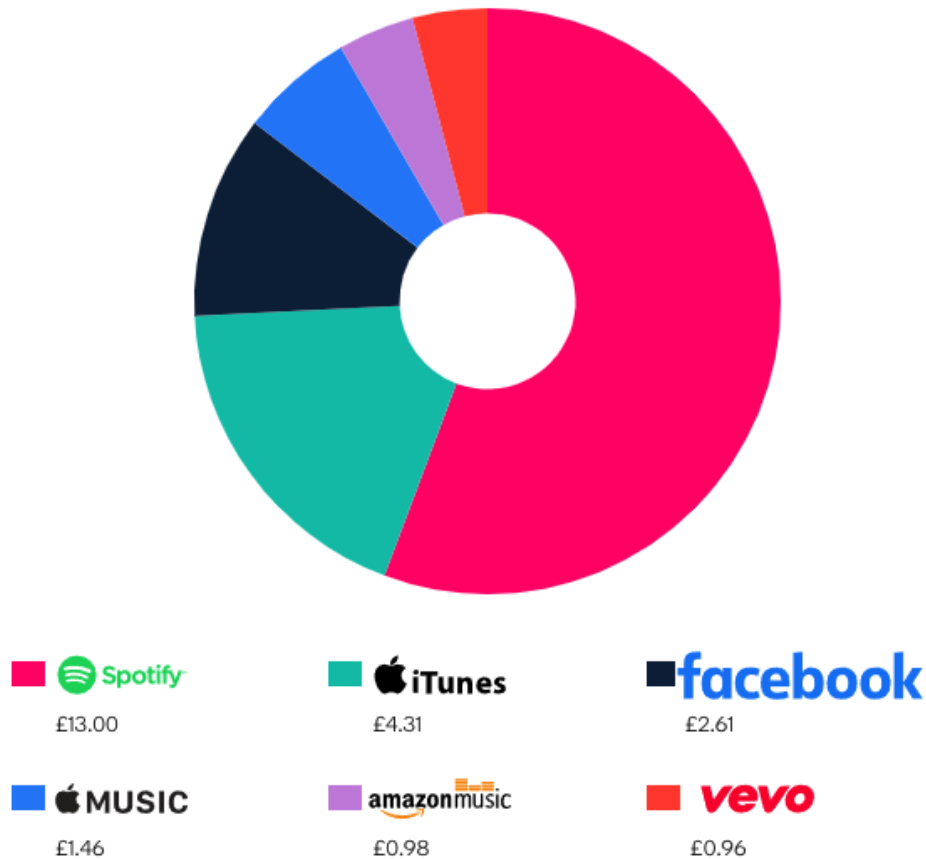
To date, we have spent in the region of £20,000. This doesn't include running costs, admin etc.

Each song would have to generate £1000 in streaming revenue for us to cover all of our costs. That would equate to around 600k streams on Spotify. For each song.

So why not just release music on the platforms that pay most to maximise revenue?

Spotify has by far the largest market share. To not release on Spotify is to deny oneself access to at least 30% of the market. Apple Music is 15%. Amazon Music is 15%. None of these are the highest paying services. Youtube Music is 8% of the user market. Tidal and Napster and all the others are negligible.

Best Performing Stores



(It should be quite telling that such a large proportion of our income is from Facebook, a social media company. Their main business has nothing to do with music, yet they are generating more revenue for us than Apple Music.)

The streaming platforms are marketed far more than an artist ever can be. User loyalty and various methods of keeping users on ONE platform mean that even if we took the decision to only release music on one platform, we would not be able to take our listeners with us. Convenience is king. Subscriptions are priced so that to subscribe to all of the platforms would cost users just under £100 per month, which is unacceptable to most people, and all platforms have all music on them anyway, so it doesn't make sense to do this.

In an attention economy, those who shout loudest and longest have the best chance of being heard. And shouting costs money. And the more people that are shouting, the more money it costs. Therefore the environment is not conducive to releasing music independently by new artists. The current environment favours legacy artists with big budgets.

This is the most convenient situation for large record labels. Breaking new artists is inconvenient and costly.

This situation is not healthy for the future of music or culture. Culture should not be a winner-takes-all environment. Culture is not a zero-sum competition. New and niche types of music keep our culture deep and broad, and non-mainstream culture 'trickles up' to influence larger artists who can bring that to a wider audience. Sometimes this results in some trickle down to the innovators. Mostly not.

Having an environment so hostile to new and non-mainstream music risks atrophying the music scene, with money and power becoming ever more concentrated in the hands of a few. The natural cultural churn will die and eventually people at large will become bored with what they are being exposed to, disengage and then all players will suffer.

The current economic model is short-termist, prioritizes profit over the people who make the product, and eventually will destroy the whole industry, at which point these large platforms will move on to monetizing something else (see Spotify promoting podcasting and other radio-like services recently).

There are alternatives. User-centric payments (where users' subscription fees, or advertising income, goes directly to the artists who they listen to) is one such method that would support smaller and less well funded artists and labels. Bandcamp offers a good blend of streaming for free and promoting the purchase of digital or physical products. But no-one is incentivized to use these methods.

There is also a wider discussion to be had about the effect of the streaming platforms on people's listening habits and the amount of music they receive for so little outlay. Demand for music has never been higher, but the supply is higher still. A £10 subscription gives you access to pretty much all music, ever, for a month. The platforms can only do this because they are allowed to lose money and keep trading. The streaming business is either subsidized by another part of their business (Apple, Google) or by their investors (e.g. Spotify has never turned a profit yet its stock keeps rising).

Streaming is broken, and it is breaking the music industry, the economics of being a musician, and our musical culture from the ground upwards. Profit doesn't seem to ever trickle down, but market failure trickles up, hurting those at the bottom first and those at the top last.

Something must be done.