A MUSIC COMPANY (3)

General questions

1. What have been the main changes in the music industry as part of the shift to music streaming, including any changes to:

a. business models;

- There has been a substantial shift in our business model away from selling physical sound carriers or digital downloads (for which music rights holders receive income/royalty for the music before listening) to a model music rights holders receive income from subscriptions after listening. So rights holder cashflow is negatively affected.

Also the amount paid by each listener is a lot less, certainly in the short term. Over the long term an individual listener may pay more for listening to a particular piece of music than if they had bought the record, but generally the income per listener has reduced and is less immediate. But there are more casual listeners as the access to music is so much easier.

b. the cost structure of the industry (eg costs of music companies, costs recouped from music creators; and costs of music streaming services);

Costs of music companies including costs recouped from music creators or otherwise:

- Recording costs which are often reduced with new technology, but can still be substantial for many music creators (often recouped from artists especially where music companies have short term licenses)
- Increasing staff costs (not recouped from music creators). Music business salaries are currently rising sharply, caused by inflation generally but also now that a lot of venture capital is entering the market and investing in distribution activity there is increased demand for experienced staff.
- Increasing complex campaigns via new media outlets requiring a proliferation of promotional assets (including video content) and accordingly increased administration (asset costs sometimes partly recouped from music creators)
- Much lower costs of inventory and distribution on streaming sales
- But music companies are still creating and selling some physical records so the origination (artwork, mastering) costs remain as well as the substantial pressing costs

- The streaming services take a percentage of income, but then so do the physical record shops and distributors, so thats not really a change.

c. risks that music companies and music streaming services take on; and

New technologies result in increased costs of promotional and release assets and deliverables, for example:

— the demand for 3D Spatial, Dolby Atmos by Apple Music, Amazon and others has considerably increased the mixing and mastering costs, this can cost several thousand pounds per track

— additional costs of making or adapting promotional assets (video etc) for various, new social media outlets, most recently for Tiktok, Youtube Shorts, Instagram Reels, etc

And music companies continue to take on:

- recording costs, musician costs, mixing and mastering costs
- Staff costs for music companies to mounting effective release campaigns are considerable and increasing
- The material costs of campaigns, artwork, photography, publicists, videos and video assets, advertising

- The manufacturing costs of physical records (which is often a key demand by music creators of music companies)

d. the way firms compete at different levels in the music streaming value chain?

Record labels used to be more or less sole gatekeepers for artists to make artists record sales. Record labels are now competing with the music services directly (disintermediation) and distribution aggregators (Orchard, ADA, Believe etc).

2. To what extent do costs change, if at all, as music streaming revenues grow, and if so, what drives any changes in costs (eg see paragraph 88), for:
a. Music companies; and
b. Music streaming services?

3. Are there any key technological or other changes anticipated in the music industry, particularly anything that could impact competition in the future, either between music companies or between music streaming services?

4. Are there areas within the stated scope of the market study that the CMA should particularly focus on, or any important areas it has missed?

The price charged to consumers for streaming has not changed for 2 years (£9.99/month) but the offering has improved (more tracks, better services, all music), in fact bundling (family plans etc) and inflation mean the price has dropped. Conversely the price of film and TV streaming services has risen, and you need to have multiple subscriptions to watch everything in a way that isn't necessary for music.

The share of income that music companies and artists receive from music services is to some extent set by the negotiations undertaken by the larger record labels and larger distributors and their ability negotiate with music services. The ability of music creators to release music directly with the streaming services opens the possibility that the market share of the larger music companies could drop significantly and strengthen the music services in negotiations with music companies which would in turn reduce the income received by music creators. If there were only artists supplying music service directly to music services the percentage paid out by music companies would drop. So there is an extent to which a healthy market requires all sizes of music company negotiating with music services.

Competition between music companies

5. How do recorded music companies compete with each other in:
a. the supply of services to music creators to develop and bring their music to market; and

- Designing and pitching creative marketing campaigns
- Demonstrating enthusiasm and care in executing campaigns
- Offering different royalty rates and structures
- Offering royalty advances, recording budgets, marketing budgets, video budgets

b. the supply of music to music streaming services?
- Different levels of active engagement (generally and on behalf of each artist) with music services to maximise playlisting

- Designing and pitching creative marketing campaigns geared towards the needs of the music services

6. How well is competition working at present between recorded music companies?
- Competition is alive and well! Because the reduced cost of general digital distribution means that its cheap for artists, labels and distributors to distribute music digitally. And there are many music companies to do so, all of whom are potential competitors. The barriers to market entry are very low so competition is high.

7. How, if at all, is competition between recorded music companies likely to change in the future?

- I imagine barriers to entering the market will continue to be low so competition will continue to be high, and probably increase. Sony's purchase of AWAL may reduce completion as it is subsumed into Sony. But probably the remaining independent distributors will thrive and provide plenty of competition.

The market will continue to get more complex with more places to distribute and promote music - most recently Tiktok, Peloton (and other fitness outlets), 3D audio formats (inc Dolby Atmos on Apple) etc

8. To what extent can music creators seek better terms for the services they are offered by recorded music companies?

That is already happening due the the completion above. Royalty rates are increasing. Music companies' rights periods are falling. Budgets demanded by successful music creators are rising.

a. What are the key drivers of a music creator's choice of recorded music company? What role do music managers play in this?
- A music creator's desire for autonomy can be a key driver to encourage them to self release, or to choose a more flexible music company over another less flexible one.
- Commercial terms are a key driver obviously
- Music companies reputation for creativity, diligence, success etc
- Notable artists in a music companies history

Music managers play a key role in the process. Music managers help inform music creators as to all the options for different music companies from self release, label service companies, distributors, small and larger independent labels and major labels - and the pros and cons of each. Music managers advise as the the commercial terms and negotiate with music companies. Music managers bring commercial thinking and energy to music creators to compliment music creators musical thinking and energy!

b. What are the key factors determining the bargaining power of music creators in negotiations with recorded music companies?
- Low barrier to market entry, i.e. the artist does not need a record company, they can distribute the music themselves and hire publicists as needed.
- Further, usually with the help of a music manager a music creator can create their own music company by gathering around them agents to provide all the services usually provided by music companies (publicity, marketing, distribution, asset creation), these services are all available in the

market independently.
- Wide choice of music companies as above.

c. Does the strength of competition between recorded music companies vary for different types of music creator, for example music creators at different stages of their career – and if so, how and why?

- There is massive over-supply of music. With something like (very approx.) 60,000 tracks a day added to Spotify, and 50,000 of these that will streamed less than 1000 times each. There is very little competition amongst music companies to partner with these music creators, although many many not be interested in partnering with a music company.
- Music creators with some level of success in procuring views, streams and followers on social media and streaming services sharply increases the amount competition amongst music companies to partner with a music creator.
- A music creator doesn't need any followers or previous streams to create an account with TuneCore or CD Baby and start distributing their music and start accruing followers and streams, and thereby creating competition for their services.

9. To what extent can music streaming services seek better terms from recorded music companies?
a. What are the key factors determining the bargaining power of music streaming services in negotiations with recorded music companies?
- The size of the largest blocks of the recorded music market (e.g major labels)
- The size of the companies that own the music services e.g Amazon leverages its position as largest player in the physical music market to reduce its flexibility in negotiations generally for physical music and digital music services
- The size of Spotify and Apple Music as largest source of streaming income

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b. What impact, if any, do recorded music companies' links with music publishers have on these negotiations?

It appears that because the large music companies have large music publishing arms means that there is more balance in the negotiations as regards what the music services pay composer rights holders and what they pay record rights holders.

10.What scope is there for smaller recorded music companies (including DIY platforms) or music streaming services to compete with the major music groups?
- smaller recorded music companies can compete on the basis of having good roster of artists the music creator identifies with
- smaller recorded music companies can compete by identifying talented music creators before

majors
- smaller recorded music companies can compete by offering music creators a more personalised and diligent service
- using collective negotiation e.g. via MERLIN smaller recorded music companies can get similar percentage rates from music services

11. What barriers, if any, are there to:
a. entry and/or expansion in services offered by recorded music companies; and

There are no absolute barriers to entry and/or expansion in services offered by recorded music companies.

There are marginal barriers in the form of:
- the cost of time spent running good, diligence, creative campaigns
- supplying artist advances, recording and marketing budgets, campaign costs including manufacturing costs

But it is quite possible to start with tiny budgets and increase them as/when music gains some success.

b. innovation in relation to these services?

Again there are no absolute barriers, only the marginal cost in terms of time, energy, investment

12. What, if any, issues are there that limit competition between music companies, either in the supply of services to music creators or in the supply of music to music streaming services (see paragraph 95 and 100 above for examples of the types of possible issues the CMA intends to explore)?

13. How can competition between music companies be strengthened in the supply of services to music creators and/or in the supply of music to music streaming services?

- Offering government grants or loans to smaller and/or new music companies
- Offering tax incentives for investment in smaller and/or new music companies

Competition in music streaming services

14.How do music streaming services compete with each other for consumers?

15.How well is competition in the supply of music streaming services working at present?

16. How, if at all, is competition in the supply of music streaming services likely to change in the future?

17.How do consumers make decisions about which music streaming services to use? What barriers are there, if any, to consumers switching between services?

18.How do consumers use music streaming services and to what extent is their usage influenced by playlists or recommendations?

19.What barriers, if any, are there to:
a. entry and/or expansion in music streaming services; and
b. innovation in music streaming services?

20.What, if any, competition or consumer issues are there in the supply of music streaming (see paragraphs 98, 100(c) and 103 above for examples of the types of possible issues the CMA intends to explore)?

21.How can competition in music streaming services be strengthened?

22. How can better outcomes for consumers be achieved in music streaming?

Agreements and inter-relationships between music companies and music streaming services

23. What impact, if any, do equity cross holdings and agreements between music companies and music streaming services have on:
a. competition between music companies; and
b. competition and innovation in music streaming services?

24.What impact, if any, is there on competition in the music streaming value chain from any softer forms of influence or control that music companies and music streaming services may have over each other (for example related to back catalogue rights or playlists/recommendations)?