Steve Ahern, *Making Radio* 3rd edition
Supplementary reading

Tipping Point for Streaming Services
Steve Ahern

Renting music is becoming more popular.

As music streaming services move into the mainstream, they are changing consumer habits and disrupting the traditional music industry business models. This trend has been evident for a while, but new figures show that the industry is reaching a tipping point.

Steve Ahern analyses the 2015 SNL Kagan report *Economics of Mobile Music* and looks at the implications for the radio industry.

A few things to know about streaming music:

- There's lots of money in it, but not so much profit;
- It is fundamentally changing audience behavior;
- Musicians want a bigger cut than they used to get from their traditional record company contracts;
- The music distribution chain has been reshaped;
- Mobile is the dominant platform.

These factors affect how the industry is developing and how industry income and expenditure is changing.

Owning vs renting music
If you're over 40 years old you will remember fondly collecting records and storing your albums in a cupboard to keep them out of the harmful sunlight. When you got an album out and put it on the turntable, you could sit, listen and view the album cover. The only annoyance was getting up after every 5 or so songs to change the record over. When that revolutionary device called the cassette was invented you could even record the songs and play them in the car, on your walkman or share them with someone else.

If you're between 20 and 40, you did the same thing, but those large black shiny albums had been replaced by small silver shiny things called CDs and sharing could be accomplished via burnt disks and, later, memory sticks.

Most people still bought physical copies of their music on CDs. There was something special about holding your music and looking at the album art.

If you're under 20 you've probably never bought a physical record or CD. You're used to downloading your music (legally or illegally). At first that downloading was done via an iconic blue cable attached to the computer on your desktop, then you transferred your music to your iPod for mobile consumption or played it through the audio player in your PC.

Then came wifi, mobile (dumb) phones then smart phones.

Actually, let's call them what they really are, they're not 'smart phones' they're the world's most powerful, portable digital media creation, curation and consumption devices. Combined with wifi and touch screen technology, they have changed everything.

Last week I saw a toddler given a book to read. At first he was puzzled as to why he couldn't just swipe the cover to go to the next page.

A child born today will never buy a record album. Will not know what those quaint silver things called CDs were actually used for; will see album art on a screen and be puzzled about a time when you had to plug your computer into a little blue cable.

As for actually owning music, that paradigm is also disintegrating. Downloading is decreasing and renting music is becoming the new norm. Music streaming companies have positioned themselves at the forefront of this change and the strategy is beginning to pay off.

US figures, compiled by SNL Kagan in 2015 give a clear picture of the wind of change:

- Physical record and CD sales made up 98% of the $11.6 billion earned from music sales a decade ago in 2004.
- Five years later, by 2009, physical sales were 59% and digital sales had increased to 41% of the $7.6 billion spent on music sales.
- Last year, 2014, overall music sales revenue had continued to decline, down to $6.7 billion, with digital sales rising to 66% of revenue and physical sales down to 34%.

During the past decade audience consumption patterns moved from the desire to own music towards the music rental model, and this trend continues. In 2014 the market lined up as follows:

- Digital music downloads were still on top, at 38% of sales ($2.5 billion), but continued to fall since 2012;
- Streaming music rental was gaining fast, up to 28% of sales ($1.86 billion);
- CD albums and singles sat at 27% of sales and continued to decline ($1.85 billion);
- Vinyl made up 5% of sales ($320 million);
- Music video sales were 1% ($90 million);
- Ringtones were a little under 1% ($66 million).

Mobile music
Curated playlists, on demand songs, and 'genius' recommendations introducing new music are all features of the new rental services. Oh, wait a minute, doesn't radio do that too?

You bet. But our industry is not as sexy as the new services. Radio should use the new terminology to remind consumers that we are still here. We need to keep updating and evolving our mobile device offerings as fast as the streaming services do.

Most radio stations have apps. Some are integrating music 'rental' functions into their apps, as radio businesses position themselves to counter the threat of music streaming services. Getting digital receiver chips into radios is also essential, so that live-to-air-radio (oh sorry, I mean: 'curated music playlists that deliver your favourite songs, information and services and introduce you to new music, hosted by personalities who you follow on social media') is free and reliable.

Consumption habits
Where are the listeners?
The SNL Kagan figures for America showed the growth of listenership to the top streaming services:

- Spotify grew from 8 million to 15 million subscribers from 2013 to 2014, with SNL estimating it will have 25 million listeners by the end of 2015.
- Deezer grew from 5m to 6m subscribers from 2013-14, with an estimated 6.5 million subscribers by the end of 2015.
- The newly introduced Apple Music service is estimated to have 4.5 million subscribers by the end of 2015.
- Pandora was steady at nearly 4 million subscribers over the previous two years.

- Rhapsody grew from 1.7 million to 2.3 million subscribers between 2013 and 2014, and was estimated to have 3.5 million by the end of 2015.
- There are more services, but they had much smaller audiences (at the time of the report). The total number of subscribers was expected to be 46.6 million by the end of 2015.

How does this compare with US radio?

America's population is about 300 million and 90% of those listen to radio in an average week.

Z100 New York is one of America's top stations. It reaches about 1.7 million listeners ('cume'—cumulative audience).

Compared with the radio industry as a whole, music streaming is yet to reach anywhere near 90% of the US population, but comparing individual services to individual stations is a different story. Of course stations are localised, while music streaming services are national (and international), but the numbers are still highly saleable.

That's a key point. Music sales in the past did not compete directly with radio for advertising revenue. These new services do, so the radio industry should pay attention to the business model they are developing.

Sales and distribution

Music production has also changed. Record companies have lost their hold on the production and distribution chains. Any technically minded musician with the right equipment can record broadcast quality music in their garage and distribute it via the internet, they no longer need the old fashioned record company machine.

Record companies now know this, a little too late, and are trying to claw back their control on production and distribution as much as they can. One new way record companies are using to keep a hold on what songs make it to the top 40 is to work with and reward (pay) personality playlist curators to 'favourably place' their artists' songs. Some have called it 'Payola' and Spotify has said it will act against this practice. It is a new way that record companies are using to regain their hold on the disrupted distribution chains.

With record companies, and the artists themselves, not being able to make as much of a profit margin on production and distribution as they have in the past, they are looking to squeeze other industry partners, such as streaming services, radio and TV stations, to pay more to use their songs.

There has never been a pricing model for streaming services; they didn't exist a decade ago, so it is being invented on the run. Of course artists and record company businesses want as much of a cut as they can get from revenue earned by these services. Streaming businesses want to pay as little in rights fees as possible so they can maximise their profits. Streaming businesses are outlaying at least half their revenue in rights payments at present, which is probably unsustainable in the long term. Whether unsustainable rights payments will kill the goose that lays the golden eggs remains to be seen, but there is no doubt there will be a shakeout in the streaming industry before too long and only the profitable will survive. The non-profitable ones may fold, or could be bought by record companies wanting to regain control of the distribution channels.

Meanwhile, the music industry's traditional partners, broadcast media, have been chugging along comfortably, trying to negotiate professionally with artists and labels to give sustainable returns to musicians without breaking the bank. It is right that fees should be renegotiated to allow traditional broadcasters the freedom to move quickly to exploit new platforms, apps, streams, podcasts, but the fees must be based on the economic realities of both sides. At first record companies blocked, then asked too much, for additional streaming and podcast fees. Then sense prevailed and most of the collecting societies reached a deal to add-on a fraction more for the right to podcast and stream. The current PPCA dispute with commercial radio stations in Australia is an exception to that—let's hope a negotiated deal can be struck soon.

So where are we now? What are the top line numbers?

- **Spotify** (SNL Kagan)
    - Total revenue $1 billion (subscriptions $982 million; ads $97 million)
    - Net profit/loss: lost $197 million
- **Rhapsody** (SNL Kagan)
    - Total revenue $173 million
    - Net profit/loss: lost $21 million
- **Pandora** (2014 Annual Report)
    - Total revenue $920 million (subscriptions 20%; ads 80%)
    - Net profit/loss: lost $30 million
    - Pandora was paying 48% of its revenue for rights payments

SNL estimates that all streaming services together will generate $2.7 billion in global revenue in 2015 from subscriptions alone (not counting advertising revenue).

There's a lot of money in the streaming music industry. It's something for radio businesses to keep watching.

Sources:
Pandora Annual Report 2014
SNL Kagan, *Economics of Mobile Music Report* 2015, using RIAA (Recording Industry Association of America) data

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