MUSIC STREAMING AND INDUSTRY DISRUPTIONS

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Main areas of focus

- Digital disruptions:
  - The Kristiansand Roundtable Conference
- The Norwegian streaming market:
  - Digital pioneers
  - Digital evidence

Music Streaming

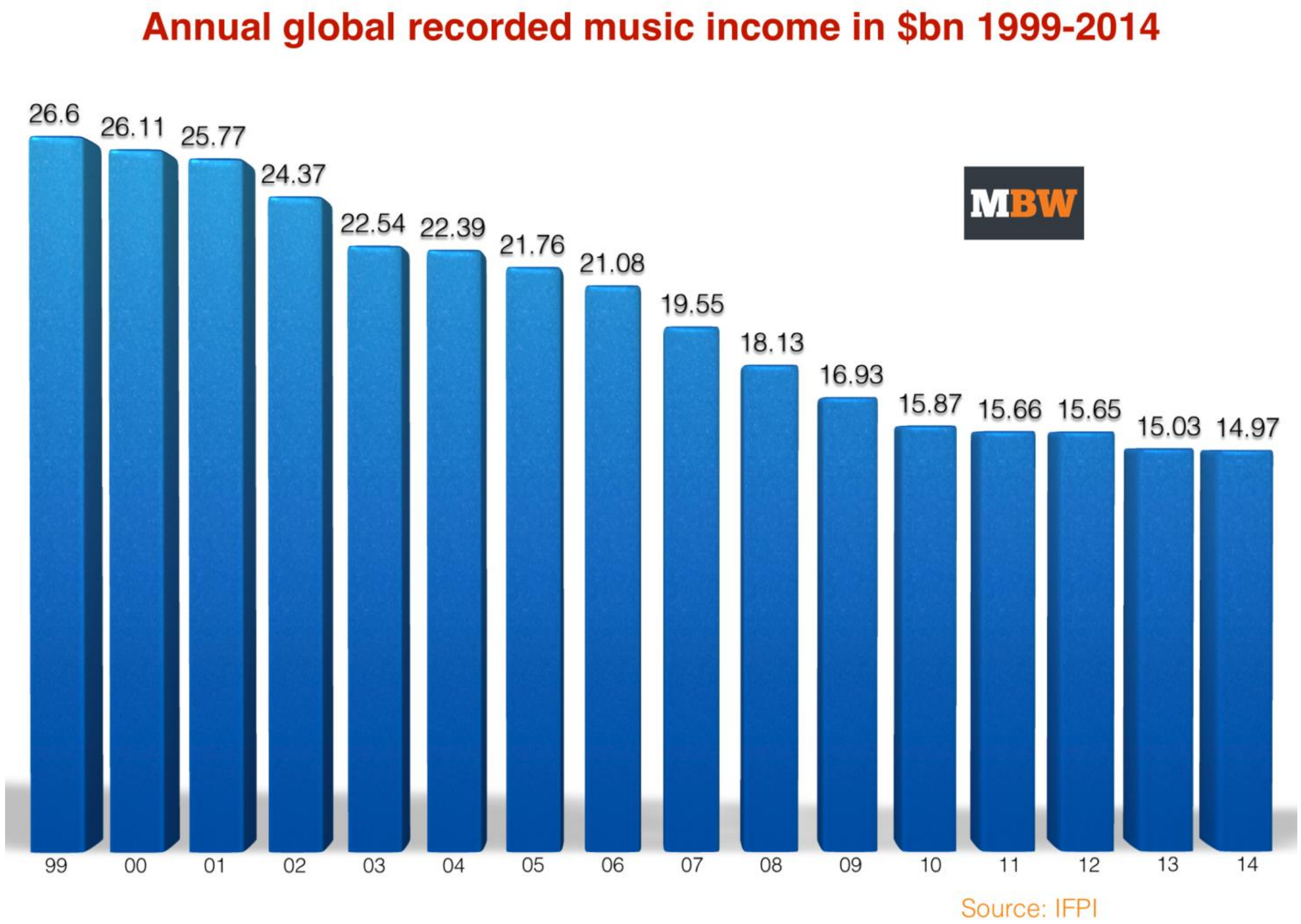
- Music streaming represents a significant change!
- Kristiansand Roundtable Conference (2007-2010):
  - Depressed and defeated
  - You can't compete with free!
  - Only three options on the table: ad-based, levy financed or bundled

Music Streaming

- *(On Spotify) And you think, my God! We've got a form of consumption that is actually as popular as piracy. But the question in my mind, when looking at the numbers, is; at what cost? Is it actually much better for us than piracy or is it just the same thing without the convenience of being able to say "it's illegal and we're going to address it!". My God! What if it's doing the same thing to our business and it's completely legal and we've already allowed for it.*
- (Roundtable Conferences, 2009)

Music Streaming

- Music streaming has reconnected the affectionate value with the economic value.
- People are paying for recorded music again!


Annual global recorded music income in $bn 1999-2014
26.6
26.11
25.77
24.37
22.54
22.39
21.76
21.08
19.55
18.13
16.93
15.87
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15.65
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Source: IFPI

”Nordgård-Committee”

KULTURDEPARTEMENTET

Rapport

Rapport fra Nordgård-utvalget

Juli 2013

”Nordgård-Committee”

- Mandate from the Government:
  - To identify what stakeholders were loosing out in the digitalization process and following from this, what action the Government might take.
- Academically: a general concern to understand what is going on.
  - Competing interpretations

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- Overall music sales; Up!
  - 2012: 7%, 2013: 11%, 2014: 1%, 2015: 7%
  - Streaming makes up almost 80% of Norway’s recorded music market and must be regarded as a main explanation.
- Norwegian Local share in 2013; Down! From 25-30% to 10-12,4%
- Bluntly speaking; Norwegian music is loosing out in the digitalization process!
  - NB: keep in mind that this happens at the same time as the overall market has halfed in size

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- Some challenges relating to the numbers;
  - General difficulties with numbers
    - What is local and what is international?
    - What about physical?
- The main developments seems clear:
  - Streaming consumptions seems to favour major international hits
  - Norway doesn’t produce many major international hits.
  - Current changes suggesting different a development

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- Not a Norwegian phenomenon and not a music phenomenon:
  - Blockbuster Economy (Elberse, 2013)
  - ”Digitalization in the creative industries is like capitalism on steroids”
  - Heavy investments on fewer titles pay off
    - Less risk
  - Marketing is paramount!
    - In accordance with interviews and dialogues with managers, artists and labels.

”Nordgård-Committee”

- Why are we seeing these developments?
  - Contradicts early assumptions and expectations
    - Digital optimism (Hesmondhalgh, 2013)
- Two main explanations offered:

1. The economic model that streaming builds on; Pro-Rata
   a. And the allegations of black box money
2. Changing consumer behaviour
   a. ARPU
   b. The paradox of choice

Pro-Rata model

- All subscriptions, divided by all streams

  = per stream price
- Artist’s streams multiplied by per stream price

  = royalty
- Seems fair. What’s the problem?

Pro-Rata model

- The origin of the Pro-Rata model: Kristiansand Roundtable Conference
- The Sony-Spotify-deal of 2011
  - Represents a growing use of NDAs
  - Evidence of an economy based upon advance payments and non-locatable money; breakage
  - Evidence of major-label dominance of streaming shelf-space

Pro-rata vs User-centric

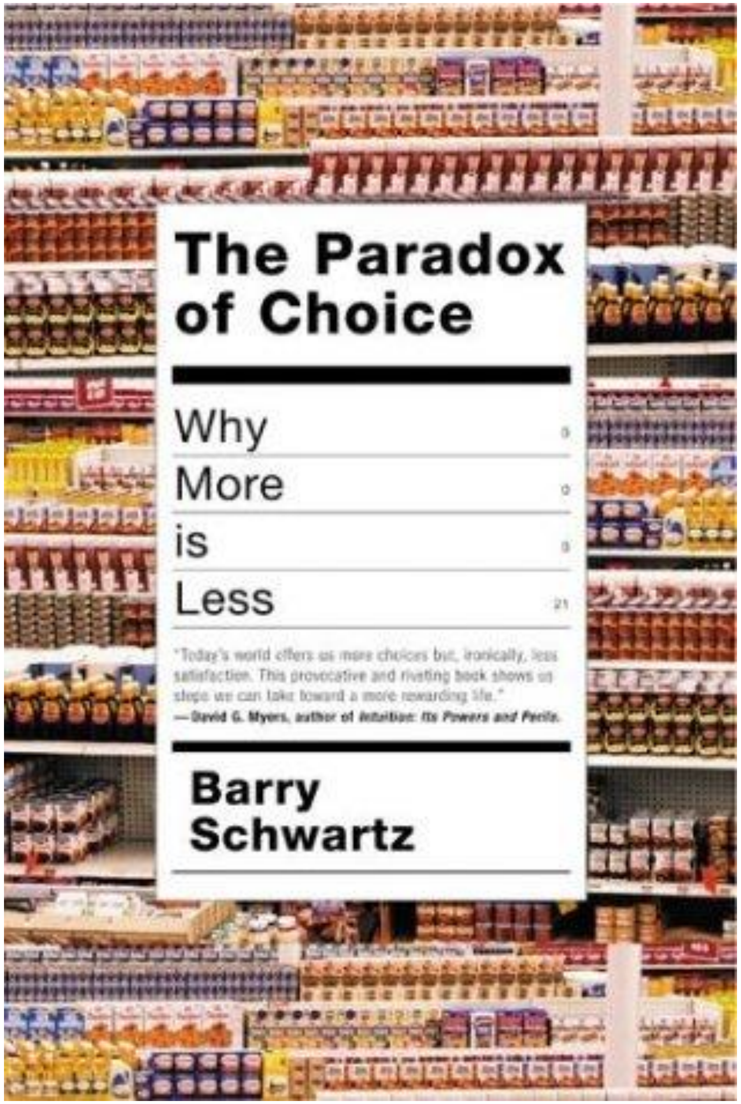
- Two studies on the user centric model, with competing findings:
- Maasø (2014) based on Norwegian WIMP data
- The effects from shifting:
  - Non on major/indie (76-75%)
  - Impact on local repertoir:13% (22,4% to 25,4%)
- Pedersen (2014) based on Danish WIMP data

Pro-rata vs User-centric

- Pedersen: The effects from shifting not necessarily to the benefit of the tail.
- Positive impact on Danish local share, but a general increase in the head of the curve.
  - Challenge lies with the difference in consumers.
    - Seperates between dedicated and not dedicated listeners
  - Because the most popular artists have the least intensive listeners, per user distribution would move revenues away from the tail and towards the top.

Alternative Explanations

- Consumer behaviour
  - General increase in spending among average consumers
  - General decrease in spending among specific consumers
  - ARPU
- Age and demographics
- Attention


The Paradox of Choice
Why More is Less
"Today's world offers us more choices but, ironically, less satisfaction. This provocative and riveting book shows us steps we can take toward a more rewarding life."
—David G. Myers, author of Intuition: Its Powers and Perils.
Barry Schwartz

The Paradox of Choice

THE JAM STUDY

A grocery store conducted 2 tasting sessions. In one session shoppers were allowed to sample 24 flavors of jams, and in the other session they were allowed to sample 6 flavors

24 Choices of Jam vs 6 Choices of Jam

24 Choices of Jam	6 Choices of Jam
Attracted **60%** of Shoppers	Attracted **40%** of Shoppers
Shoppers sampled **2** flavours on average	Shoppers sampled **2** flavours on average
3% of shoppers bought jam	**30%** of shoppers bought jam

Music streaming and disruptions

- Lessons from Norway suggest the streaming economy to be even more hit-based
- May be temporary, or it may require actions
- Are we entering a new golden age for recorded music?
  - Or for the majors?
  - Case: Sony-Spotify deal
  - A return to old

Thank you!

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