REBALANCING THE SONG ECONOMY

MIDiA

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Björn Ulvaeus

Björn is a Swedish songwriter, musician, singer, guitarist, producer and a member of the Swedish musical group ABBA.

Björn's songs, co-written with his ABBA partner and close friend Benny Andersson, became some of the most famous hits of all time, selling more than 400 million records all over the world. Björn was co-composer of the musicals Chess, Kristina från Duvemåla, and Mamma Mia!, and he co-produced the films Mamma Mia! and Mamma Mia! Here We Go Again with Benny Andersson.

Björn has also been a longstanding tireless advocate for authors' rights. Together with Max Martin, he launched 'Music Rights Awareness' to help creators around the globe better understand their rights. Björn also operates many successful businesses.

MIDiA Research

MIDiA Research is a market intelligence and consulting firm with longstanding expertise in the business of entertainment and digital media.

We are the definitive source for music and content business analysis, research and data within the global music industry. Our client base encompasses the major record labels, large independent labels, music publishers, performing rights organisations (PROs), leading streaming services, niche streaming services, hardware companies, the tech majors, distribution companies, artist services companies, artist management and more.

We help businesses formulate commercially actionable strategy to navigate the evolving digital landscape, providing unparalleled insights into trends and innovations shaping the entertainment market and audience behaviours.

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Foreword – About a song

I would like to tell you a story about a song. Though it is more than forty years ago now, I actually remember writing the lyrics and that is unusual for me. The reason for this might be that for the first time in my life I was writing within a framework. One I had set for myself together with Benny Andersson. We were going to make our first attempt at writing a musical. Only a mini-musical, but nevertheless, letting a simple story drive both music and lyrics. It was an experiment and we wanted to try it out on audiences in Japan, Australia, North America and Europe during our last tour with ABBA. Agnetha and Frida were both going to play the main character – the girl with the golden hair.

I was lying on my stomach on a bed in a small guest room with a writing pad in front of me. In the master bedroom next door my then-wife, Agnetha was sleeping undisturbed. The music was playing in my head, so no need for headphones or speakers. This particular song was to be the first of four in the musical. It was the moment when the otherwise unremarkable girl realises that everyone listens when she starts to sing. She is suddenly seen and her life changes.

A melody that still lacks words is virgin territory upon which a lyricist must tread lightly. Some of the time the final words on the page are the result of deep thought, hard work and the intuition that a songwriter must learn to trust. But sometimes extraordinary things happen. Closed curtains are suddenly drawn and the melody speaks to you and starts to conjure up images, even sequences of events, and all you have to do is write down what you've witnessed.

A song can come to its creator in bits and pieces, but when it once in a while appears out of thin air in its entirety, it seems to suggest it had already lingered there, for God knows how long. Impatiently waiting to be plucked down by someone with a keen and sensitive ear. As if it needed the right vessel to flow through, from the realm of ideas all the way down to earth.

I was deliriously happy when the girl with the golden hair appeared before me and proudly told me who she was. My gratitude was boundless. Yes, at that moment I was grateful for music itself, for the sheer existence of this elusive, undefinable phenomenon that bypasses our minds and goes straight to our hearts.

Who do you thank when the benefactor is unknown? Does it matter? I didn't think so, I just wanted to blurt it out to anyone out there, who could hear me: "Thank you, whoever you are, for giving this to me!" But it was two o'clock in the morning and even in my euphoria, I had the good sense not to wake the woman who was to sing my words the next day.

Very often people come up to me with eager expressions on their faces, expressions that I've learned to recognise. The way you approach someone when you have important news that can't wait or when you feel an irresistible urge to share something. I sense that they hesitated at first, but finally made up their minds. So, when they say what I knew they would say, it's a genuine and courageous thing for them to do. Knowing that, feeling that, I can't help being moved every time. Even if they refer to ABBA specifically, it's almost as if the universal gratitude that I tried to express in a lyric that night long ago is confirmed by this act of generosity.

And yes, she did sing it the next day. Agnetha is a small-town girl and if she hadn't had exactly the same experiences as the girl with the golden hair, hers were close and she gave the role a genuine voice. She and Frida were so good at that. To immerse themselves in a character and sing with the instinct of actresses. The exuberant joy I had felt the night before was even surpassed in the choruses of the recorded song. Maybe because it encompasses the joy of making music, pure and simple, and to sing it out loud.

I am a keen kayak paddler and I've often rested all alone on tiny islets in the outer archipelago of Stockholm, listening to waves, wind and seagulls and thinking: one day someone will hear music in these sounds and then hopefully reveal it to the rest of us. And when we hear that new song, we will want to give the songwriter space and time to listen in the wind for more where that came from. I hope so.

Oh, and the song I've been telling you about is of course:

Thank you for the music, the songs I'm singing

Thanks for all the joy they're bringing

Who can live without it? I ask in all honesty

What would life be?

Without a song or a dance, what are we?

So I say thank you for the music

For giving it to me

Thank you for the Music

For giving it to me

Björn Ulvaeus

Introduction — Rebalancing the song economy

After half a decade of streaming-driven growth the global music business hit a speed bump in the shape of the COVID-19 pandemic. Live music stopped in an instant, radio boomed then dipped and physical sales plummeted as stores closed. The music business will recover, but this enforced slowdown has had an important, unintended consequence: artists and songwriters have had to adjust to often dramatic falls in income – a light has been shone on music royalties.

While debates and controversies around music royalties far pre-dated COVID-19, the effects of the pandemic focused the minds of creators on a new scale and intensity. The most visible evidence of this is the #brokenrecord debate surrounding streaming royalties (as well as a DCMS-led public inquiry into streaming in the UK) but the emerging creator dialogue goes further and wider. COVID-19 catalysed concerns about imbalances in the system, concerns that previously did not always get widespread attention as the music industry's growth wheels spun fast and a key objective for many artists was to sell tickets to live shows. The enforced slowdown created the space for reflection and perspective, but at the same time the well dried up for live touring income.

COVID-19 has been a tragic and painful experience for many and at the time of writing still has not neared its end. However, one small positive that may emerge is that it can act as a chapter marker in the evolution of the 21st century music business. The first decade of the millennium was defined by disruption and decline, the second by innovation, growth and rapid change. As with any transition, this rapid shift has been characterised as much by legacy models trying to adapt as it has by the emergence of entirely new ones. In the rush to win back consumer engagement and spending, some fundamental industry growing pains have not been given the attention they needed. The result has been minor cracks developing into major fault lines.

Perhaps the most important of these is the plight of the songwriter in the streaming era. Whereas performing artists have, until COVID-19, been able to build diversified careers with streaming acting as fuel for the live engine, songwriters have in contrast seen their income horizon narrow. But in the interconnected, interdependent global music business, the outlook for songwriters directly affects performing artists and by extension all rights holders. The royalty equation needs rebalancing, but in a way that is sustainable for the entire music streaming ecosystem. The songwriter's plight is the music business' plight.

(Introduction cont'd)

In this report we provide an evidence-based view of how the songwriter fits into today's music business culturally, creatively and commercially. We look at what works well, what does not, and why. We then take this analysis to propose a series of potential solutions that could rebalance the songwriter equation. While these solutions may not be easy, they are necessary. We have tried to build a vision that is bold but also pragmatic, one that understands that fixing one part of the value chain only to break another is unlikely to work. The way forward must consider the music business in the round and be sensitive to the competing needs of all its constituents. We hope that these industry constituents will take a similar view of helping rebalance the music economy.

Key insights

- Global music industry revenues (recordings, publishing, live, merchandise, sponsorship) fell by 30% in 2020 due to the combined impact of COVID-19 and a recession
- Prior to COVID-19, streaming had a symbiotic relationship with live, growing audiences and live revenue for artists. The cessation of live revenue focused artists' attention on streaming royalties – something songwriters have been scrutinising for years
- There is a streaming paradox for songwriters: streaming has created a song economy, making the song more important than ever, yet music publisher royalties are more than three times smaller than record label royalties
- Streaming will bring further strong industry growth, reaching 697 million subscribers and $456 billion in retail revenues, but the royalty imbalance means that label streaming revenue will grow by 3.3 times more than publisher streaming revenue
- The dynamics of the streaming ecosystem are problematic, with the vast turnover in new music making it harder for artists to establish long-term careers. The near-term tactics needed for streaming success are not always compatible with long-term career viability
- Streaming is currently listener-first, at the expense of all else. A better balance needs to be struck between audiences, artists and the song
- The current royalty system assumes all songs are worth the same – they are not – and rewards poor behaviour that dilutes artist and songwriter royalties

- Music subscribers believe in the value of the song: twice as many (60%) state that the song matters more than the artist, than think the artist matters more (29%)
- They also believe that songwriters should be remunerated properly: 71% of music subscribers consider it important that streaming services pay songwriters fairly
- The song economy requires an interconnected set of solutions across three areas: songwriter remuneration and share, streaming pricing and culture and consumption, with rights holders and streaming services working together
- Streaming royalties will better serve creators if they recognise that different types of behaviour (e.g. lean forward, lean back listening) represent different royalty values and that not all songs are worth the same
- Fan-centric licensing is a simple concept that may be complex to implement but will bring a crucial foundation of fairness into the song economy
- Streaming pricing needs a rethink, including ensuring price increases benefit creators, a reduction in the discounting of subscriptions and even metered access to music catalogues, to protect against the current situation of royalty deflation
- Songwriter careers need to be reshaped, with an opportunity for labels and publishers to work more closely together, including secondments for young songwriters into artist projects, providing predictable income and accelerating their development

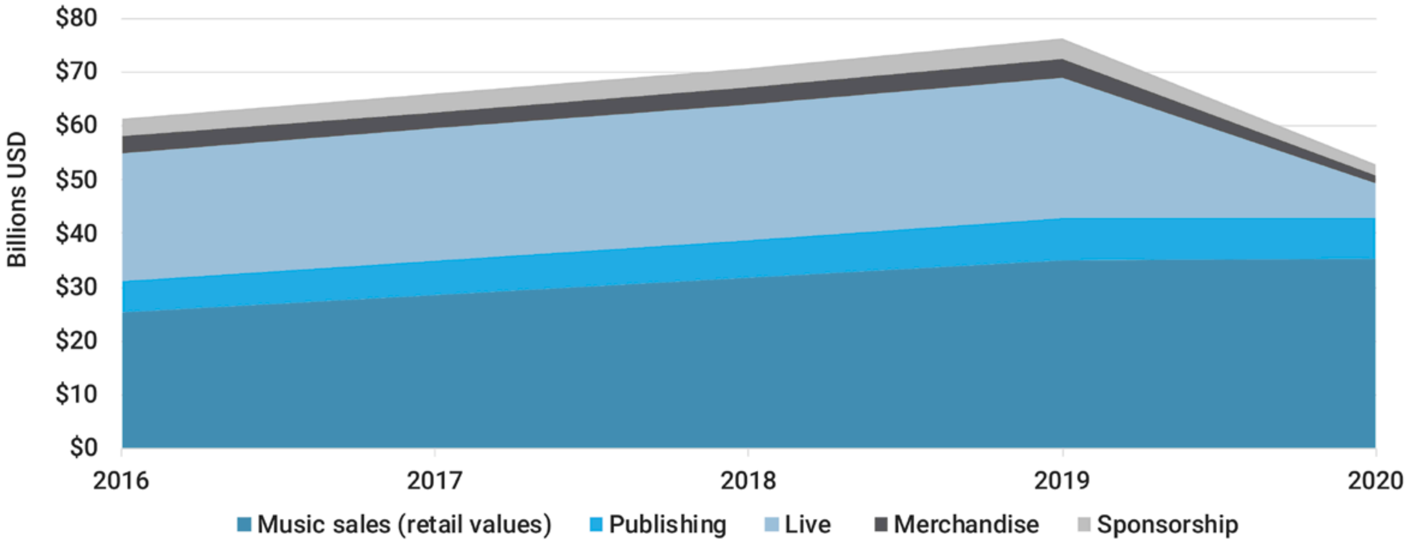
Part 1 | Where we are now

COVID-19 impact and recovery economics

Due to COVID-19's unprecedented impact on the music business and wider economy, no songwriter discussion can take place without first considering the near and long-term impacts of the pandemic and its adjacent global recession.

Figure 1: COVID-19 brought an unwanted interruption to a sustained period of growth right across the global music industry

Global music industry revenue 2016–2020 (recorded music (retail values), music publishing, live, merchandise, sponsorship)



Source: MIDiA Research Global Music Industry Model 06/20

Figure 1

Prior to the pandemic, the global music business was enjoying an extended period of growth across all of its key sectors – live, recordings, publishing, merchandise, sponsorship. Once the recorded music sector returned to growth in 2016, the total market started to truly lift, adding an average of $4.5 billion each year from 2016 to 2019. Then came COVID-19.

The likely outlook for 2020 total music industry revenues is a 30% decline, with live accounting for the majority of the drop, itself falling by 75% and not returning to full revenue capacity until 2022 at the earliest, depending on how long social distancing measures remain in place and how quickly consumer confidence returns.

Live income gave streaming a raison d'être

The live collapse had a double effect for creator income. First there was the immediate halt of touring income for performing artists and then subsequently, reduced generation of performance royalties for songwriters. The second effect was more subtle and arguably, further reaching, because it got to the beating heart of today's interconnected music industry: streaming. Pre-pandemic, most established artists would earn the majority of their income from performing, so when live music was put into immediate hiatus the world was always going to look very different for artists. With streaming suddenly becoming the primary income source for many, artists started regarding their royalty payments with a lot more scrutiny.

Pre-pandemic, streaming and live music had a mutually beneficial relationship. Streaming opened up artists to bigger fan bases than had been possible in the sales era, and consequently more people became fans - buying tickets and merchandise. Streaming was both income stream and marketing channel combined. But as soon as the 'end destination' part of the industry value chain collapsed, everything before it looked much more squeezed – in particular streaming income. Very quickly, a groundswell of artists started to question whether they were getting paid enough by streaming, joining a smaller community of artists that had been arguing this point long before COVID-19. Artists began to get a stronger taste of the medicine all too familiar to songwriters.

Songwriters do not have artists' diversity of income

Professional songwriters (i.e. not those that are also performing artists) may have many income streams (performance, sync, mechanicals and streaming) but these all stem from the song. The songwriter operates in a song economy, whereas the artist operates in a performance economy, where income is diversified across recordings, merchandise, brands and live shows. Songwriters do not tour or sell t-shirts. As a consequence, they had already been paying far closer attention to streaming royalties than most artists had. Artists may be fighting to keep their careers going until live touring recovers from the pandemic, but for songwriters that fight goes on. This is not to in any way diminish the importance of artists getting a fair share from streaming services and record labels, but it is to say that much of their pain will ease when their other income streams come back online.

To add to the songwriter's plight, the pandemic may well impact them even more heavily than artists. Not only do they face the precipitous drop in performance royalties from live music, but they will also have to cope with reduced public performance royalties from the shops, bars and restaurants that closed due to lockdown measures. And because of the payment cycles on public performance royalties, songwriters will continue to feel the impact of these falls through 2021 and well into 2022. All this is on top of lower mechanical royalties from falling physical sales and sync revenue, and on top of lower performance royalties from radio, which is entering a long-term decline.

The songwriter's paradox

There is a well-used saying that 'everything starts with the song'. It doesn't. Everything starts with the songwriter. They are the foundations of the entire music industry. Songwriters have been crucial to the recorded music business since its inception, with the original greats like Frank Sinatra and Elvis Presley routinely performing songs written by others. These days, Songwriters are more central to the music business than ever, for a number of reasons:

- **Big record labels have weaponised songwriting:** Record labels are releasing more music more quickly in order to keep up with the vast turnover of music on streaming. Ironically, this velocity and volume strategy exacerbates the problem. In order to try to minimise risks, bigger record labels are turning to an ever more elite group of songwriters to create hits. The more top-class songwriters, so the logic goes, the greater the chance of a hit.
- **The emergence of the song economy:** The twilight era of the album as the dominant consumption format began with the emergence of P2P file sharing in the late 1990s. The audience's shift of focus from albums to songs began and was driven further by Apple's iTunes Store and then, by the Spotify-led streaming revolution. Albums are still being listened to, but the dominant currency in streaming is individual songs, feeding the ever-expanding number of playlists. In the past, an artist's success would depend upon a blend of the album and singles. Now though, it's the song that matters above all else.
- **Writing and production are fusing:** As music production technologies have become more central to both the songwriting process and to the formation of the final recorded work, there has been a growing fusion of the role of production with writing. This has led to a growing body of superstar writer-producers.

This is extending to a broader community of songwriters with the proliferation of affordable music production software and hardware. Not only are a growing number of songwriters getting production credits in the studio, but the demo recordings they are pitching to labels often have their signature production already intact.

So, if the music industry has been enjoying growth up to now, and everything starts with the songwriter, just why is the outlook for songwriter income so gloomy? This is the songwriter's paradox The answer is complex, but a few interconnected reasons stand out above others:

- The industrialisation of songwriting: The rise of songwriting camps and the growing reliance on specialised songwriters represents an industrialisation of songwriting, with record labels driving the trend. As the buy side of the song equation, record labels are reshaping songwriting by pulling together teams of songwriters to create 'machine tooled' hits – finely crafted songs that are 'optimised for streaming'. While the upside for songwriters is more work, the downside is sharing an already-small streaming royalties pot with a larger team of creators and co-writers.
- Decline of traditional formats: Songwriters have long relied upon performance royalties from broadcast TV and radio. However, as the audiences on these platforms migrate towards on-demand alternatives, performance royalties face a long-term decline. Similarly, the continued fall in sales means fewer mechanical royalties for songwriters. Of course, artists live and operate in the same world, but TV and radio have long been a much smaller part of artist income, so this decline affects them far less. Even more importantly, where radio audiences are going – i.e. streaming, the traditional royalty balance is inverted to the radio model, with recordings accounting for the majority of royalties and publishing the minority.
- Streaming royalties: The song is the first in line culturally but it is last in line for streaming royalties. Of total royalties paid by streaming services to rights holders, between a fifth and a quarter is paid for publishing rights to the song. Labels are paid more than three times higher than publishers on streaming. An independent label artist could earn more than three thousand dollars for a million subscriber streams, whereas a songwriter could expect to earn between $1,200 and $1,400, and even then, only if they are the sole songwriter on the track. On average, songwriters will therefore earn between a third and a half of what artists do.

This royalty imbalance means that however fast streaming grows, it is growing more for labels than it is for publishers. If artists are worried about their streaming royalties, imagine how songwriters feel. There is no silver bullet solution for improving the outlook for songwriters. Instead, this is about songwriter-focused solutions that will ripple outwards throughout the entire business. The streaming sector's focus on velocity not only makes it harder for artists to build upon initial success – it also means that royalties are shared between an ever-larger pool of artists and songwriters. So, while a streaming service will be able to point to consistently large shares of revenue paid to rights holders and a growing overall pot due to revenue growth, fewer creators have the repeat success necessary to ensure that they see anything other than small crumbs from the streaming cake.

Label dynamics

Streaming economics are distorting both the business and culture of music. Labels are releasing more music, more quickly, relying more heavily than ever on armies of songwriters to write 'genetically modified' pop songs that will cut through the clutter. In order to become 'streaming optimised', songs are getting shorter, more concise and more formulaic.

Figure 2: Two decades of hits: it takes more producers and more songwriters now than 20 years ago to make a hit

Key metrics of the US Billboard Top 10 hits, July 2000 and July 2020

Songwriter and producer metrics for the Billboard Top 10 tracks, July 2000 and July 2020

	2000	2020	Change
Average number of songwriters	2.4	4.0	67%
Average age of songwriters	26.7	31.1	17%
Average number of producers	1.5	1.8	20%
% that performing artists are songwriters	70%	100%	43%

Source: MIDiA Research / Billboard

Figure 2

Recorded music has always evolved to fit the dominant format of the era, from three-minute songs to fit on seven-inch vinyl, through eight-song albums to fit on LPs, through to 16+ song albums to fill CDs. Format-driven change is nothing new. However, streaming's impact on the making of music itself is arguably more revolutionary than that of previous formats. To illustrate just how significant this change is, we have taken a snapshot of the Billboard Top 10, now and 20 years ago.

While this is a snapshot in time, rather than a comprehensive data analysis – it provides some clear illustration of how the DNA of a top hit has changed over the course of 20 years. Hits are shorter, with shorter introductions, more featured artists and, crucially, more songwriters. The average number of songwriters per top-10 hit increased from 2.4 in July 2000 to 4 in July 2020.

Streaming dynamics favour labels first, creators second

Streaming dynamics impact record labels just as much as they do songwriters. Labels welcomed the rise of streaming after fifteen years of revenue decline, but they are now dependent on it for both revenue and discovery. With so many of the inherent advantages that could be bought in the old model (e.g. radio plugging, TV appearances, in-store displays) now losing relevance, labels compete in a more equitable marketplace. However, in that marketplace competition is fiercer than it has ever been. Labels have become enthralled by the streaming machine, chasing audience behaviour and trying to squeeze every advantage they can find out of streaming algorithms while very much beholden to them. By trying to play by the new rules they are in fact feeding the machine, ceding further control of their own destinies. The recent testimonies of record company CEOs in the UK streaming public inquiry illustrated just how much the labels resent conforming to the algorithm, but have fewer choices to influence music consumption in other ways.

Chasing streams shortens artist careers

The more that streaming pushes away from artist and album-centric experiences to song and playlist-based consumption, the more that rights holders and creators lose their grip on other cultural pillars that have built and sustained artist careers for decades – albums, physical products and mainstream media coverage. Of course, it is important not to take a reductive view of change as being bad. This is the next phase of the music business and a whole new generation of creators and rights holders are learning new, digital-first approaches. In many ways, this has put the music industry way ahead of other commercial sectors.

However, so much of the industry's growth is by following a path plotted by technology companies. A more inclusive and collaborative approach is required. Record labels must reconsider their entire approach to artist investment. In the current set of dynamics described above, fewer songwriters (and performers) will be around long enough to develop their songwriting skills, and will be more reliant on professional songwriters. While there is upside for professional songwriters, the resulting economics do not add up. Labels need the streaming equation to be rebalanced as much as songwriters do, so that they can invest in the long-term development of artists.

Streaming economics are a scale game

Streaming is well proven as the music industry's next growth driver and has brought undoubted benefits, not least opening up new audiences in both established markets and emerging ones. By 2027 there will be 697 million subscribers, up from 362 million in 2019. Crucially, nearly half of these (339 million) will be in emerging markets. However, Western artists and songwriters will need to temper their excitement as local (i.e. non-Western) repertoire will be key in growing these markets; China and India (both markets where domestic and regional repertoire are central) will alone account for 44% of these emerging market subscribers.

Against this, developed Western streaming markets will account for 76% of the $45.5 billion of streaming revenue (retail values) in 2027 due to much higher average revenue per user (ARPU). So even with the caveats, streaming will become an even bigger component of the music industry mix, making up 78% of record label revenues by 2027 (up from 57% in 2019) and 52% of music publisher revenues (up from 30% in 2019). Streaming is not only established; it has a lot of growth left in it despite slowing growth rates in developed markets.

However, simply extrapolating the current business model into the future, the royalty imbalance between masters and publishing means that label streaming revenue will grow by 3.3 times more than publisher streaming revenue ($10.5 billion compared to $3.2 billion).

Revenue and user growth are great for rights holders, less so for creators

The contradiction for artists and songwriters is that, for most of them, the revenue and user growth does not and will not feel the same for them as it does their labels and publishers. Music publishers and record labels have large rosters of talent which means that high-percentage growth rates translate into large volumes of revenue. However, most artists and songwriters only have small catalogues, so strong growth from a small base of revenue often translates into still modest revenue. To benefit from scale economics, you need to have scale.

Figure 3: Streaming growth needs to be measured in actual income growth for artists and songwriters, not percentage growth rates

Illustrations of how streaming growth affects different value chain constituents. All figures are in USD and are monthly.

Assumptions
Label and publisher each have 500,000 songs streamed an average of 1,000 times each
Artist and songwriter each have 100 songs streamed an average of 1,000 times each
Label and artist both grow at the global market rates for label trade streaming revenue
Publisher and songwriter both grow at the global market rates for music publisher streaming revenue

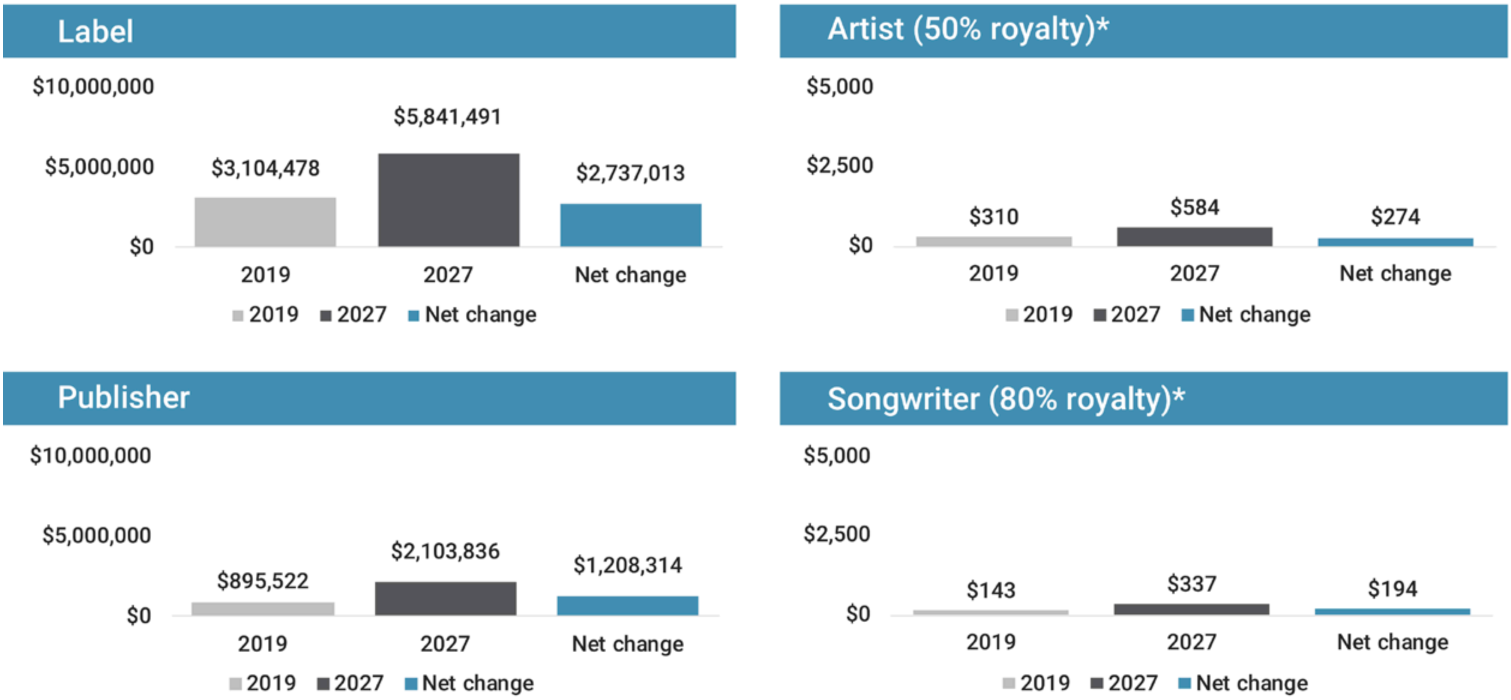


*Chart axis scale increased for artists and songwriters to make the data large enough to visualise

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Figure 3

In order to demonstrate the different effect growth has on rights holders versus songwriters, we created an illustrative model. In this model the label and publisher each have 500,000 songs, while the artist and songwriter each have 100 songs. Each song is streamed 1,000 times a month. Applying global industry growth rates to all four segments, artists grow at the same percentage rate but while the label and publisher measure their growth in millions of dollars the artist and songwriter measure theirs in hundreds of dollars.

This is the simple arithmetic of scale for a system that monetises fractions of pennies. If you are a small artist or songwriter now, unless you massively increase the 'market share' of your popularity, then hundreds of millions of new subscribers and billions of dollars of new revenue are not going to transform your modest income into a meaningful one.

Put simply, there are three ways to experience dramatic growth in streaming income:

1. Grow market share (in terms of listeners, streams, revenue)
2. Grow the number of songs (owned within a catalogue)
3. Increased payments to rights holders and creators (primarily through increased streaming subscription prices)

In the absence of increasing payments, music providers must drive factors 1 and 2 above as hard as possible. Even so, transforming hundreds of dollars of monthly streaming income to tens of thousands (or more) requires exponential growth. While streaming has opened up access to a vast audience pool, extracting meaningful revenues requires stellar success: hundreds of thousands of streams.

The result is a two-tier superstar economy, with the megahits at the top and below them a growing body of middle class and niche artists that often have large-scale audiences but only modest-scale income. This model worked fine for artists when those streaming audiences were converting into live audiences. With live revenue supressed for the coming years, that interdependent model no longer adds up for artists. For songwriters, it never really added up in the first place.

Music has developed an attention dependency

Because music attention spans are shortening, no sooner has the listener's attention been grabbed than it is lost again due to the next new track. In the song economy's volume and velocity game, the streaming platform is a hungry beast that is perpetually hungry. Each new song is just another bit of calorific input to sate its appetite.

Music subscriptions accentuate the worst parts of the attention economy. Perhaps most importantly of all though, music subscriptions are the worst possible ecosystem in which to monetise the song economy. In online media, more clicks mean more ads, which means more ad revenue. In music subscriptions it is a fight to the death for a slice of a finite royalty pot. A royalty pot that is also impacted by slowing streaming growth and declining ARPU. The music industry has developed an attention dependency in the least healthy environment possible.

This is not one of those market dynamics that will eventually find a natural course correction. Instead, the music industry has to decide it wants to break its attention dependency and start doing things differently. Until then, consumption and content will continue to push culture to the sidelines.

Royalty mechanisms are buckling

To compound all of the other challenges in the song economy, the mechanisms for ensuring songwriters are paid accurately and on time are not yet where they need to be to keep up with the rapid acceleration of the streaming marketplace. Where this is felt most is the Collective Management Organisations (CMOs) sector. These entities trace their origins back to the late 18th century, with most operating since the first half of the 19th century. Since then they have established themselves as crucial partners for ensuring songwriters get paid when their music is played, especially in public performance.

More recently they have handled licensing, processing and administration of streaming. However, many CMOs have struggled with this transition, either because of outdated, non-cloud based technology systems, or complex licensing jurisdictions which mean global licenses are possible only via a complex network of intricate reciprocal agreements between country-level CMOS.

We are not going to address these global rights management structures in this report, but it must be noted that there are key consequences for songwriters of the weaknesses in the system. Songwriters are getting paid more slowly than they should, and they are not always receiving all of the royalties due to them. There have been some important steps forward, such as licensing hubs formed by some larger CMOs, digitally-focused global PROs such as AMRA, as well as a number of entities – both commercial and CMOs – creating technology solutions for smaller CMOs.

But more needs to be done. Bringing the global CMO community up to a certain technology capabilities standard is crucial as a chain is only as strong as its weakest link.

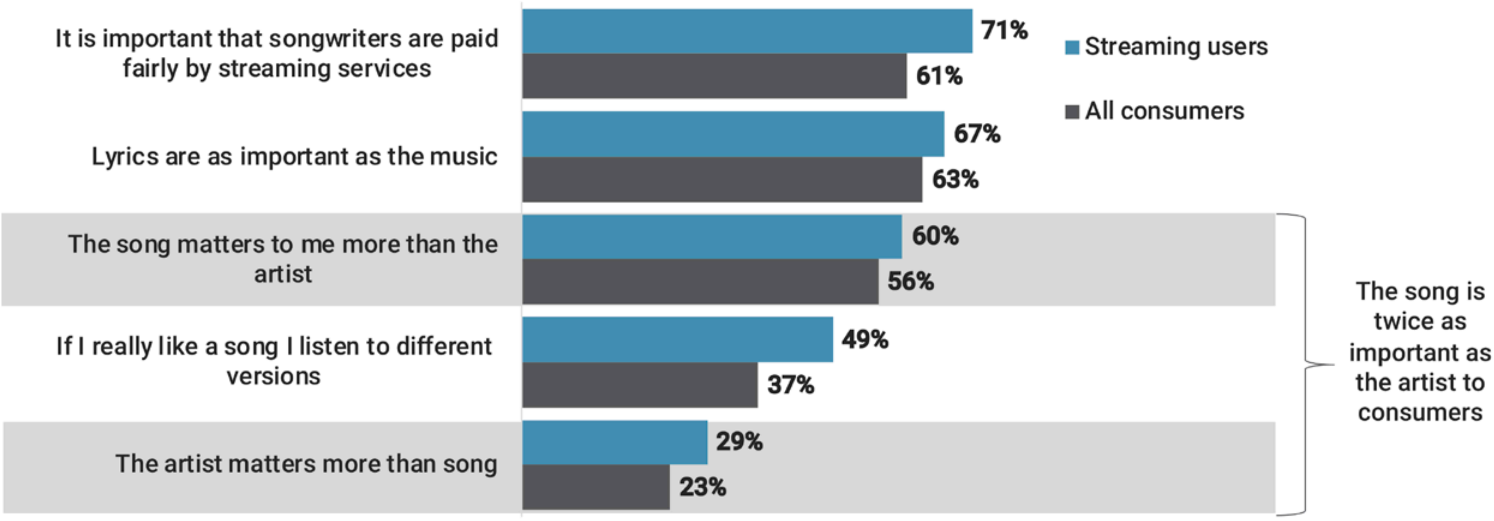
The song economy needs an overhaul

Streaming has become the fast food of music consumption: immediate satisfaction, low nutritional value and highly addictive. It is time to rethink the role of the song. It needs to be elevated and made the star of the consumption show. Streaming has transformed music from a discretionary spend item into a utility available to all. The benefits of exposure and global audiences are clear, but the unintended consequence has been to devalue the role of music by the very act of making it a utility:

- Streaming makes music sonic wallpaper: Music has become relegated to the role of a soundtrack to everyday tasks. Of course, music has always played this role to some degree – especially via radio, but this lean-back, in-the-background consumption is now shaping the part of the music economy that used to be proactive and lean forward. It is entirely understandable that consumers have ended up in this place, bewildered by the volume and velocity of new music.
- Discovery and consumption are merged: Matters are compounded by the fact that music discovery is fragmented and disjointed. Even among music subscribers, only four percentage points separate the top three ways in which they discover new music – streaming (52%), YouTube/Vevo (51%), and radio (47%). Of these only radio focuses on repeat plays to help audiences develop lasting relationships with songs and artists. Radio used to be the discovery channel and CDs and downloads the consumption channel. Now streaming blends the two into one, with user behaviour the differentiation (e.g. 'add to collection').
- Not all songs are the same: The structure of streaming royalties assumes that all songs are worth the same. They are not. While this may feel like dangerous territory to some, the result of this false construct is already more perilous than fixing it. The combination of progressively more listening happening in playlists with non-discriminatory royalty payments has resulted in a highly-gamed system. Lean-back playlists for studying, relaxing, mindfulness etc., have become populated with playlist filler, ranging from lower-quality, made-for-purposes tracks through to – at its extreme – storm sounds and white noise. We explore later on the concept of differentiation between 'lean-back' and 'lean-forward' listening and whether differentiated licensing approaches can be applied here.

Figure 4: The song comes first for music listeners and they want songwriters to be paid fairly

Consumer attitudes to the music they listen to, Q2 2020, US, UK, Canada, Australia, France, Germany



Source: MIDiA Research Consumer Survey Q2 2020, US, UK, Canada, Australia, France, Germany n = 6,000

Figure 4

Music streaming is a song economy and consumers know it. Twice as many music subscribers (60%) state that when listening to music they like, the song matters more than think the artist matters more (29%). Their relationship with the song also goes beyond simply listening to the recording of it: 67% say the lyrics are as important as the music and 49% will seek out other versions of songs they really like. While there is a whole other debate to be had about how music streaming consumption is pushing the artist to the margins, the takeaway is clear: for music listeners, it is all about the song.

What is more, 71% of music streaming users consider it important that streaming services pay songwriters fairly. Consumers have joined the dots between the emotional value of the song and its creator. Songwriters have spent recent years building awareness of their royalty agenda with policy makers, but this data indicates that the real opportunity for influencing streaming services' approach is by mobilising popular support. Consumers do not need educating why songwriters need to be paid more; the vast majority of them understand it as a basic principle.

Part 2 | Solutions

Streaming dynamics

Streaming represents a huge additional opportunity for the music business, but change is required. The current iteration of the song economy is creating challenges for all:

- Songwriters are not getting paid enough
- Artists are struggling to build sustainable careers, especially when shorn of live income
- Publishers and CMOs are benefiting proportionately less from streaming than labels
- Record labels are struggling to create marketing strategies that focus on albums or to play a stronger role in building artist careers
- Streaming services are finding themselves the subject of creator concern

In any digital transition, behaviours shift and business models play catch-up. We are in that catch-up phase. Simply because things operated in a more rough-and-ready way in the early phases of a transition does not mean that the change is not essential. Streaming represents, at the very least, the mid-term future for the music business. It is therefore crucial that it operates in a way that supports an ecosystem that is equally sustainable for creators, rights holders and streaming services. A system that favours one of those constituent parts at the expense of another will ultimately fail and be replaced by something else.

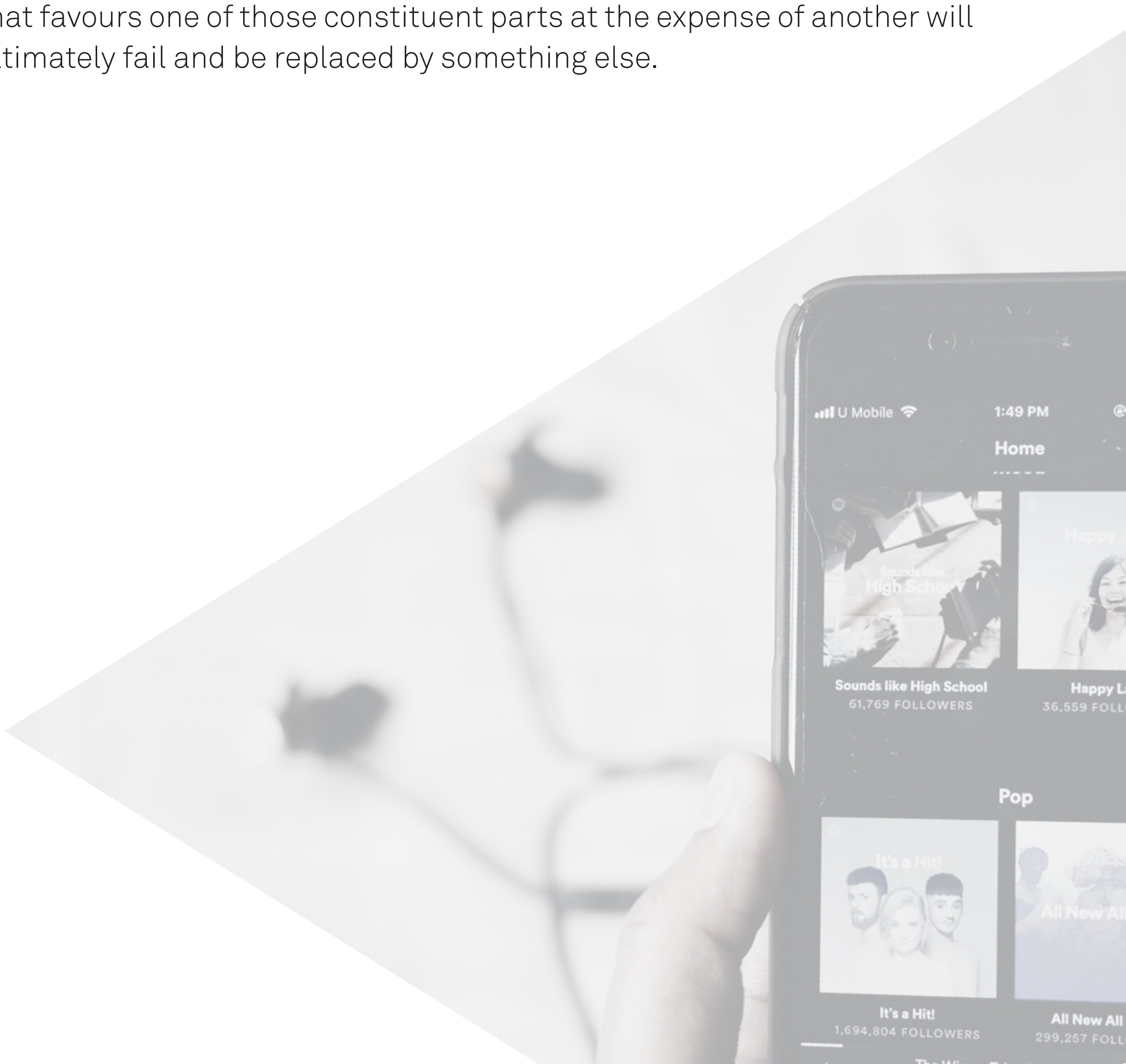


Figure 5: Due to the interconnected nature of the song economy a combination of strategies is necessary for meaningful change

Overview of three sets of solutions for the song economy

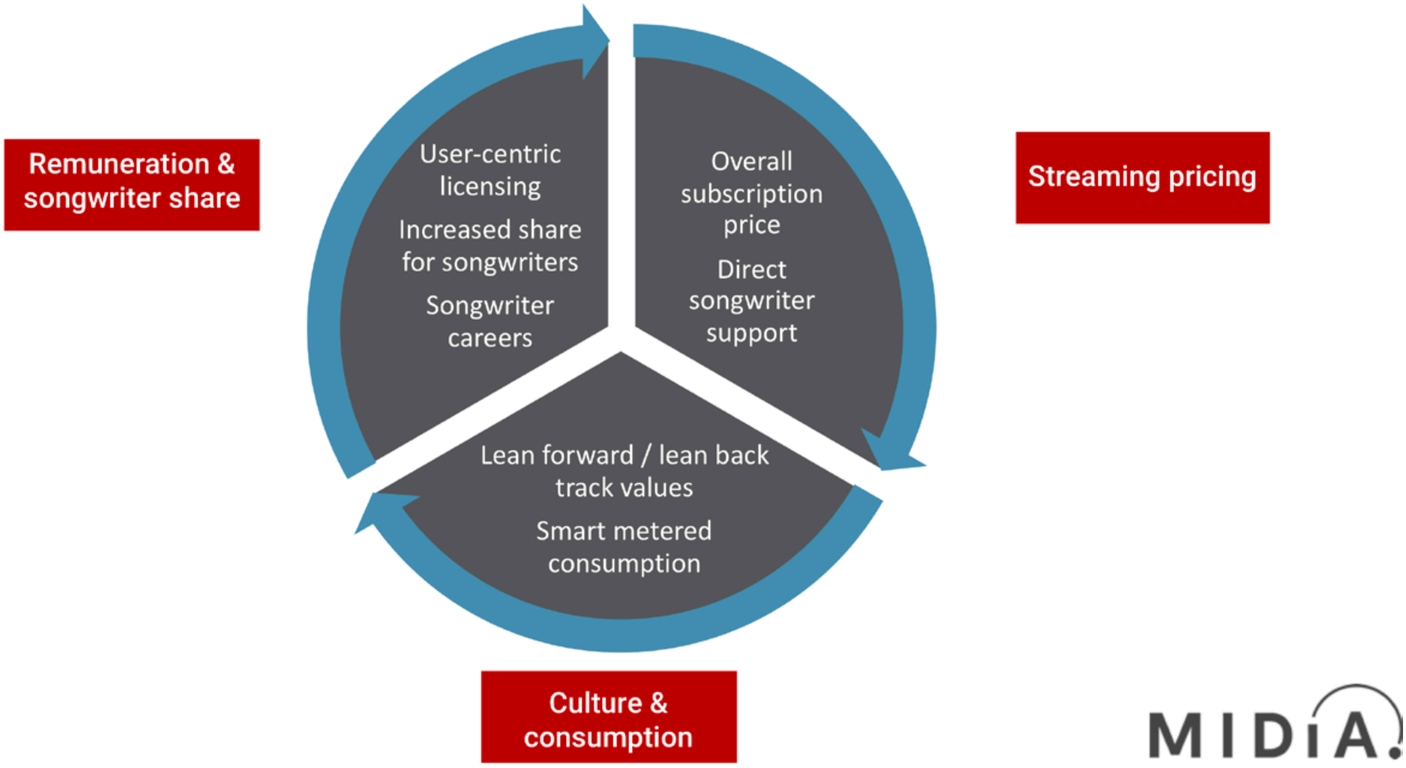


Figure 5

Solutions and alternatives do exist. Below, we have set out a framework for three strands of solutions: *culture and consumption*, *songwriter remuneration and share* and *streaming pricing*. In each area, we explore potential solutions as workable examples. The list is not exhaustive, and indeed we have been selective just to keep things simple. These are not industry recommendations as such but instead illustrations of how the industry can rethink the current status quo to create a marketplace that benefits all. While royalties and remuneration are a key part of this approach, we also discuss how the culture of music itself in streaming plays an integral role in both today's challenges and tomorrow's solutions.

1 - Culture and consumption

Streaming has become the fast food of music consumption but there is more to it than that: streaming has fundamentally changed music consumption. It has blended what was traditionally lean-back discovery (e.g. radio) with lean-forward consumption (e.g. downloads). Outside of streaming those two audience behaviours are treated very differently from a royalty perspective, but in streaming, there is no royalty differentiation between a 'lean-forward' and a 'lean-back' play.

From a royalties perspective, there is discretion between the equivalent of listening to the radio and the equivalent of buying an album.

There is an opportunity now for rights holders and streaming services to work together to address this problem. Solutions will likely need to explore how to apply a higher royalty payment for lean-forward plays and a lower one for lean-back plays. It needs to be done in such a way that the total royalties paid remain unchanged, but that is simply an issue of system design rather than an insurmountable hurdle. Such a system would need to have sensitivity and nuance to reflect the lifetime of a song. For example, new songs will need a time window to be exposed to audiences in lean-back environments before it falls into the new system.

An alternative approach would be to have two different categories of royalties recognising that not all songs are worth the same, even though streaming royalties currently treat them as all being equal. Songs that are predominately consumed as lean-back would have a different royalty than those that are predominately lean-forward. This could be achieved by dynamically measuring how many plays are from users' own collections, searched for, linked to etc. As with the other approach, newer songs would need to have a window in which they are exempted from this system.

We are not saying that either of these two models is the definitive answer, but instead illustrations of how new thinking needs to be applied to help rebalance the current system. Doing so will create benefits for all parties, helping foster an environment in which creators and rights holders are able to focus on creating a smaller amount of higher-quality music while streaming services will benefit from audiences developing more meaningful relationships with artists, elevating their perceptions of streaming services from increasingly bland utilities into meaningful destinations that deliver musical moments that move them, which, after all, is what music is all about.

There are many ways to advocate 'better listening', from incentivising music fans to save new music to their libraries (an engagement metric that triggers higher streaming numbers generally), to encouraging streaming services to continue to serve users with more context and content around the music – song stories, lyrics, artwork and sleeve notes etc., a tactic similar to how consumers are being encouraged to consume water and electricity via pay-as-you-go systems such as smart metering, to protect valuable environmental resources.

In simple terms, super users of streaming services who listen to a much higher count of songs each month would be bumped up to a higher-priced tier. While the subscription model has brought a compelling abundance for consumers, many would accept a more metered form of consumption if the outcome was a material increase in royalties to artists and songwriters.

2 - Remuneration models and songwriters' share

Fan-centric licensing models have been discussed and proposed by some corners of the music industry, most notably the streaming player Deezer. Under fan-centric, total revenue is paid as a share of tracks played by the user and revenue generated by that user (both subscribers and free users). This may mean removing minimum per-stream rates for ad-supported streaming, so that royalty payments are a fair reflection of the share of ad revenue generated by that user.

This will incentivise Spotify and other freemium services to invest in ad-supported (currently minimums mean that Spotify generates a negative gross margin, not even net margin, on advertising). The revenue risk for creators is small: ad revenue is only 10% of Spotify revenue but 56% of users. The tech majors (Alphabet, Amazon etc.) made $218 billion in ad revenue in 2019, whereas Spotify made $678 million. The potential is there waiting to be unlocked.

There is a key argument that fan-centric licensing is a fairer system – particularly if it can reduce the share of songwriter revenues that end up in the 'black box' of unpaid income. Meanwhile, songwriters simply need to earn a larger share of the current overall pool of revenues.

Without a doubt industry sentiment is changing, with the longer-term effects likely to favour songwriters and creators. However, direct levers on songwriters' share of revenues in streaming deals are still subject to a "fight on all fronts" by music publishers with both their label counterparts and their buyers (the streaming services). For example, in the USA the direction of the new Copyright Royalty Board (CRB) negotiations and publishers rates (to be reset from 2023) could still 'go either way', and the current rates (set from 2018 to 2023) are still under dispute after an appeal by Spotify, Amazon Music and Pandora.

While the technical (and legal) solutions lie with the CRB and the United States Department of Justice, the NMPA has recently called for songwriters to have the freedom to negotiate directly with streaming providers, so that rights can be negotiated at 'market rates' rather than variations on rates set long before the streaming era. Within the current legal and technical frameworks, the solutions to increasing songwriters' shares remain extremely difficult. Meanwhile, songwriters are trying to shift how they work – attempting to gain production credits on masters and trying to become long-term partners of artist projects. More could be done directly by major music company boards to lead the charge for internal, organic change – creating a joint strategy across their label and publishing divisions to facilitate better deals for songwriters. This could be a permanent salary to work alongside label artists, production credits on master recordings, or a share of ancillary revenue streams such as merchandise. At the very least it would mean the reduction in the widespread use of highly-organised songwriting camps.

FAN-CENTRIC LICENSING

Fan-centric licensing (FCL) is a relatively old idea but it has been gaining steady momentum. Deezer has taken a lead, launching a trial in France, and other major streaming services are actively exploring the concept. In today's #brokenrecord environment FCL has acquired a new relevance.

Though there are various different ways in which FCL can be interpreted, the essence is to move from a centralised royalty pot to individual subscriber royalty pots:

- Music subscription royalties are paid by assigning a portion of subscriber revenue to a central royalty pot, dividing the resulting amount by the total number of streams to create a per-stream rate and then paying all streams on an 'airplay' basis
- FCL instead takes the spend of an individual subscriber and pays royalties based on the songs the user listens to

The concept of FCL is to ensure that artists get paid in relation to the proportion of their audiences' listening they account for. If 40% of a subscriber's listening is with one artist then that artist gets 40% of that subscriber's royalty pot. If all things were equal in streaming (i.e. all subscribers generate the same royalties and the same number of streams) then FCL would not be required as the same royalties would be paid with both models. But all things are not equal. The average number of streams varies markedly according to the kind of person listening, and there are many ways in which subscribers can be paying less than the headline $9.99 price (e.g. student plans, family plans, duo plans, paid trials, telco bundles). The unintended consequence of this complexity is that the artist that gains 40% of a subscriber's listening can end up with a lot less than 40% of the subscriber's royalty pot.

FAN-CENTRIC STREAMING ROYALTIES

Fan-centric licensing pays artists royalties based on how much of each streaming user's listening they accounted for. It is designed to ensure creators are fairly paid for their contribution to each user's listening.

CURRENT MODEL: THE 'ROYALTY POT'

User's spend combined with all others into a royalty pot

Royalties divided on total plays for all users and artists. Does not take account of individual user's listening

NEW MODEL: FAN CENTRIC

User's spend treated on individual case basis

Individual user's spend paid to artists based on how much they listened to them

FAN CENTRIC COMPARISON

User pays $9.99. Artist accounts for 10% of user's 300 streams

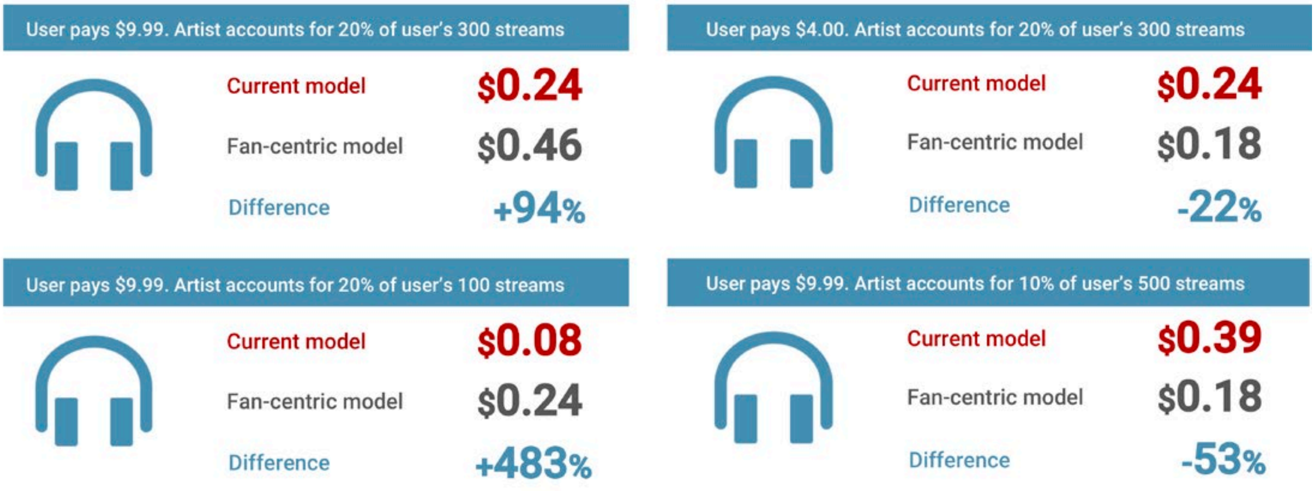
	Current model	Fan-centric model	Difference
Artist royalties	$ 0.24	$ 0.46	94%

MIDiA

Figure 6

Figure 7: Fan-centric licensing addresses the inconsistencies in streaming royalties but even its impact is not entirely even

Illustrative examples of impact of fan-centric licensing on different user scenarios



Source: MIDiA Research

Figure 7

FCL would not be easy to implement, requiring a whole new system for royalty tracking and payment, but Deezer has demonstrated that it is possible. FCL's strongest selling point is that it is a more equitable way to remunerate artists and songwriters, by creating closer ties between music fans and the artists they listen to. However, because FCL tackles the complex issue of a fragmented consumption and spending landscape, it is not immune to its own set of complexities and unintended consequences. How much an artist gets paid under a FCL framework will be determined by:

1. How much that subscriber spends
2. How many songs they listen to
3. How many artists they listen to

The first determines how big the royalty pot is, the second how it is divided up. The above chart illustrates how much things can vary just by changes in the first two items. FCL can result in a subscriber-level pay out difference ranging from 22% less than the current model through to 483% better. And all of this is without even considering what happens to these variances when they are rolled up to a market level rather than an individual subscriber level. In short, it is complicated, which helps explain why the numerous FCL studies that have been conducted often have different findings. However, the consensus among industry executives who have explored FCL is that there are few market-level changes but significant smaller shifts with certain types of artists and genres (particularly more niche ones) benefiting most.

There are other ways FCL could be implemented, such as allocating a share of the subscriber's royalty payments to the 10 artists they play most each month. This could either be done in isolation or as a multiplier for a standard FCL framework.

Whatever the complexities and potential unintended consequences around FCL, what is clear is that it is a more equitable and fairer way to remunerate creators. If you want fair, you should pursue it for its own right, not because it may benefit you better than others. That is the entire point of fair.

Royalties

The third and final component of royalties is how publishing-related royalties are paid in relation to label-related royalties. In very simplistic terms, and with lots of exceptions, roughly 80% of streaming royalties go to the master recording and 20% to the underlying composition. Labels getting paid much more than publishers is not a new thing and traditionally reflects the higher share of the risk that a label takes on by investing in the artist and spending on marketing to make that artist a success.

However, the world is changing. Publishers are now frequently paying large advances to songwriters and many are also beginning to invest in marketing (though still at a far lower level than labels). But the main reason the current structure should change is that labels need to make an investment in a crucial component of their success: songwriters.

As we have already identified, if songwriters are not able to build sustainable careers then there will be fewer of them. This will mean a shallower pool of songwriting talent for labels to tap into for their artists. The case is similar to that of a phone maker investing in a chip manufacturer in order to safeguard its supply chain. But for many labels, it is even more straightforward than that, because around two thirds of global music publishing revenue is accounted for by publishers whose parent companies also own record labels.

These are decisions that can be made in music company boardrooms, effectively allocating how much of their income will flow into their publishing divisions versus their labels. Of course, there are very real complexities, such as companies having very different market shares across their two-sector businesses. There is also the issue of profitability. Major record label artists might secure a 25% royalty share, but a major publisher songwriter could get up to 80%. Shifting a larger share of streaming revenue to publishing means more of it will go to creators and thus dent profit margins in the shorter term. However, even this dynamic is changing, with major labels increasingly signing artists on distribution-only deals where the artist royalty split can sometimes end up closer to 80%.

Royalty splits still need to reflect the investment labels make, so a 50/50 share is neither realistic nor equitable. There is scope for some middle ground, however. The major music groups have seen increased profits as streaming has grown. That extra margin should be re-invested in a more holistic approach in developing artists, perhaps one that encompasses songwriters' development too, since all major labels also have publishing companies within their corporate structures.

Songwriter careers

All of the above provide illustrations of how the streaming and royalty equations can be better balanced, but more is needed to ensure that songwriters can build sustainable careers in the streaming era. This has to happen because the song is the fuel in the engine of everything else – the music streaming economy, music and social platforms, music radio. We need to explore ways in which the rest of the industry can share the songwriter's risk by investing in what are, in practice, precious assets.

The songwriter in residence

An illustration of how this could work is what we call the 'songwriter in residence' model. The history of recorded music is littered with examples of long-standing songwriter partnerships that have borne creative fruit over the course of decades, whether they be co-songwriters within bands, or professional songwriters as long-term partners of performing artists. Much of the world's greatest music has been written in this way. The crucial factor is that the songwriters have years in which to hone their collective craft and to learn how to write with each other. In today's industrialised songwriting environment that is happening less. While there is no disputing that the songwriting camps often favoured by big rights holders can result in genuine creativity, it is a very different art from the long-standing artist partnership. Crucially, it is less likely to create a long-term musical identity for an artist and it does not help the artist build a songwriting style with a long-term collaborator.

Two problems can be fixed at once here: songwriter income and artist creativity. In the songwriter in residence model, a record label would identify artists early and at the development stage team them up with a songwriter from the label's publishing division. The songwriter would essentially become the 'fifth member' of the band, not just participating in songwriting, but also in all aspects of the band, from rehearsals through to going on tour.

Of course, in such a model, matching up the right personalities will be as important as the right creative fit as these people will be spending years together with all the ups and downs that go with this. For this sort of relationship to work, a songwriter is going to need steady income to pay for their time as well as an opportunity to benefit in the upside of success. With the songwriter becoming a fixed member of the artist project, the songwriter would earn a regular salary, in addition to sharing a slice of the 'upside', such as production credits for the master recordings and even a share of live and merch revenue.

3 - Streaming pricing

So far, we have spoken about how the royalty pie can be more equitably sliced for songwriters. What we have not discussed yet is how to make royalties themselves bigger, so that songwriters can end up with a bigger slice of a bigger pie. Allocation of royalties is largely about how labels, publishers and streaming services divide things up, but making the royalties as a whole grow is down to the consumer.

Streaming in its current phase is more than a decade old, yet subscriptions are priced the same as they were in 2008 despite consumer prices increasing over that time. Once inflation is factored in, the current $9.99 price point is worth 28% less in real terms in 2020 than it was in 2008. In fact, it is worse than that. The impact of promotional trials, multiple user plans, telco bundles and lower ARPU emerging markets means that the average monthly amount consumers pay is in fact $3.75. Meanwhile, Netflix has steadily increased its pricing above the rate of inflation. Of course, it is easier for Netflix to do this as it has unique content, unlike streaming services. So, any change in pricing will need to be an industry-wide change.

Music subscriptions are price inelastic. This means that while it is difficult to stimulate enough additional demand by pushing prices lower, there is scope for increasing prices enough to grow revenue more than demand will be dented. Simply put, consumers will pay more. Now however, midway through a global pandemic and entering a recession, is not the time for price increases. Indeed, a recession will put serious pressure on subscriber growth and retention. Discounts to reduce subscriber churn and promotions to win back lost subscribers are a more likely near-term scenario.

When the market is ready, there are a number of ways in which pricing can be used to increase royalty payments:

- Creator weighted increases: Pricing increases can help fix the #brokenrecord debate by rights holders agreeing to pay most or all of the additional royalty income directly to creators.
- Creator support: Subscribers can be given the option to support up to 10 of their favourite artists, resulting in a share of their subscription fees going directly the artist without rights holder deductions. This could either be from the existing price point or from any additional price point.

- **Less discounting:** Promotional offers have played a major role in diluting ARPU and therefore royalties. While there will always be strong defenders of promotional offers in driving adoption, eventually the consumer base needs weaning off them (particularly in more developed streaming countries) – otherwise, the market will remain dependent on them. To contextualise the impact of ARPU, if Spotify was to return to 2016 ARPU levels, this would result in a 51% increase in royalty payments per user.
- **Metered access:** This final option is both the most radical and has the greatest potential impact. The current royalty model provides no incentive for streaming services to increase per-stream rates. If streaming is now a utility – which many argue it is – then it needs to start thinking about pricing itself like a utility, namely scaling pricing in line with usage – at least setting a minimum subscription stream rate. Ironically, the minimum stream rate is already used in streaming but in the wrong place: ad-supported. We suggest that ad-supported moves to a royalty pot basis so that streaming services are better incentivised to invest in the currently under-performing but high-potential ad-supported space.

Making it happen

This report has been intentionally broad in scope, in order to build a complete view of today's song economy, the dynamics that are shaping it, the challenges it faces and the levers that can be pulled to create a more balanced and sustainable future. The picture is one of many interconnected, interdependent pieces where no single action is going to be enough. What is clear is that today's' song economy is not working as it should and that everyone across the value chain will benefit from a coordinated programme of change.

The easy thing to do would be to let the song economy continue to develop on its current path, to not have the difficult conversations that need to be had. Yet we have demonstrated in the report that solutions and alternatives exist. What we need to evaluate these solutions and make choices is structured debate and new processes for change; for the various facets in the music industry value chain to work together to help build the pie and re-slice it.

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