

# European Media Markets 2021:

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## The European Music Market:

Is Spotify still the Disruptor that it claims to be?

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Over the last 15 years, the emergence of streaming services has changed the way we consume audio-visual content profoundly. Subscription-based business models have met consumers' need for convenience and turned the music industry's offering from a (physical) product to a service, after a decade of piracy issues. The systematic gathering of data has continuously empowered algorithms to increase user engagement and experience, whilst maximizing potential profitability. In this White Paper the state of the music industry in Europe and beyond will be discussed and an outlook of the industry's business model and current actors presented.

### Highlights

- Over the last decades, music evolved from a physical to a digital product, which made the marginal costs of reproduction insignificant.
- The proportional market share of the dominating record labels has declined to the benefit of independent artists and smaller labels.
- The collection of data has turned music streaming services into major gatekeepers of the industry and enabled industry professionals to maximise the capitalisation of music.
- While Spotify has a disruptive role in the music industry for several years, other intermediaries and the influence of Covid-19 on specifically the consumption of live music also play a role in the changing industry.

## 1. Latest developments in the music market

Through digitalisation, the internet, and the accompanying technological advancements, the music industry has changed and so has the consumption of music.<sup>1</sup> Over the last decades, music evolved from a physical to a digital product, which made the marginal costs of reproduction insignificant. Social Media allowed more direct interactions between listeners and artists, and introduced music videos on demand, which led to the development of streaming websites.<sup>2</sup> Music piracy was a direct consequence of those developments, also in Europe, which significantly affected the revenue of record labels and thus, indirectly, artists. A solution appeared with the emergence of subscription-based music streaming services (MSS). MSS introduced a legal way to access and listen to a large music library. Due to streaming, the revenue of the worldwide music industry resembles that of 2001, when the golden years of record sales came to an end.<sup>3</sup>

Globally, streaming now accounts for 62% of the recorded music market. Europe represents approximately one third of the total world-wide revenue with 59% generated by streaming. As of 2020, streaming services have globally 443 million users with paid subscription accounts.<sup>4</sup> In

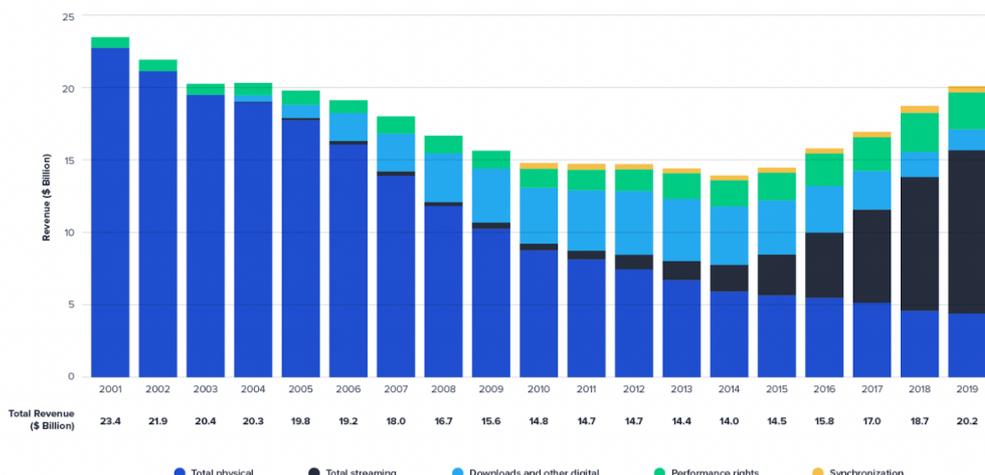
<sup>1</sup> Millar, M. (2020, November 26). *How Digitalisation has Changed the Music Industry*. XS Noize | Online Music Magazine. <https://www.xsnoize.com/how-digitalisation-has-changed-the-music-industry/>

<sup>2</sup> Hviid, M., Izquierdo-Sanchez, S., & Jacques, S. (2018). Digitalisation and Intermediaries in the Music Industry: The Rise of the Entrepreneur? *SCRIPT-Ed*, 15(2), 242–276. <https://doi.org/10.2966/scrip.150218.242>

<sup>3</sup> IFPI (n.d.). *U.S.: Recorded Music Revenues by Format*. U.S. Sales Database. Retrieved April 20, 2021, from <https://www.riaa.com/us-sales-database/>

<sup>4</sup> IMPALA (2021). *Levelling the playing field for independent music companies and their artists across Europe*. <https://www.impalamusic.org/stats-2/>

terms of market share, the industry is dominated by four large players: Spotify (32%), Apple Music (18%), Amazon Music (14%) and Tencent Music (11%). Tencent Music is almost exclusively active in China. Google (including YouTube Music) only represents 6%.



**Figure: Global Music Recording Industry Revenues: 2001-2019 in Billion US Dollars.<sup>5</sup>**

## 2. False revolution: The power structures remain

Historically, the music industry has been dominated by large record companies, namely Sony, Universal and Warner. Yet in the last decade the proportional market share of the ‘Big Three’ has declined, to the benefit of independent artists and labels. The most prominent reason would be the increasing value of MSS.<sup>6</sup> However, Spotify has not really been a liberator for independent artists and labels but rather a consolidation of the classic power structures, due to the Big Three’s bargaining power and large music catalogues.<sup>7</sup> The major record labels still hold the rights for most of the music streamed on Spotify.<sup>8</sup>

Another disruption emerged from the availability of vast amounts of (real-time) data. By translating data of user’s music consumption into relevant metrics, the business model of the industry was reshaped, from music as a product to music as a service.<sup>9</sup> For Spotify, personalisation is one of their most important competitive advantages. Curated user-specific playlists are part for their product offering and perceived value.<sup>10</sup> The collection of data has turned MSS into major gatekeepers of the industry. The metrics assist producers on how, when and where to promote a song, artist or album successfully. The data shared by MSS with industry professionals enables them to maximise the capitalization of music content and mitigate investment risk.<sup>11</sup> Although data is shared with producers, MSS only partially releases and shares this information.

## 3. Is streaming of live concerts here to stay?

The COVID-19 pandemic has changed music consumption patterns partly due to new forms of media, increased audio streaming subscriptions and artists utilising these innovations.<sup>12</sup> An example of this changing consumption is the livestreaming of concerts which went hand in hand

<sup>5</sup> Source: International Federation of Phonographic Industry (IFPI)

<sup>6</sup> Stone, J. (2020, December 19). *The state of the music industry in 2020*. <https://www.toptal.com/finance/market-research/analysts/state-of-music-industry>

<sup>7</sup> Marshall, L. (2015). Let’s keep music special. F—Spotify: On-demand Streaming and the Controversy over Artist Royalties. *Creative Industries Journal*, 8(2), 177–89.

<sup>8</sup> Sisario, B. (2018, September 6). *A New Spotify Initiative Makes the Big Record Labels Nervous*. The New York Times. <https://www.nytimes.com/2018/09/06/business/media/spotify-music-industry-record-labels.html>

<sup>9</sup> Croll, A. (2015, September 9). *The music science trifecta: Digital content, the Internet, and data science have changed the music industry*. O’Reilly. <https://www.oreilly.com/content/the-music-science-trifecta/>

<sup>10</sup> Iqbal, M. (2021, April 2). *Spotify Revenue and Usage Statistics (2021)*. Business of Apps. <https://www.businessofapps.com/data/spotify-statistics/#3>

<sup>11</sup> Maasø, A. & Hagen, A. N., (2020) Metrics and decision-making in music streaming, *Popular Communication*, 18:1, 18-31, <https://www.tandfonline.com/doi/full/10.1080/15405702.2019.1701675>

<sup>12</sup> Dredge, S. (2020, September 21). *The future of streaming and music marketing post Covid-19*. Music Ally. [https://musically.com/2020/09/21/the-future-of-streaming-and-music-marketing-post-covid-19/?fbclid=IwAR3Mnp\\_WrDr3uqEDzvb\\_p\\_wi0vsOolpVJkC5lGGsvtzmoBafqVp5ClhEkQ](https://musically.com/2020/09/21/the-future-of-streaming-and-music-marketing-post-covid-19/?fbclid=IwAR3Mnp_WrDr3uqEDzvb_p_wi0vsOolpVJkC5lGGsvtzmoBafqVp5ClhEkQ)

Grant, K. W. (2020, May 19). *The Future Of Music Streaming: How COVID-19 Has Amplified Emerging Forms Of Music Consumption*. Forbes. <https://www.forbes.com/sites/kristinwestcottgrant/2020/05/16/the-future-of-music-streaming-how-covid-19-has-amplified-emerging-forms-of-music-consumption/?sh=3e970e9c444a>

with the cancellation of concerts and inability for live events. Digital media platforms have been increasingly offering livestreaming and virtual concert systems which need less logistics than in-person concerts.<sup>13</sup> Gamified music events as seen with the cooperation between Fortnite and various music artists are also more frequent.<sup>14</sup>

Whether these innovations will be a temporary fad or not is yet to be determined, but evidence has shown that a lot of money can be made through these technologies. It is not a major business yet, but these possibilities should not be neglected but rather challenge the music industry and platforms to learn and experiment from these innovations and figure out what the business model is.<sup>15</sup>

#### 4. Conclusion: The future of the European music market

While Spotify is still benefiting from the reputation of being the saviour of the music industry, this White Paper argues that this time might be over and that the MSS has transformed from being the disruptor to becoming the backbone of the contemporary music industry that is now being disrupted by new players and innovative services that are trying to challenge the current power structures. While the authors agree that Spotify's role as a disruptor on the recording industry in the early 2000s is apparent and undeniable, they argue that the MSS has now turned out to be a consolidator of pre-existing power structures. Other players, such as major labels and other intermediaries, are possibly more disruptive. Especially the Covid-19 pandemic put pressure on the industry, resulting in new revenue streams. The upcoming years and the development of the health crisis will show if streaming of concerts and virtual concerts will develop into relevant revenue streams for artists and intermediaries in Europe's music industry in the future.

##### Recommendation 1: Further research

The development of live streaming and its drivers is a field that should be closely followed by media experts in Europe. A shift from live concerts to virtual concerts can change consumption of music by extracting the physical element of concerts.

##### Recommendation 2: New synergy with potential

Media and communication experts are advised to explore the synergies between gaming and the music sectors, since the two industries have only just started to explore this potential.

##### Recommendation 3: Impact on culture

Furthermore, policy-makers should be aware of the algorithmic power of personalised recommender systems. Considering that MSSs are growing into worldwide streaming platforms delivering music to a worldwide audience, their impact on cultural convergence must be closely monitored.

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<sup>13</sup> Nicolaou, A. (2020, September 15). *Spotify to push live streaming concerts in response to Covid-19*. Financial Times. <https://www.ft.com/content/973f8676-705f-4b88-9394-9c4a8bc08485>; ; Srivastava, S. & Downs, K. (2020, June 10). How streaming is changing the music industry As COVID-19 halts live events, music streaming platforms innovate. <https://www2.deloitte.com/us/en/insights/industry/technology/how-streaming-is-changing-the-music>; Ujam. (2021, March 23). <https://www.ujam.com/blog/top-music-industry-trends-in-2021/>

<sup>14</sup> Stuart, K. (2020, April 24). More than 12m players watch Travis Scott concert in Fortnite. <https://www.theguardian.com/games/2020/apr/24/travis-scott-concert-fortnite-more-than-12m-players-watch>

<sup>15</sup> Nicolaou, A. (2020, September 15). *Spotify to push live streaming concerts in response to Covid-19*. Financial Times. <https://www.ft.com/content/973f8676-705f-4b88-9394-9c4a8bc08485>