From value networks for recorded music to music ecosystem

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Executive Summary

How has the growing influence of music streaming services reconfigured the value networks?

There is a lack of a systematic understanding of the central role played by Music Streaming Services (MSS) in the current industry configuration.

Our analysis based on a Systematic Literature Review, including academic and grey literature, has 4 key findings for value networks:

(1) Digitisation is reshaping the market. Lower barriers of entry for music creators, allow more creators to bypass traditional gatekeepers such as record labels to more directly interact with their audience while new gatekeepers entered the market (aggregators and platforms).

Executive Summary

(2) Major record labels are negotiating their position in this changing ecosystem, redefining their value proposition and their intermediation. Contracts with artists and catalogs are their key assets.

(3) MSS have evolved their value proposition from providing unlimited access to music to the curation of such access. Their playlists are stand-out features aimed at locking in end-users.

(4) Beyond economic value: not only do MSS give access at a lower cost, they are also more convenient in usage and experience.

We highlight two important, relatively new players, in the music ecosystem. Spotify is the most discussed among professionals. Although currently dominating the streaming market, it still struggles to be profitable.

Executive Summary

YouTube is mainly a user-generated content (UGC) platform whose value proposition revolves around its diverse content and free and open access. It gets criticized for the low revenues returned to creators.

The reconfigured music ecosystem revolves around distribution, in particular by MSS and UGC platforms. The various stakeholders are interconnected and power dynamics are restructured.

The shifting locus of power (with increased influence of recommendations), information asymmetries (notably against artists and songwriters) and skewed distribution of royalty payouts have led to the emergence of the issue of fairness

Approaches are being developed that need to be discussed such as the pro-rata model of remuneration or minimum threshold of streams.

Table of content

Background

01

Situation of our research

WORLDWIDE SCIENTIFIC INTEREST FOR (ONLINE) MUSIC BUSINESS

CONSOLIDATION AROUND MUSIC STREAMING SERVICES (MSS)

New ways for the music industry to relate to audiences

Value network analysis USED BY SCHOLARS

01.

To understand the dynamics of stakeholder interactions

02.

To address the increasing role of digital distribution in dismantling the barriers to access

03.

To comprehend how value is created/perceived by different stakeholders

04.

To integrate the influence of MSS into Leyshon's (2001) networks of music economy

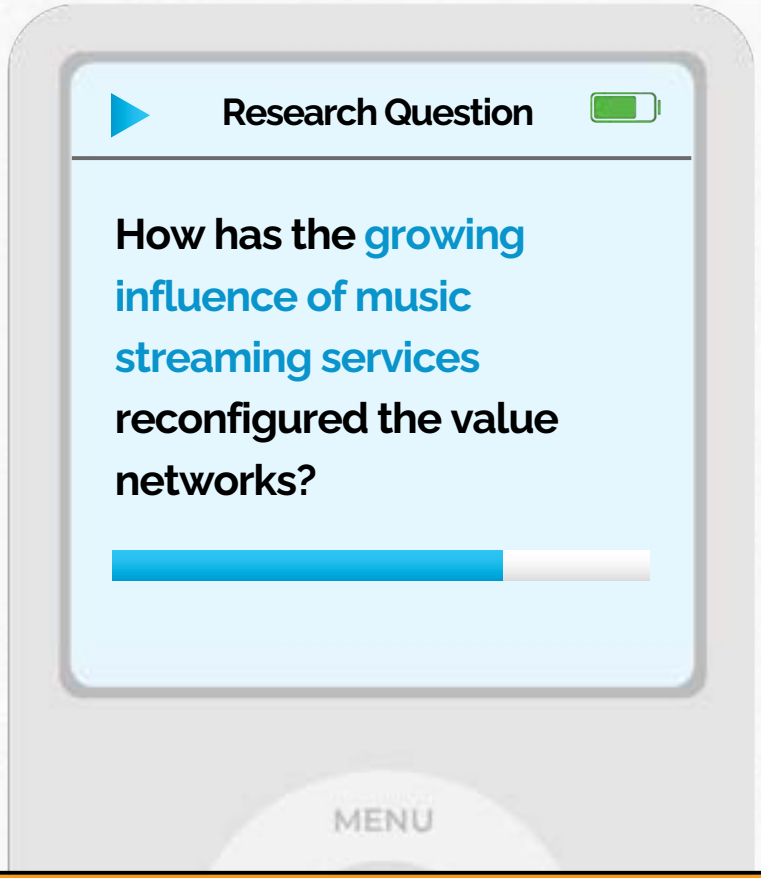
Situation of our research

DYNAMICS OF THE SIGNIFICANT CHANGES

While there is a consensus that the industry has undergone significant transformations in the last **25 years**, there is a **lack of a systematic understanding** of the central role played by MSS in the current industry configuration

EVOLVING ROLE OF MSS

Latest research fails to acknowledge and position the transformation of MSS as producers of a branded musical experience through **playlist curations** and **recommender systems**, a crucial objective since 2013



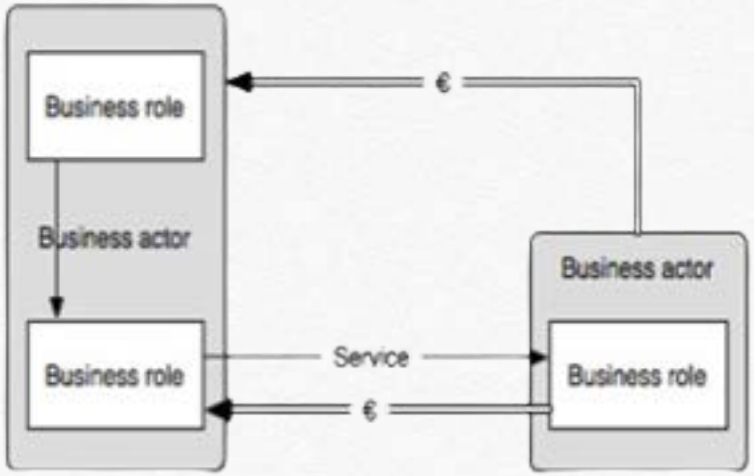
Our approach

02.

Value network analysis

VALUE CHAIN APPROACH

How value is added to inputs through a chronological chain of company interactions within one industry



Value network analysis

01.

Parallel and interacting value chains from several adjacent industries

02.

Useful whenever the analysis moves above the single company level

03.

Allows to take into account the differing and sometimes conflicting interests and motives of stakeholders

04.

Corresponds to how roles, resources and capabilities are distributed and what the relationships are

IMPACT OF VALUE NETWORK ANALYSIS

The emerging use of value networks has contributed to focus the attention on new models of value creation and value capture

01.

Four distinct drivers of value creation (and capture) at the core of platforms' business model: transaction efficiency, complementarity, novelty and lock-in

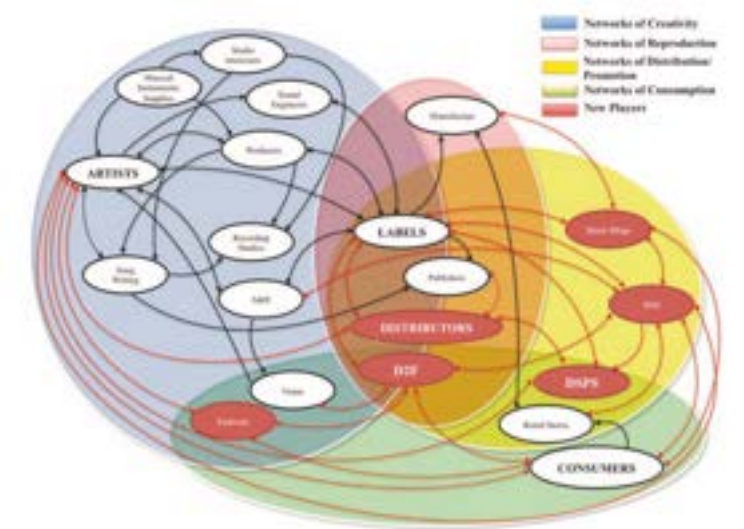
02.

Online platforms act as intermediaries benefitting from cross-sided network effects between market sides

Some examples

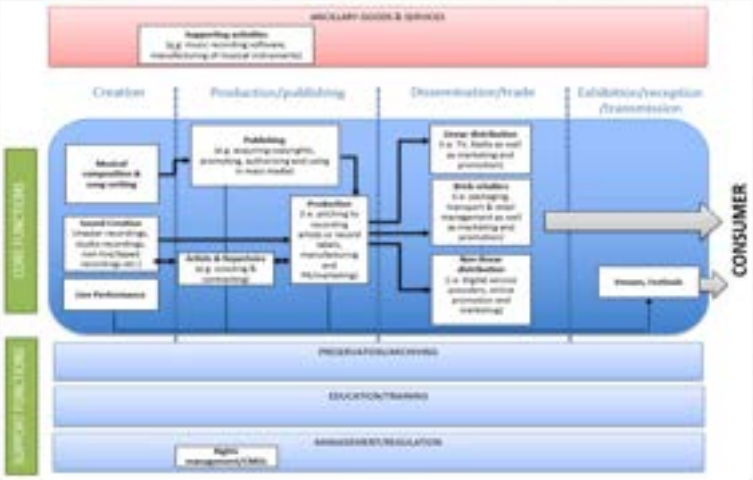
of visualizations using the value network analysis

Figure 1. Digital music value networks



Source: Sun, H. (2019). *Digital revolution tamed*.

Figure 2. Stylised Value Chain for Music



Source: De Voldere et al. (2017). *Mapping the Creative Value Chains*.

Methodology

Systematic literature review (SLR)

01. IDENTIFICATION

Publications identified through academic databases (e.g. Web of Science, Scopus) and other sources to include trade presses, reports, etc.

02. SCREENING

Duplicates removed

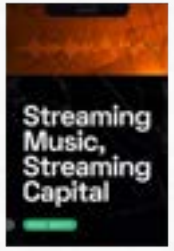
03. ELIGIBILITY

Exclusion criteria applied to full-text publications

04. INCLUSION

Full-text publications included after several were excluded

MUSICBUSINESS WORLDWIDE music:)ally



METHODOLOGICAL BENEFITS

SLR ensures reproducibility, transparency, and minimises biases in article selection and interpretation, thus fostering a dependable assessment of existing knowledge on the subject

158 PUBLICATIONS

Academic sources complemented with books, book chapters, grey literature, and other potentially relevant sources to allow to triangulate information

THEMATIC ANALYSIS

Method based on repetitions, similarities, differences, linguistic connectors, and materials pertinent to the concepts of value networks

Two case studies

01. SPOTIFY

Hailed as the "saviour" of global recording, the service has dominated the streaming market (31% share in 2021) and is the most frequently discussed among industry professionals

02. YOUTUBE

Since 2017, the service has evolved from a simple distribution platform to a fundamental player in fostering direct engagement between performing artists and their audiences

Key findings for value networks

03.

Four main themes

01. DIGITISATION RESHAPING MARKET STRUCTURE AND CHARACTERISTICS

High digitisation rate has fundamentally transformed consumption formats and distribution channels, lowered barriers to entry for songwriters and performers, and reduced control by traditional gatekeepers as well as intermediaries

02. INCUMBENT STAKEHOLDERS NEGOTIATING THEIR POSITION

MSS prompt incumbent stakeholders, such as major record labels, to repurpose their value propositions by directly negotiating with platform operators and offering attractive deals, while independent labels increasingly have to rely on music aggregators

03. FROM OWNERSHIP TO CURATED ACCESS

MSS shift the focus from ownership to curated access, with algorithmic and editorial playlists driving personalised recommendations for listeners and creating new opportunities for songwriters and performing artists

04. BEYOND ECONOMIC VALUE IN RECORDED MUSIC

MSS expand the focus from purely looking at revenues to emphasising the importance of value-in-use, as well as cultural value

Main theme #1

Digitisation reshaping the market

03.

Digitisation reshaping the market

High digitisation rate is reflected through three main ramifications:

01. Changing formats of consumption

From vinyls to CDs (1983-1999) and from CDs to MP3 files (1999-2003). Today, recorded music is distributed as **individual WAV files** and stored on cloud servers.

02. Development of online distribution channels

The distribution of MP3 formats was facilitated by the Internet, which led to more developments of **peer-to-peer (P2P) platforms** and **digital download stores**.

03. Affecting the creation side of the value chain

Examples include further **developments on music production** (e.g., digital audio workstations, easier access to purchase plugins online)

Today: **music streaming services (MSS)**

Digitisation reshaping the market

Examples of how high digitisation rate has affected the creation level have **implications** that are **threefold**

01.

Lower barriers to entry for songwriters and performing artists by internalising parts of the creative and production process

02.

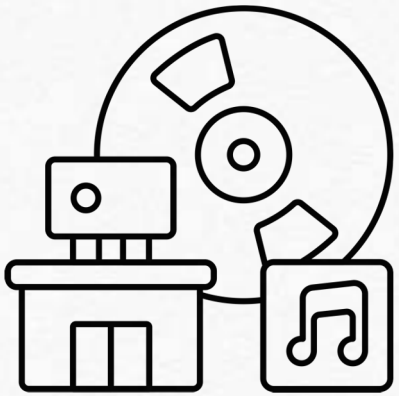
While digital tools enable music performers to **bypass traditional gatekeepers** (e.g., record labels), they resort to **new intermediaries: the aggregators**

03.

The reduced barriers to entry has led to an **oversupply of recorded**, intensifying the competition

Digitisation reshaping the market

Market structure of the recorded music industry differs depending on the level of analysis and value chain processes



At the creation level

Exhibiting the characteristics of a **monopolistic competition market** with many songwriters and performers competing

Competing through **product differentiation** (e.g., unique lyrics, composition)

Based on the market share of content

Resembling an oligopoly where the big 3 exert significant control over distribution and promotional resources

By continuing to employ **vertical integration** strategies

Digitisation reshaping the market

HESITANCE FROM MAJOR LABELS

Initially, major record labels were reluctant to embrace new distribution and pricing models, such as iTunes' à la carte pricing

IMPLICATIONS FOR THE DISRUPTION

Digital music distribution has not eliminated the gatekeeping role of record labels; it has **merely diminished their influence**

CIRCUMVENTING TRADITIONAL MEDIATION

Exemplified by how music performers can now establish **direct interactions with their audience**

AUDIENCES AS CRUCIAL PLAYERS

They have an active participation through **sharing, uploading, and remixing**, which can contribute to better conversion for streaming numbers

Digitisation reshaping the market

FRAGMENTED REVENUE

Revenue streams are divided into: **composition/songwriting, performance rights, and sound recording** revenue

REVENUE UNDER DIGITAL DOWNLOAD

Former pricing structure for sound recording: similar industry-wide, but the $0.99 price per song **brought in little to no money** for music providers

IMPLICATIONS ON FORMER PRICING

Lack of financial compensation was set to **grow the market as a whole and the digital services**, while record labels were set to repurpose their business

Main theme #2

Incumbents negotiating their position

03.

Incumbents negotiating their position

INITIAL PERCEPTION ON DIGITISATION

The Internet was perceived as a **threat to majors' investments on manufacturing plants** and their intermediary role between performing artists and listeners

TURNING TO VARIOUS SOLUTIONS

For preventing piracy, major record labels turned to **suing for copyright infringement, creating online distribution JV, and lobbying for new legislation**

MUSIC CREATORS' CONTINUED RELIANCE

Songwriters and performing artists continued to rely on the expertise of major publishers and record labels, including for the latter their **cost coverage for production and marketing**

In return, performing artists were typically required to **produce a specified number of recordings** and agree to **exclusivity**

Incumbents negotiating their position

COMPLICATED ADJUSTMENTS

As the industry evolves, the advent of streaming models has necessitated an **adjustment of the majors' value proposition**

MORE COMPLEX LICENSING

One of the dissatisfaction expressed was the **involvement of numerous intermediaries**, including music aggregators and collective management organisations (CMOs)

THE ROLE OF MUSIC AGGREGATORS

Handling transactions with numerous music labels to **maintain an up-to-date catalogue** on MSS

EXAMPLES OF MUSIC AGGREGATORS

Initial value proposition of Distrokid and TuneCore: revolved around **streamlining metadata and distribution to MSS**

Incumbents negotiating their position

Major record labels and independent music providers have different ideas on how to leverage the disruption of music aggregators as an opportunity

Major publishers

Thanks to the cross-border nature of streaming services, they are able to **opt out catalogues from CMOs** and to strike a global deal avoiding the CMOs' commission.

Independent music providers

Independent labels are **using MERLIN** to negotiate their digital rights

Incumbents negotiating their position

Alongside their attempt to leverage the changing landscape of licensing content, major record labels also sought to **offer attractive value propositions**

01. **INTRODUCTION OF 360-DEGREE DEALS**

A notable development that offers **full-service deals** to performing artists, which include production, exploitation, and promotional services

⏬

leading to **greater market concentration** and **limiting** the performing artists' ability to seek **other agreements** after signing

Incumbents negotiating their position

02. REDUCING ARTIST ROSTERS

Major record labels would **focus on a few of successful performing artists** since quick results are commonly expected

The focus has sometimes resulted in contracts ending abruptly

Mitigation strategies: (1) focus on contracting performing artists or acquiring independent labels only after they have a **significant fan base**, (2) **talent scouting and development** activities

Incumbents negotiating their position

EVALUATING MAJORS' STRATEGIES

Pinpointing the exact effectiveness is difficult, especially since some performers have redirected their attention to live music

A **differentiated exploration under multiple conditions** of fragmented markets, technological changes, and proliferation of small-scale production models is needed

01. Example from the electronic music scene

Flexible and contextualised configurations of using different production tools and securing funds by engaging with fans

02. Contracts for a limited transfer of rights

This type of contract reflects the adaptable and dynamic nature of allowing artists to renegotiate deals

Incumbents negotiating their position

Given the fragmented strategies and opportunities, **MSS have become a crucial customer segments** for record labels

INCREASE IN REVENUES FOR MAJORS

UMG's revenue increased in 2020, with €2,806 million of its revenue coming from subscriptions and streaming (52.8%)

Contracts with artists and their catalogs have become key assets in generating this revenue

CRITICISMS AGAINST STREAMING

Songwriters and performers claim that MSS have made it difficult for them to earn a sustainable income from music

WHAT END USERS ARE EXPOSED TO

IMPALA estimates that the three **majors account for around 95% of the hits**, while performers struggle to gain visibility

Main theme #3

From ownership to curated access

03.

From ownership to curated access

THE INITIAL SALES PITCH OF MSS

When MSS were first introduced to the market, the overriding sales pitch relied on **unlimited access to music**

BIG CATALOG, BIG CHALLENGES

The overwhelming amount of music that became available on demand creates an **issue of getting discovered**

TIRESOME ATTEMPTS TO DISCOVER

With no intervention, it would take several humain lives to listen to every track for discovering new music on a single service

INDUSTRY'S RESPONSE TOWARDS DISCOVERY

At the end of 2012: MSS would henceforth **compete by offering the best recommender systems**

From ownership to curated access

PLAYLISTS AS A STAND-OUT FEATURE

They repackage music into curation of products that are **designed to optimise consumption**

OBJECTIVE FOR END USERS ON MSS

Playlists are designed to fit into the end users' daily activities by guiding them towards curations that they will repeatedly listen to

PLAYLISTS AS A SOCIO-TECHNICAL TOOL

Playlists reveal the **politics of selection**, which is a key mechanism that governs **platform dependence**

TAXONOMY OF PLAYLISTS

On MSS, there is a discernible classification of **algorithmic and editorial playlists**

From ownership to curated access

DEFINING ALGORITHMIC PLAYLISTS

Curations that are initiated by using **unique computational methods** to perform specific recommendation tasks

STANDARDIZED ALGORITHMIC

An example is Today's Top Hits on Spotify, which **displays the same repertoire of songs** that are popular for the day across all user accounts

PERSONALISED PLAYLISTS

These curations rely on **individual traces of unique listening patterns**, with notable examples like Daily Mix and Discover Weekly

From ownership to curated access

DEFINING EDITORIAL PLAYLISTS

Editorial playlists are **initially curated by human editors** instead of computational methods (i.e. algorithms)

OWNERSHIP OF EDITORIAL PLAYLISTS

Editorial playlists can either be owned and **operated by the MSS themselves** or **third-party playlist businesses**

BEYOND ONE VARIATION

Part of the success of editorial playlists can be attributed to how they are **produced and promoted on a global, regional, national, and local basis**

STRATEGY TO LOCK-IN END USERS

By **wrapping them in approachable language and visual art**, these playlists are able to **evoke personal feelings** and capitalise on its home-made feel

From ownership to curated access

FAVOURITISM TOWARDS EDITORIAL

Independent performing artists favour the attempts to expand editorial playlists because they are **easier to figure out**

CONSEQUENCE OF THE FAVOURITISM

Many performing artists center their efforts on getting included on editorial playlists by engaging with the **pitching feature**

MECHANISMS OF PITCHING

Songwriters and performers disclose **metadata-related information** and complete a free-form section to **share the story of their songs**

DRAWBACK OF THE PITCHING FEATURE

Pitching is very competitive, with **only around 20% of pitched songs getting playlisted**, and the enlisted music performers are **associated with major labels**

From ownership to curated access

"ALGO-TORIAL" NOT EDITORIAL

The songs curated on editorial playlists remain **susceptible to change** and the change itself is influenced by an **algo-torial logic**

DEFINING THE ALGO-TORIAL LOGIC

The curation of playlists combines **both human curatorial expertise and algorithmic mechanisms**

CONSEQUENCE OF ALGO-TORIAL

There is a **constant algorithmic evaluation** to improve each curation to fit into each user's unique listening patterns

PARAMETERS USED FOR EVALUATION

The parameters include frequency of plays, number of skips, total plays completed, and listening time among others

From ownership to curated access

FURTHER IMPLICATIONS FOR ALGO-TORIAL

By using parameters from unique listening patterns, the algo-torial logic allows for the delivery of **personalised playlists**

THE FOUNDATION OF CURATED ACCESS

While almost all recorded music is now accessible anytime and anywhere, it is **narrowed down by curated recommendations**

PERSONALISED PLAYLISTS DELIVERY

Some personalised playlists are commonly shown first on MSS' home page, which communicates the strategy of **user retention through curated access**

TOWARDS A BRANDED MUSICAL EXPERIENCE

Most casual listeners appreciate the ease of curated access since it provides context-sensitive listening experiences

Main theme #4

Beyond economic value

03.

Beyond economic value

BEYOND LOOKING AT REVENUES

Applied to the recorded music industry, an additional value that is prominently considered is **creative value**

DEFINING CREATIVE VALUE

The terminology refers more towards an industry's ability to **innovate and adapt to changes**

ABILITY TO ADAPT TO CHANGES

In recorded music, the changes include adapting to market dynamics that enable **value-in-exchange** and **value-in-use**

Beyond economic value

DEFINING VALUE-IN-USE

Value-in-use includes examples like **convenient usage** and **experience**

AN EXAMPLE OF VALUE-IN-USE

MSS have been found to make music consumption more convenient due to **ease of access and frontline editorial playlists**

MORE ACCESSIBILITY FOR MUSIC

Exemplified by individuals in rural areas with internet access who can now **access a more global music library**

MORE ACTIVITIES FOR PERSONALISATION

As evident in playlists, personalisation allows **end users to increase the co-creation** of experiences (value-in-use)

Beyond economic value

DEFINING VALUE-IN-EXCHANGE

This value focuses more on examples such as the **free or low cost** of music offerings

The importance of value-in-exchange has led to **two identified consequences** for business activities

01. TIME SPENT ON REPEATED LISTENING

This shift towards this focus is attributed to how songwriters and performers are **compensated based on the number of streams**

02. OPTIMISING USER INSIGHTS

Record labels now put more attention to **better understand and communicate with audiences**

Beyond economic value

ECONOMIC SUCCESS REMAINS IMPORTANT

The value continues to depend on its **revenue-generating ability**, even when faced with obstacles like demand volatility

RATIONALE ON THE CONTINUED ATTENTION

The shift towards streaming was seen as an opportunity to **adapt the incumbents' economic value-creating activities**

OBJECTIVE OF THE ADAPTED ACTIVITIES

To provide self-sustaining and **profitable ways of disseminating their musical works**

Example: Jazzanova and Get Physical who went from cooperative or informal self-organization to formal business companies with internal divisions of labor

Beyond economic value

BROADER SCOPE OF VALUES

From a production and creation standpoint, value creation in recorded music also involves **cultural value**

DEFINITION OF CULTURAL VALUE

Shared meanings of new market categories, such as **aesthetic judgments and social contexts** of musical scenes among others

CONVERGENCE OF VALUES

Economic value converges along with cultural values that rely on **conducive social relations and agents responding** to increasing global challenges

FLUIDITY IN HOW MUSIC IS VALUED

The valuation system evolves within social, economic, and legal contexts, as the current one emerged from **power struggles, negotiations, and conflicts**

Case studies

Spotify and YouTube

04.

Case study: Spotify

INITIAL OPERATION (PIRACY)

During its beta phase, Spotify was distributing music to invited users **without proper licensing**

LEGAL TRANSITION

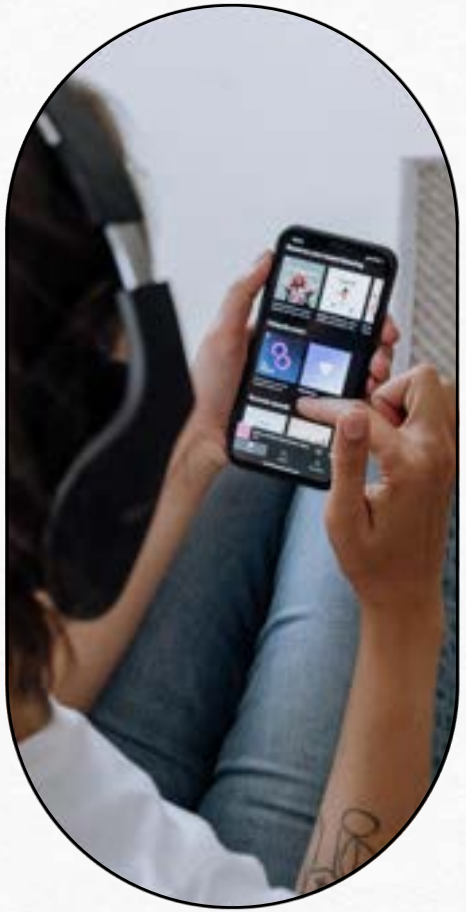
The situation changed after **securing deals with record companies and collecting societies**

A NEW FOCUS ON MONETISATION

Legalization allows Spotify to start **monetising through advertising**, especially for users of the free option

EVENTUAL FOUNDING PRINCIPLE

Intermediary for **two conflicting economic actors**: the music industry and non-authorised file-sharers



Case study: Spotify

STRATEGIES TO ATTRACT USERS

Influential Swedish musicians were invited to try out the application as **beta testers**

Result: **impressed musicians** as they helped in spreading the word

EVOLUTION OF THE SERVICE

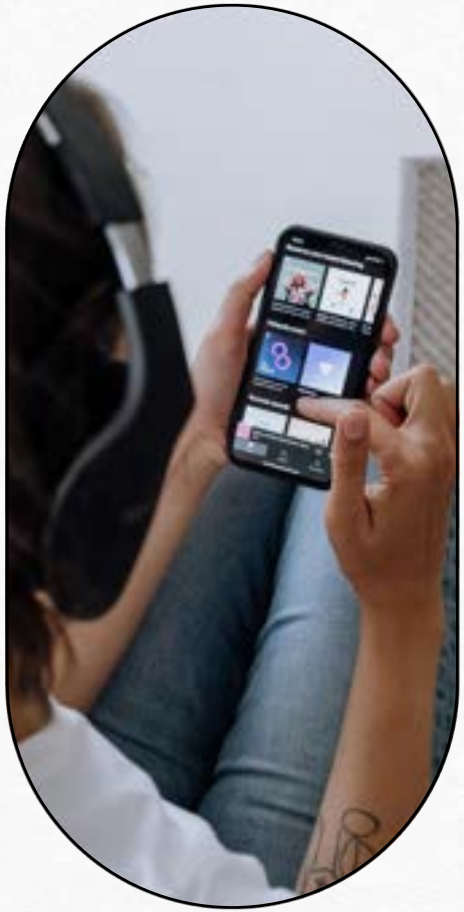
By early 2008, the hype intensified and its value proposition centered on **two key claims**

01. MAKING MUSIC "FREE"

Initially, by relying solely on advertising revenue

02. SIGNALING A SHIFT TO ACCESS

Rendering ownership, including personal MP3 archiving, obsolete



Case study: Spotify

EVOLUTION INTO A MEDIA COMPANY

By simultaneously **delivering content to users** and monetising those users through **advertising**

BOLSTERING FINANCIAL APPEAL

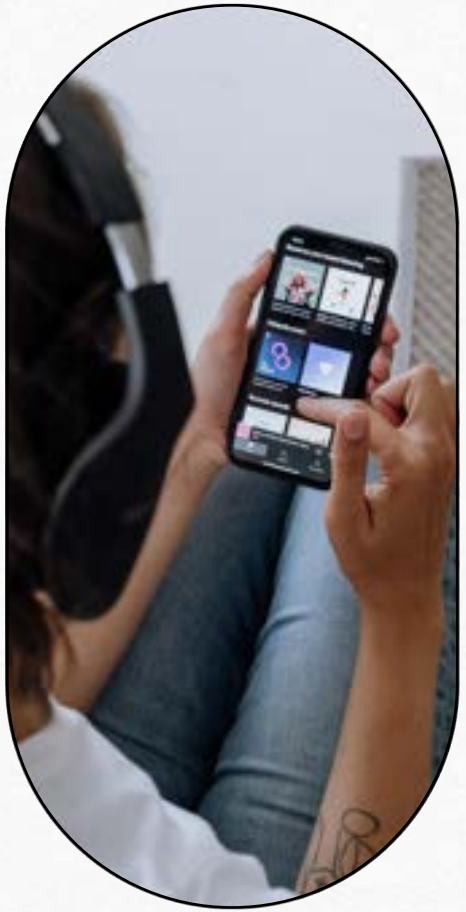
Through combining traditional **American media operations** with **European tech regulatory benefits**

SPOTIFY AS A BROKER

Practices involve debt financing and continuous restructuring of assets

SPOTIFY AS A GATEKEEPER

Centralisation of distribution, with **less transparency over algorithms** and asymmetries



Case study: Spotify

PRIMARY SOURCE OF INCOME

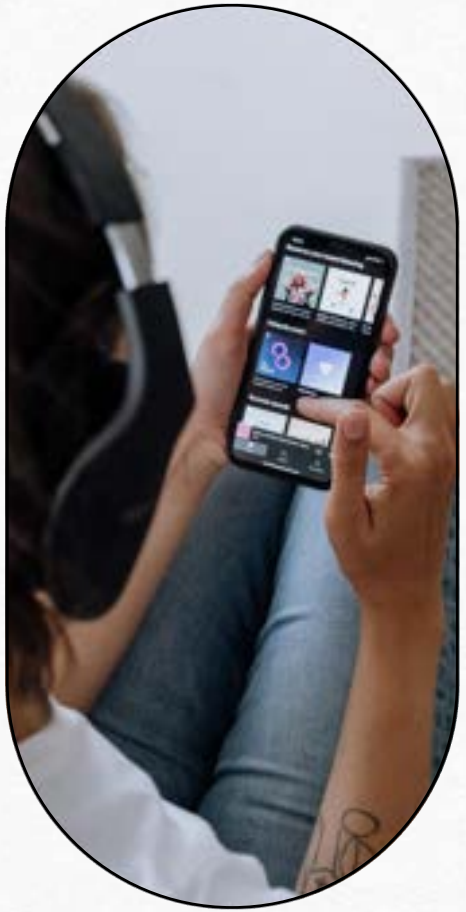
Spotify generates **91% of its revenue from subscriptions** and 9% from advertisements

It keeps 30% of the revenue and splits the rest between publishers, CMOs, labels and aggregators

ITS FINANCIAL STRUGGLES

Unsustainable profitability attributed to the **financial maneuvering of managing data** from its users and its low price

An increase in free users over premium between 2019 and 2020 may also perpetuate the problem



Case study: Spotify

There are **three user-centric strategies** that have been suggested on how Spotify could eradicate its profitability challenge

01. TARGETING PROFITABLE USERS

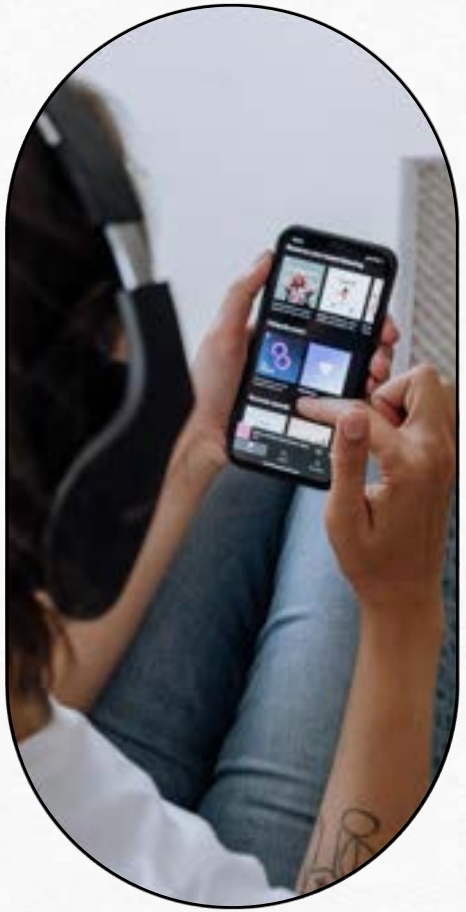
As a starting point, Spotify should focus on retaining users who have a **higher willingness to subscribe**

02. LEVERAGING TASTE PROFILE

This tool captures every interaction (e.g., artists followed, songs skipped) to **build a musical identity** based on consumption

03. OPTIMISING PERSONALISATION

Ensuring **detailed data collection on playlists** like Discover Weekly and treating it as the most valuable asset



Case study: YouTube

DEMOCRATIZING DISTRIBUTION

YouTube allows performing artists to **upload their content, bypassing labels**

As acknowledged by musician Amanda Palmer, who has extended the **participation of fans** as stars and content makers of her (music) videos

MAKING MUSIC A PRIORITY

Since 2015, YouTube has offered more specific features to ease distribution through **YouTube for Artists**

DRAWBACK OF THE DEMOCRATISATION

Expectation that performing artists must continuously engage in **self-promotion and audience engagement**

Case study: YouTube

YOUTUBE AS A PREFERRED CHOICE

Users value the **diverse content**, which underscores its **market versatility** in shaping consumption

SIGNIFICANT PRESENCE

47% of music streaming in Western Europe and North America

YOUTUBE AS A KEY PARTNER

Music companies and independent artists managed to **double their monthly revenues** from music videos

CLAIMS OF PAYOUTS

Over $12 billion as of January 2020, including $3 billion to rightsholders globally in 2019

Case study: YouTube

VALUE GAP GRIEVANCES

YouTube asserts that it was making returns, but record companies and publishers disputed

Defining the value gap: it simply refers to the **mismatch between the value extracted** and the revenue returned to songwriters and performers

MORE COMPLEXITY ARISES

Contribution of revenues through **uploaded content from users** remains a discussion

Users can contribute by uploading videos from live performances or performing/streaming the songs in their own uploaded content

Case study: YouTube

RECORD LABELS AND YOUTUBE

Labels find YouTube both a **promotional boon and a disruptor** of traditional revenue models

HOW LABELS ADAPT

By **leveraging YouTube's vast audience** for marketing purposes and creating visually appealing content

ROLE OF CONTENT ID

Helping rights owners **monitor, remove, and monetize unlicensed** uploaded content

IMPLICATIONS OF CONTENT ID

Testing the limits of copyright infringement, transforming identified **content as potential commodities**

Case study: YouTube

ROLE OF ADVERTISING

The **backbone of YouTube's revenue model**, creating a symbiotic relationship between performing artists and monetisation

For performing artists: opportunity to monetise their content through **ad revenues**

IMPLICATION ON RELIANCE

Artists must **optimize their content** for **maximum viewer engagement** to attract advertisers

Leading to a **compromise of artistic integrity** while overshadowing the music's artistic value

Case study: YouTube

BEYOND MERE ACCESSIBILITY

YouTube's role is **amplified by its algorithms** that influence what music gets heard and promoted

Its ability to generate personalised recommendations based on user behavior **shapes listening habits and industry trends**

A CHALLENGE FOR DIVERSE CONTENT

The recommendation system **benefits popular and trending content**, often at the expense of niche genres

Demonstrates how YouTube controls the music distribution landscape by **subtly directing user choices**

Case study: YouTube

STREAMLINED MUSIC NAVIGATION

Through assistive playlists, collaborative playlists, personalised playlists, and mood and genre playlists

MORE CONVENIENCE

The **open access**, requiring no login, **enhances its convenience** and widespread use among users

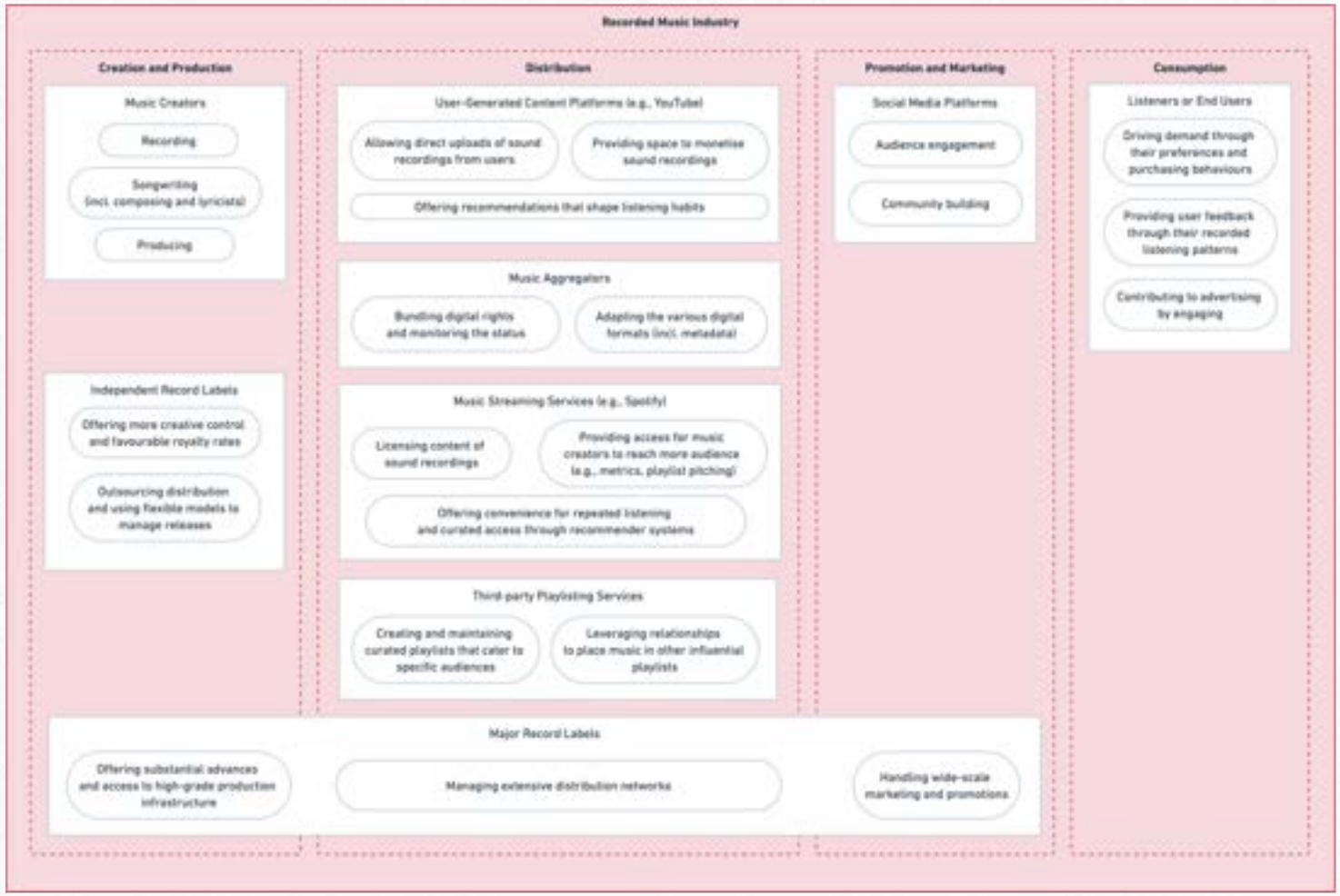
SOUNDTRACKING CONFIGURATIONS

Users often **favour using YouTube on a computer while working**, while MSS on a phone during commutes

Towards a music ecosystem

05.

A reconfigured value network of recorded music



Towards a music ecosystem

MUSIC CREATORS REMAIN INTEGRAL

This includes songwriters (composers or lyricists), performers or performing artists, and producers

OUTSIDE OF RECORDED MUSIC

Collecting societies, advertisers, and data intelligence companies influence the evolving interconnected dynamics

OTHER IDENTIFIED STAKEHOLDERS

Based on the findings, other key stakeholders include **record labels, music aggregators, MSS, UGC platforms, third-party playlisters, and end users**

Necessitate an ecosystem perspective

Towards a music ecosystem

RATIONALE FOR AN ECOSYSTEM

Understanding the new dynamics from the widespread adoption of MSS is crucial to identify opportunities for value creation

This process is **aided by incumbents' collaboration** with new 'translating' actors, such as music aggregators

FURTHER JUSTIFICATIONS

The ecosystem approach recognizes that the recorded music industry is not organized in a linear fashion, but a network of interdependent entities

DIVERSITY CONSIDERATIONS

The need for an ecosystem approach is also underscored by the diversity of agents with different strategies, goals, and actions

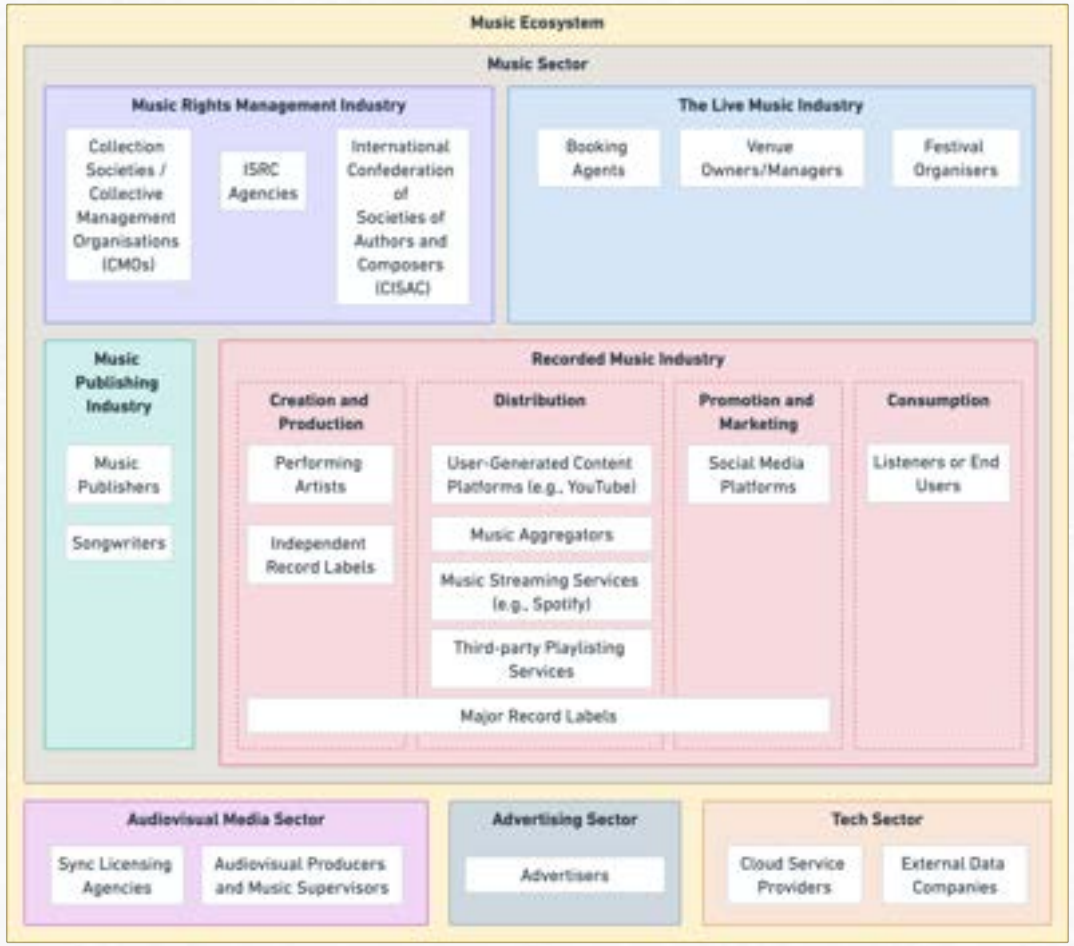
Towards a music ecosystem

UNDERSTANDING INTERCONNECTEDNESS

May help in **identify overlooked cooperation** and **potential co-creation of value**

LEVERAGING INTERDEPENDENCY

The increased interdependency has motivated firms like BMG and Kobalt, for example, to leverage proprietary technologies from outside of the music sector

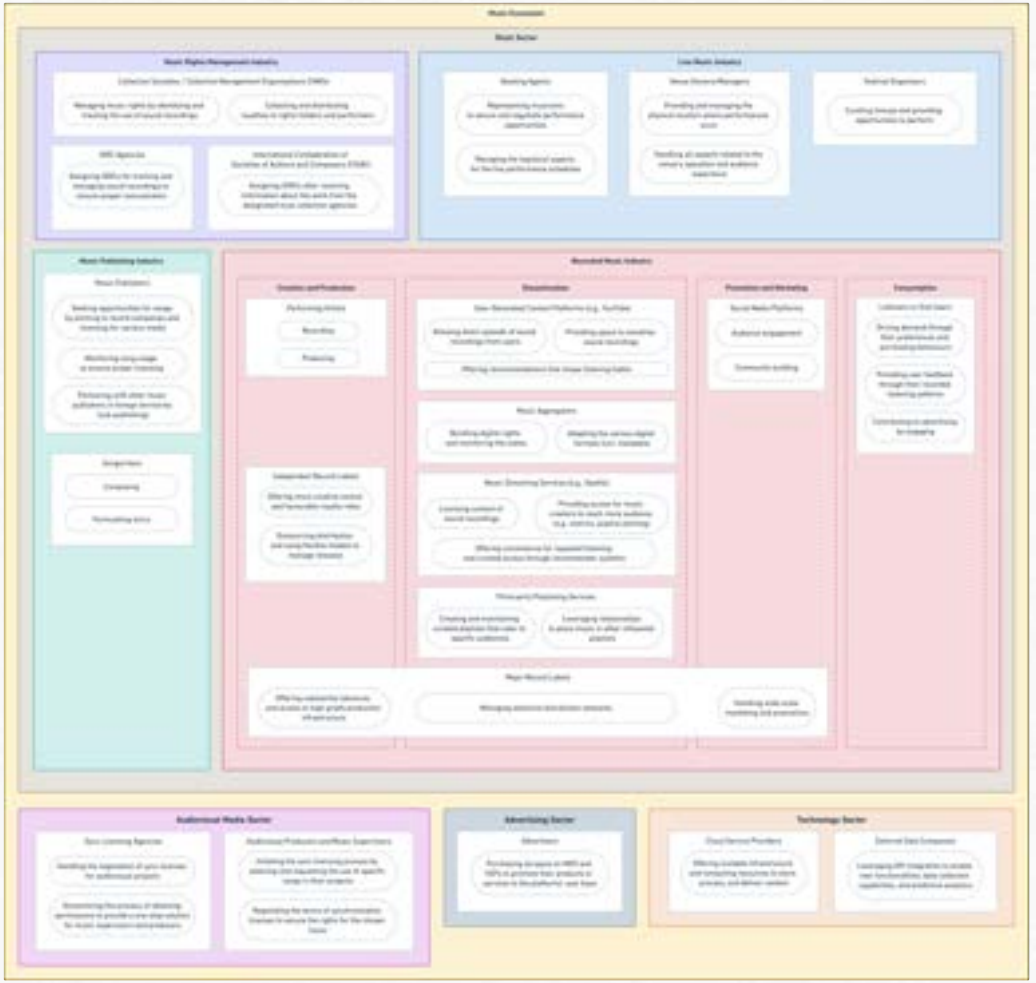


Towards a music ecosystem

THE APPROACH OFFERING BENEFITS

As exemplified by the Music Modernization Act of 2018

Collaboration from cross-industry stakeholders led to the modernisation of mechanical licensing, while expanding protection



Fairness discussions

06.

Assessing fairness

HOW THE ISSUE EMERGED

Through **the restructuring of power dynamics** that transcends beyond the traditional gatekeepers

In the wake of playlists, **curatorial power** emerges to govern how music is distributed, and consumed

Information asymmetries appear due to the **lack of transparency** in how music reaches users, while strategies that foster these asymmetries contribute to **unfair royalty payouts**

Fairness discussions are implications from:

1. **shifting locus of power**
2. **cultivation of information asymmetries**
3. **skewed distribution of royalty payouts**

Assessing fairness

SHIFTING LOCUS OF POWER

Increased influence of **personalised recommendations** and their role in creating platform dependence

Gatekeeping power no longer solely rests with major labels, as **curatorial power assumes a more dominant role**

Because of this, users who rely on personalised playlists can be easily trapped in a **filter bubble** that **limits their exposure** to **diverse** content

Assessing fairness

CURATORIAL POWER DILEMMA

Algorithms for playlists rely heavily on **user feedback** and the consequences of a **cold-start problem**

Even on playlists that are monitored by in-house curators, **certain items would always be prominently featured** due to the constant readjustments of ranks

PROLONGED CONSEQUENCE

If the practice continues to persist, it will **imperil the visibility** of music and exacerbate **information asymmetries**

Assessing fairness

Information asymmetries are intricately linked to **concerns surrounding transparency**

TRANSPARENT REPORTING

Stands out as many concerns are directed towards the **unfair negotiating conditions**

EXCLUDED STAKEHOLDERS

Songwriters and performers are often excluded from negotiations, which has led to an ongoing issue of a lack of transparency **how their music is recommended**

Response: resorting to **optimisation strategies**

Assessing fairness

OPTIMISATION STRATEGIES

Approaches that involve strategic **adaptation to suit the demands** of specific platforms

IMPLICATION OF IMPLEMENTATION

Reflects a trend that resembles the **exploitation of digital platforms for economic gains**

EXAMPLES OF OPTIMISATION

Shorter songs, cramming **attention-grabbing devices** into the first 30 seconds, hiring companies to **inflate the play counts**, and **altering the sonic features** for inclusion in popular mood-based playlists

Assessing fairness

Optimisation strategies have the potential to **skew the distribution of royalty payouts** due to the pro-rata model

PRO-RATA MODEL OF REMUNERATION

Based on how many plays a track has in relation to all other tracks that are played simultaneously

When taking this model into account, the calculation of payouts for providers with relatively lower capital for engaging in optimisation strategies might be affected

Assessing fairness

REFINING PAYOUT MODELS

Spotify, for instance, has implemented a revised approach to **prevent attempts for "gaming the system"** (among others)

New requirement: a **minimum threshold of 1,000 streams** within the preceding 12 months for a given track to begin generating royalties and be factored into the royalty pool calculation

Its contributing consequence on **fair distribution of royalty payouts** remains elusive

Thank You

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