

The Economic Problem with Music – And How Music Streaming Could Solve it

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Music as an economic good

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Music as a public good (Samuelson 1954)

Private goods

⇒ Excludability in consumption

⇒ Rivalry in consumption

Public goods

⇒ Non-excludability in consumption

⇒ Non-rivalry in consumption

⇒ „Free-riding“ problem

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Music as a club/toll good (Buchanan 1965)

When introducing a price mechanism – think of a toll road – a club good becomes excludable in consumption, but it is still non-rival.

All music events with an access system – e.g. concerts and opera houses as well as music festivals – can therefore be defined as club/toll goods.

The ticket price makes them excludable in consumption, but listening to the performances is still non-rival.

In a concert, an individual appropriates the entire benefit from listening to the music despite the presence of other music lovers.

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Music as an information good (Shapiro & Varian 1998)

Originally, music was a public good (e.g. as music in the liturgy and as a public court entertainment).

In the 18th century impresarios turned music into a club good by staging operas and concerts and collecting entrance fees.

Music printing and later sound recording transformed music into a private good with a price mechanism constituting excludability and rivalry in consumption.

Commercial broadcasting turned music into a public good financed by either commercials (private radio) or fees (public radio)

In the course of digitization, the public good characteristics of music became even more relevant => P2P file-sharing.

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How to solve the public good's problem with music?

- 1. Broadcasting business model: ad-supported and/or public fees**
- 2. Record business model: privatization of consumption**
- 3. Subscription-based music streaming: club/toll good**

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The challenges of the music streaming business model

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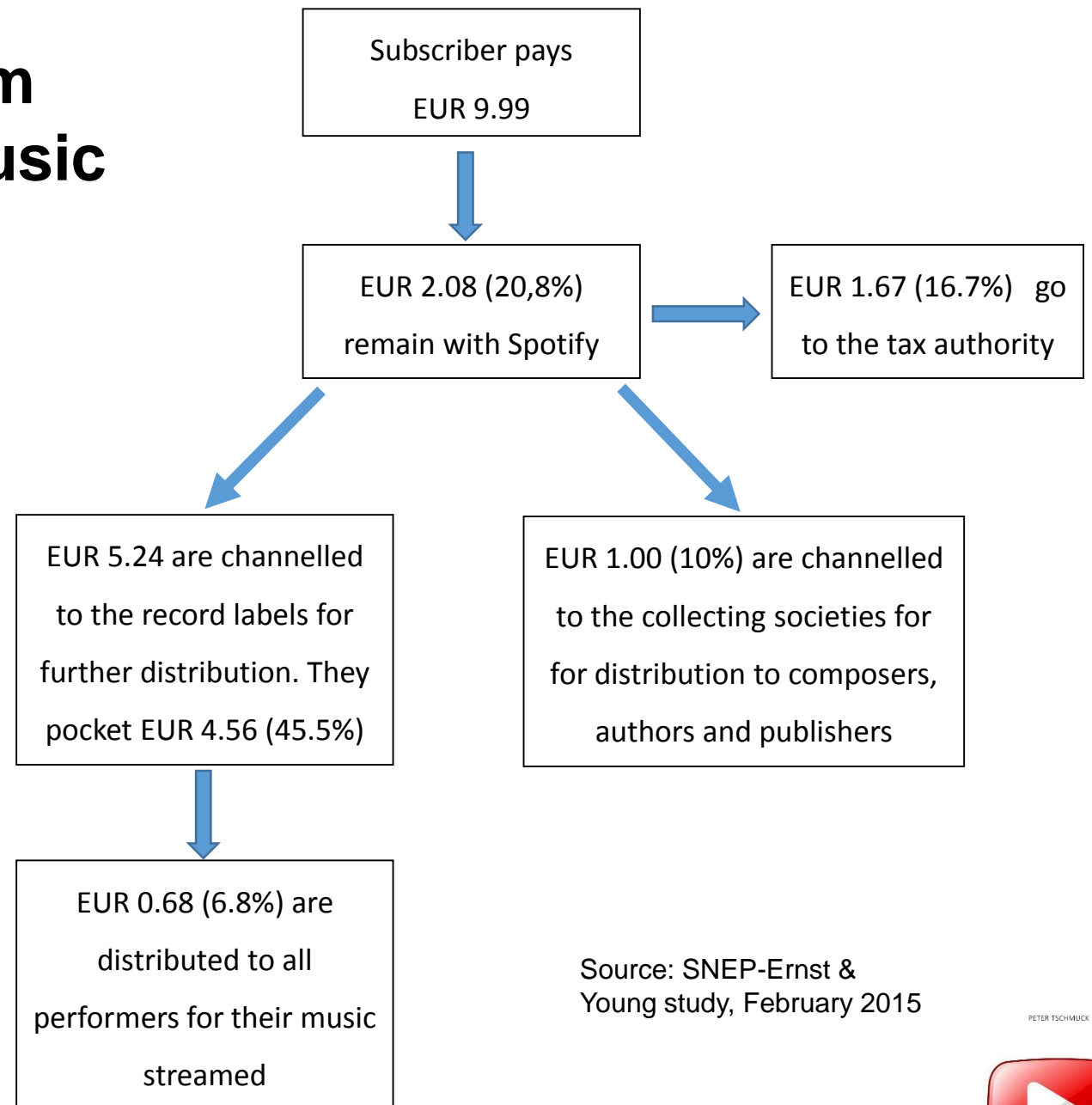
Who benefits from music streaming?

The artists?

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The split of a monthly premium subscription of EUR 9.99 of a music streaming service in France



Source: SNEP-Ernst & Young study, February 2015

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Who benefits from music streaming?

The artists?

Answer: not really

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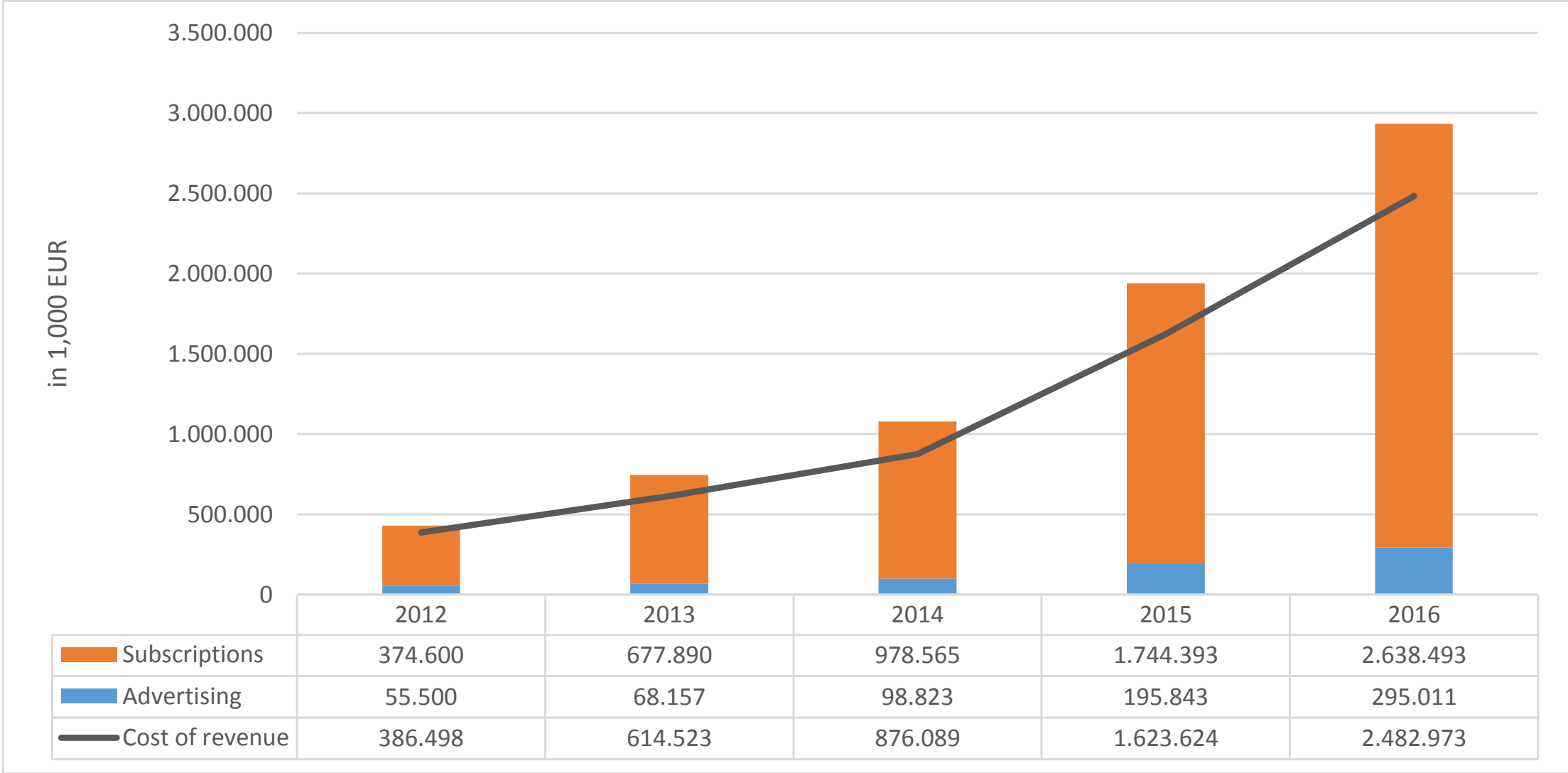
Who benefits from music streaming?

The streaming services?

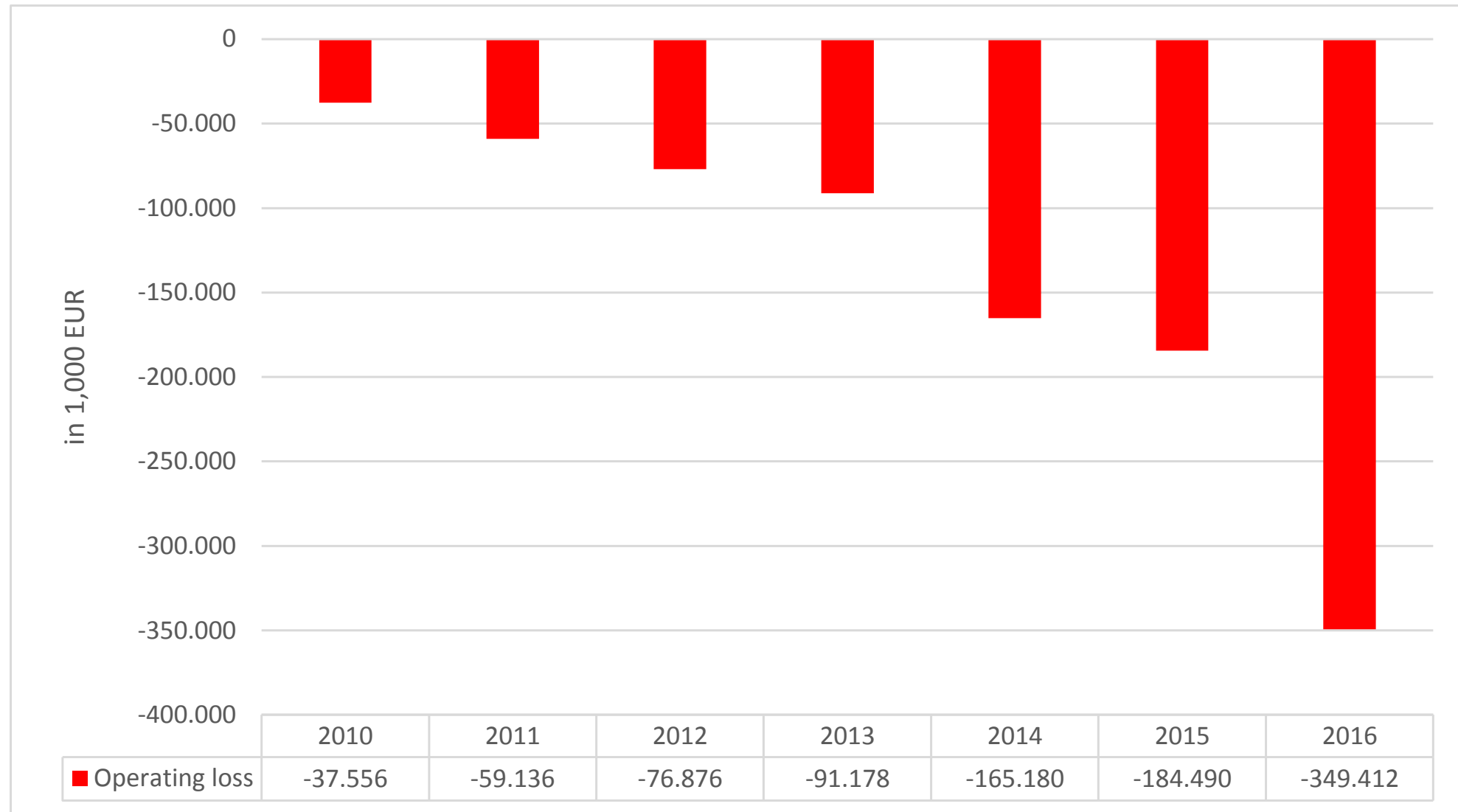
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Spotify's revenue and cost of revenue, 2012-2016



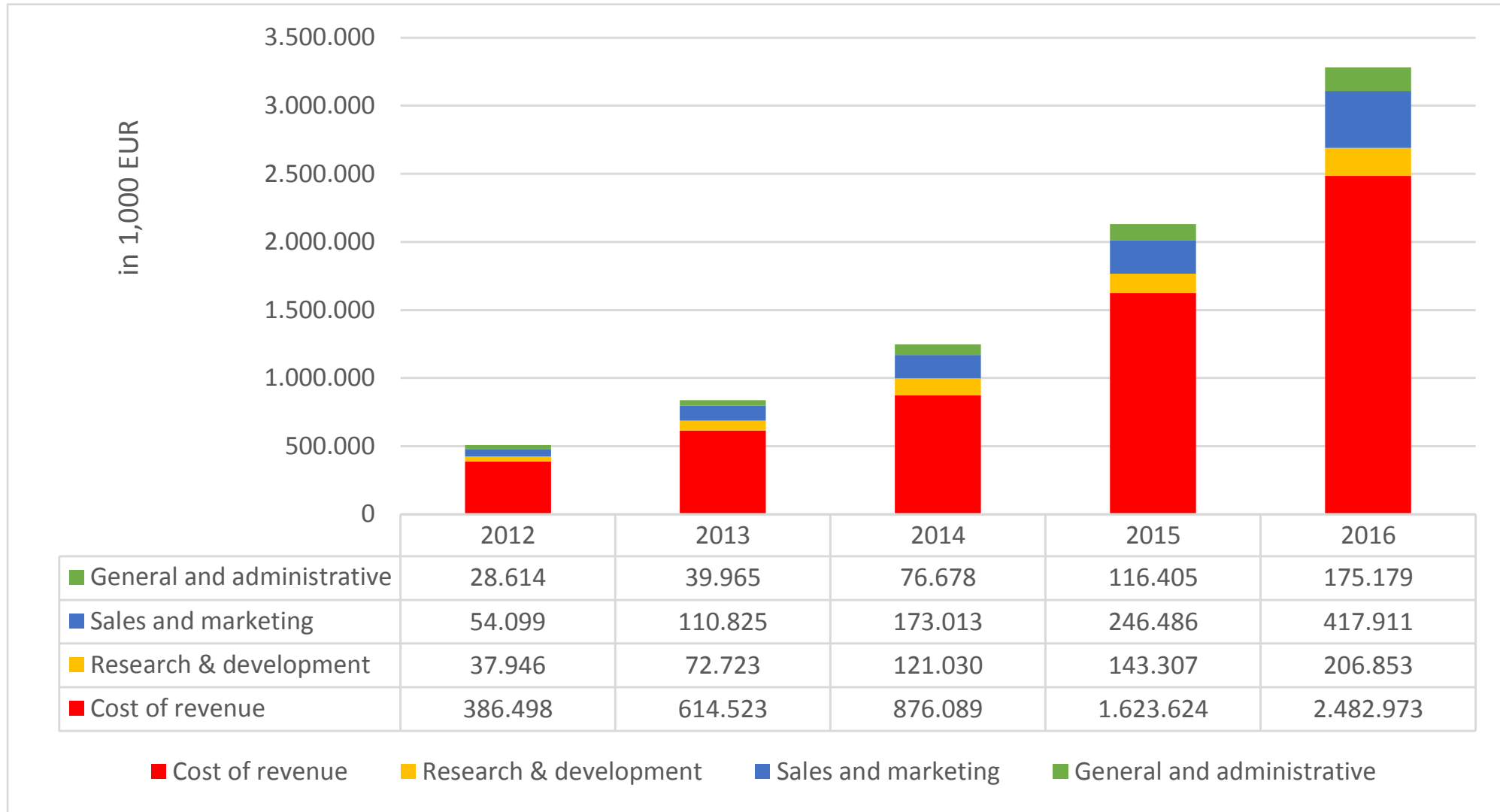
Spotify's annual operating loss, 2012-2016



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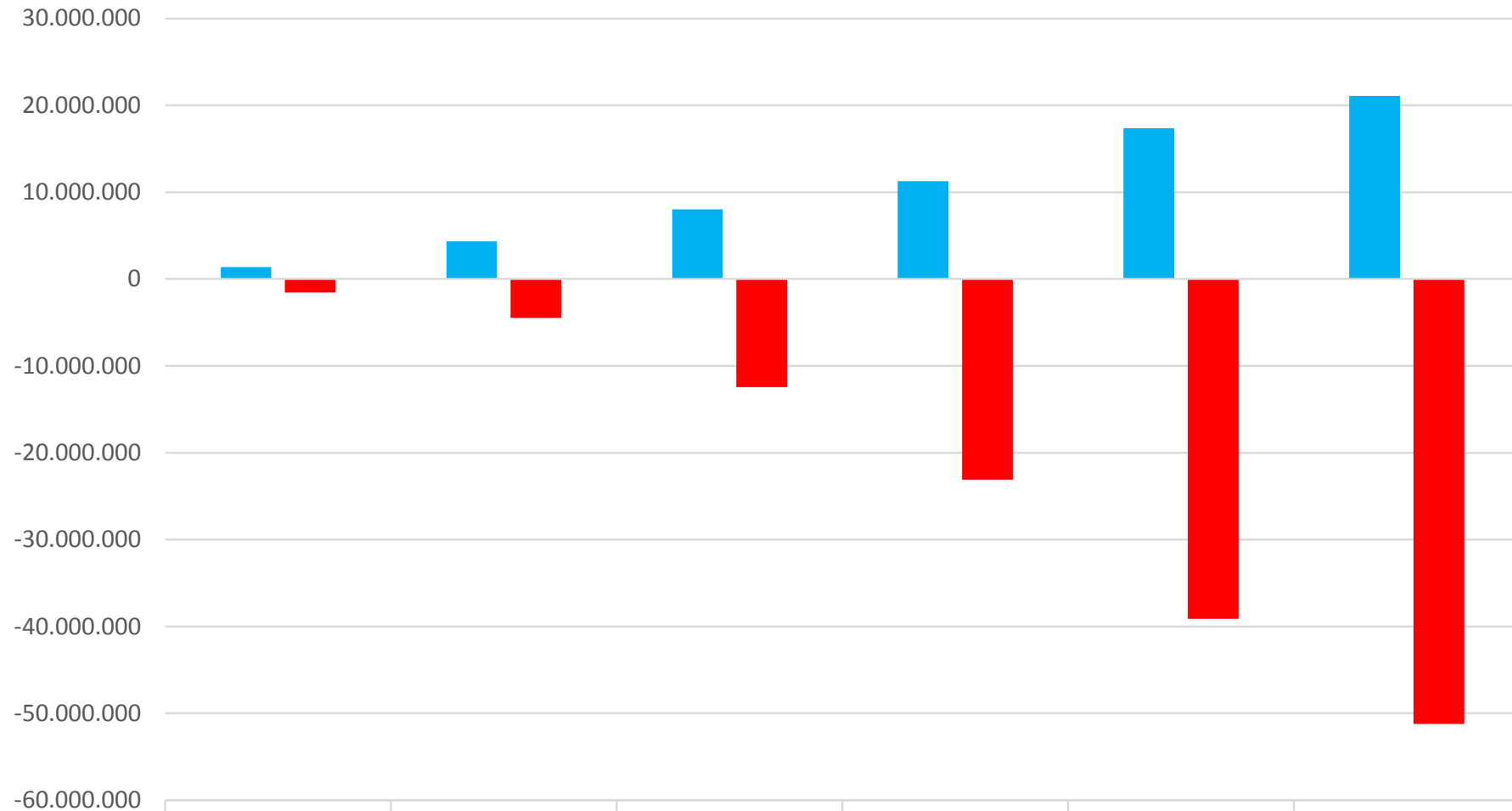
Spotify's cost structure, 2012-2016



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SoudCloud's revenue and net loss, 2010-2015



	2010	2011	2012	2013	2014	2015
Revenue	1.370.000	4.330.000	8.040.000	11.280.000	17.350.000	21.100.000
Net loss	-1.550.000	-4.460.000	-12.430.000	-23.110.000	-39.140.000	-51.220.000

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Music streaming services that failed

simfy

rdio™



beatport®



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Who benefits from music streaming?

The streaming services?

Answer: NO

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Who benefits from music streaming?

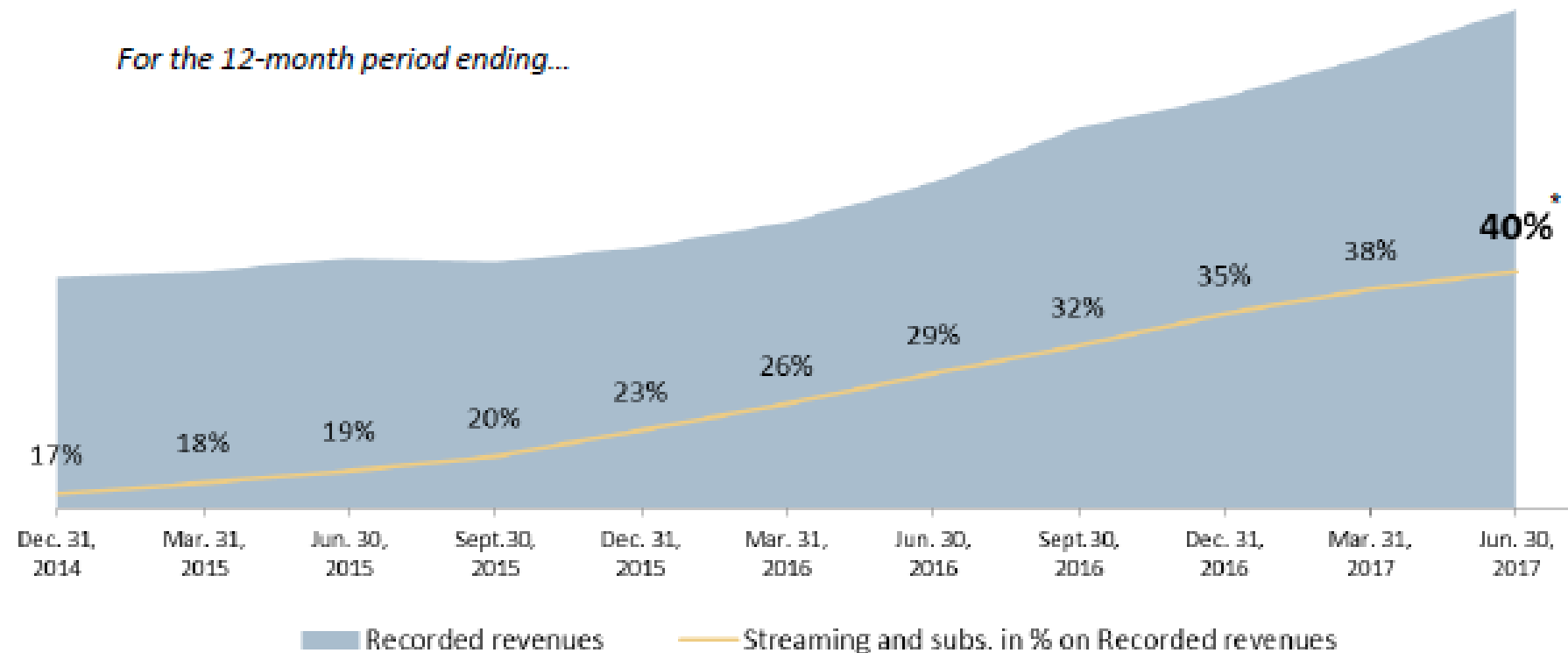
The recording companies?

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Universal Music Group's revenue growth, 2015-2017

UMG revenues are growing fast, driven by streaming and subscription revenues which have doubled since the end of 2015



Source: Vivendi, First Half 2017 results, August 31, 2017, p.5.

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Universal Music Group's first half year 2017 results

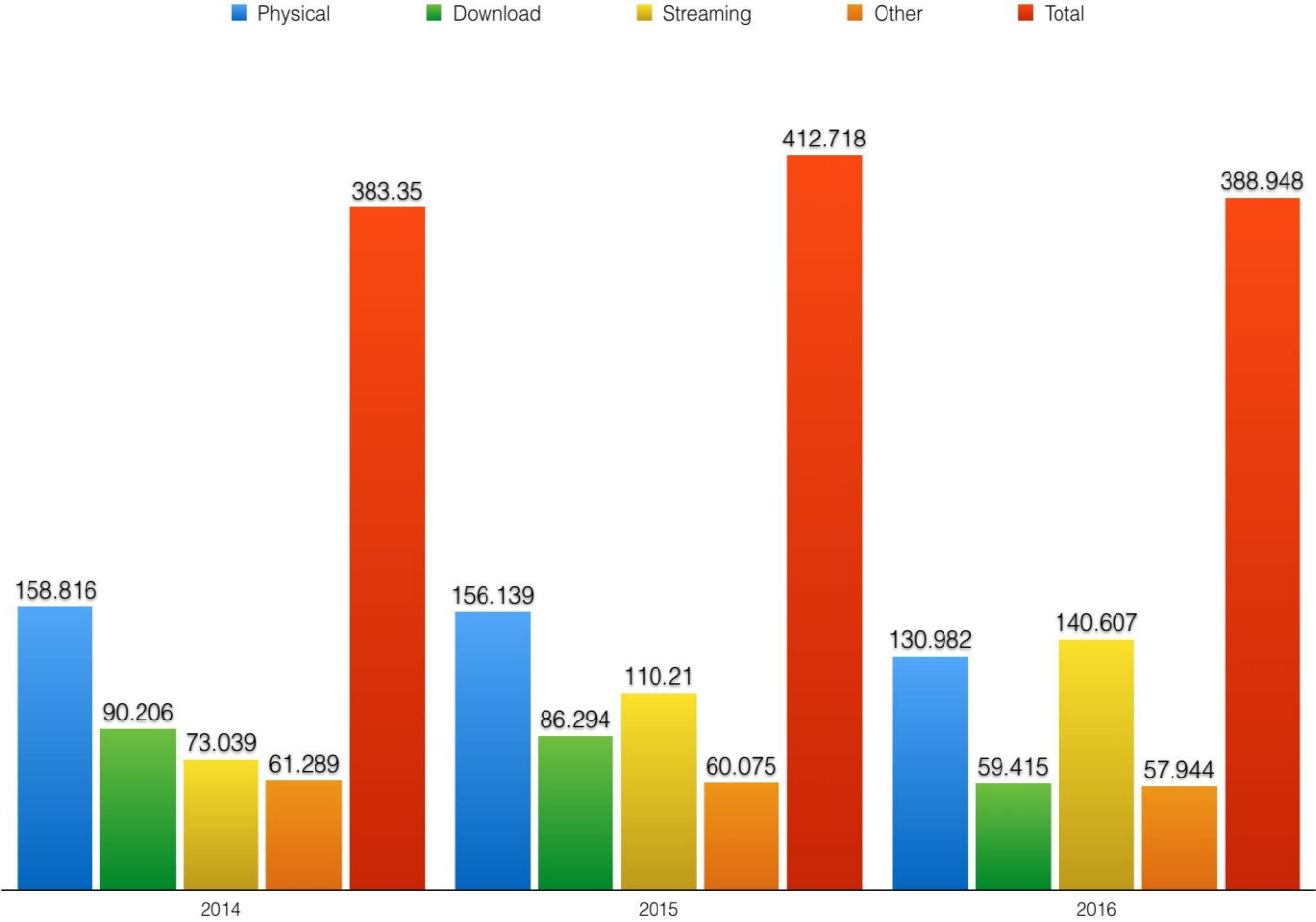
<i>In euro millions - IFRS</i>	H1 2017	Constant perimeter and constant currency *
Recorded music	2,141	+ 15.6%
Physical sales	484	- 1.8%
Digital music sales	1,315	+ 25.4%
<i>o/w Streaming and subscription</i>	962	+ 45.1%
License and Other	342	+ 10.4%
Music Publishing	400	+ 9.2%
Merchandising and Other	135	+ 2.2%
Intercompany elimination	(10)	
Total Revenues	2,666	+ 14.0%

Source: Vivendi, First Half 2017 results, August 31, 2017, p.25.

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Sony FY recorded music revenues (bn Yen)

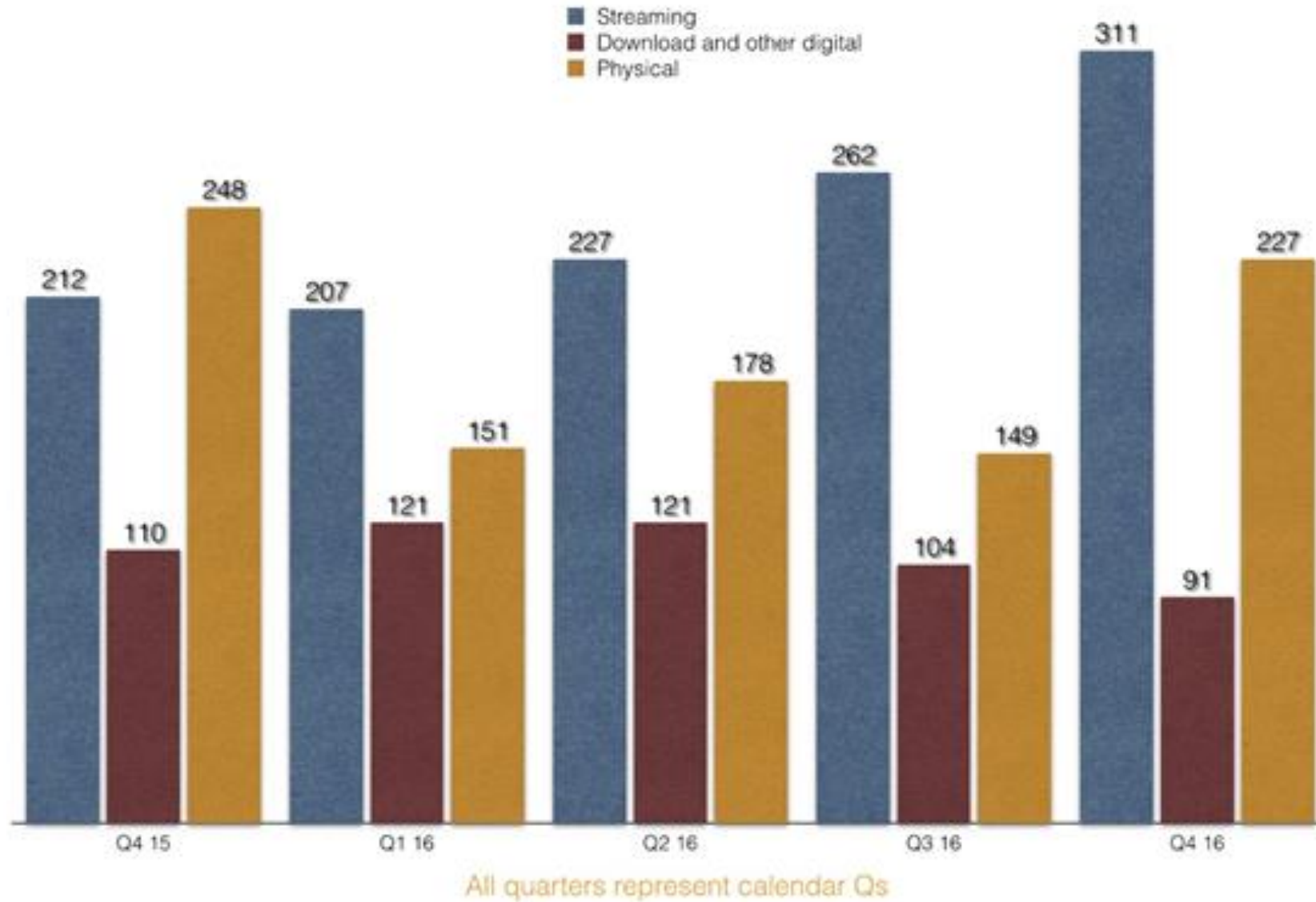


Source: Music Business Worldwide, "Sony recorded music sales fall 6%, hampered by strength of Yen", April 28, 2017

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Warner recorded music streaming vs download revenues (\$m)



Source: Music Business Worldwide, "Warner Music just joined the \$1bn streaming record company club", February 7, 2017

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MERLIN's member survey 2017

Key findings

Annual revenue distributions increased 52% to \$353m.

64% of Merlin members report that audio streaming accounts for the majority of their digital revenues (2016: 46%).

67% of Merlin members stated that digital income accounted for over half their overall business revenues.

42% of members report that services such as YouTube account for less than 5% of their digital revenues

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Who benefits from music streaming?

The recording companies?

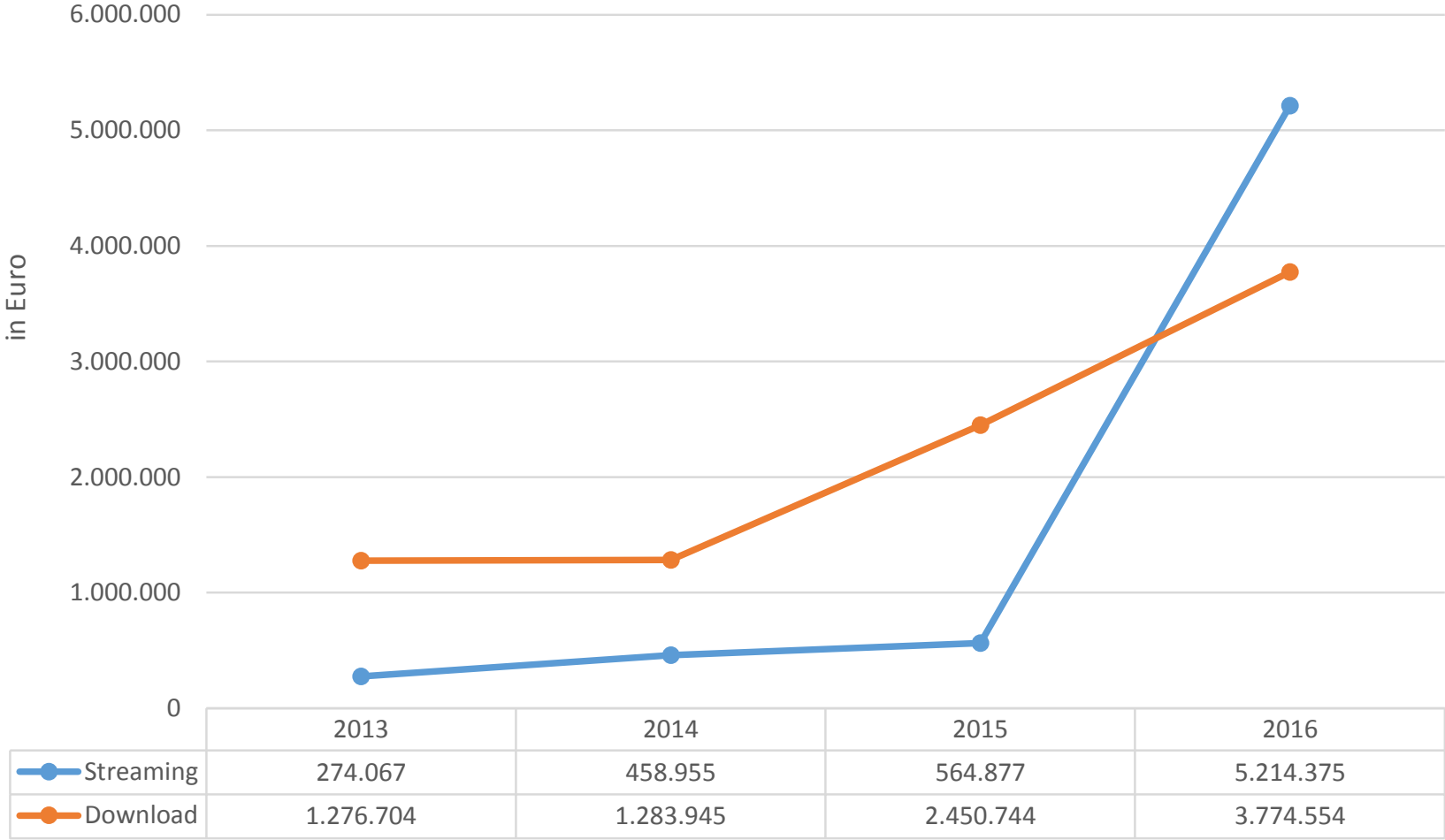
Answer: YES, ...

but just the majors and a few indies

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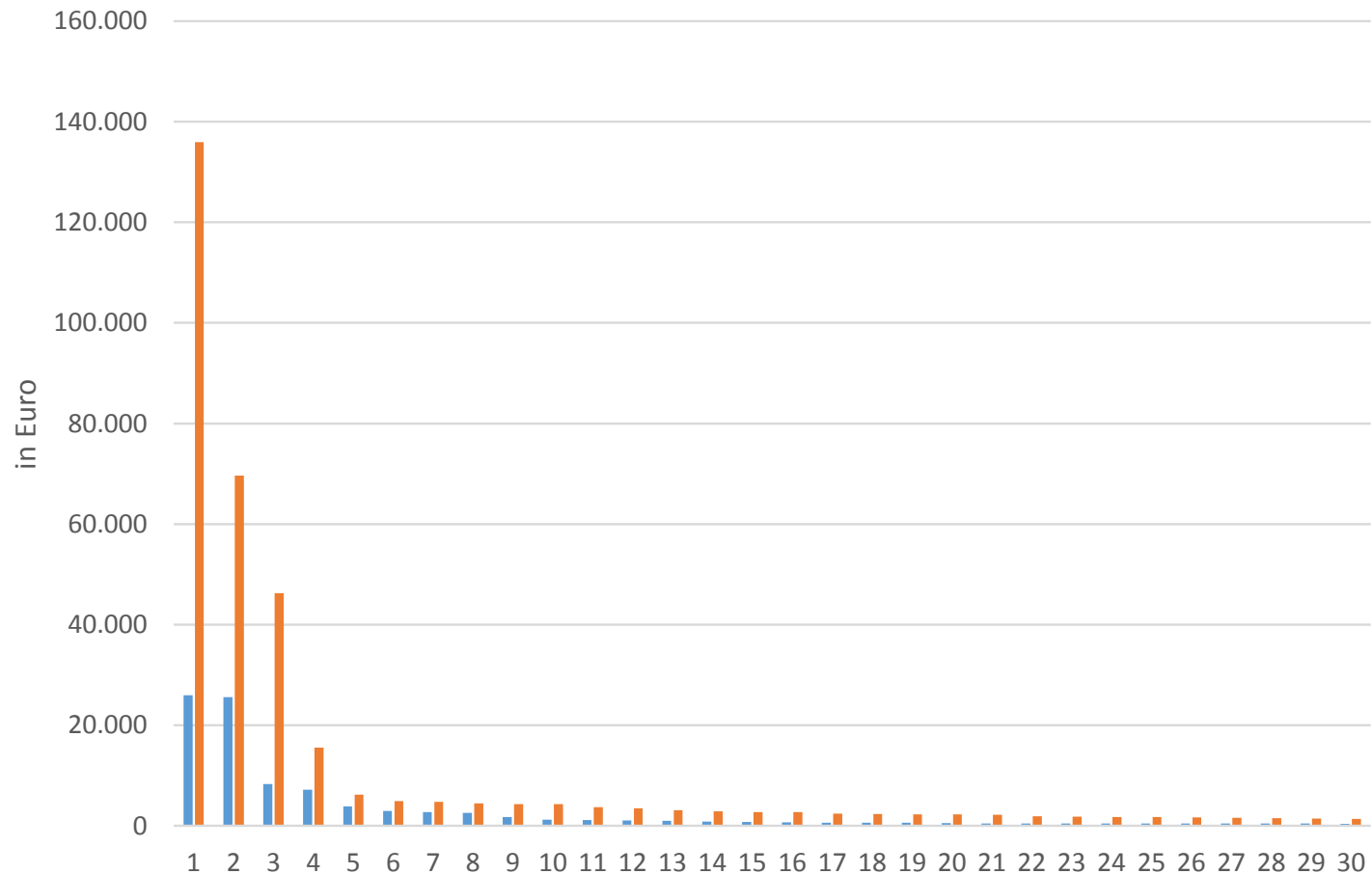
Music streaming revenue of Austrian indie companies from digital music distributor Rebeat in 2013-2016



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Music streaming revenue of indie companies in Austria from digital music distributor Rebeat in 2013 and 2016



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Who benefits from music streaming?

and of course ...

the music consumers

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