It’s Time to Challenge the Flow
How to make the most of the real opportunities of streaming
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IMPALA, the European independent music companies’ association in Europe, puts forward a ten point plan to reform streaming. Seeing music services as partners, IMPALA’s aim is to make streaming fairer and provide a dynamic, compelling and responsible future for artists, labels and for fans

Introduction

Music streaming is now the main source of income from recorded music worldwide, and the main source of listening pleasure for fans. But it is also the main bone of contention for the very artists who create the pleasure and the income.

More music is being released by more artists than ever. In 1984, a mere 6,000 music albums were released in the UK. Today, streaming services make available a similar volume - 55,000 new songs - every single day[1]. And almost all recorded music is now available to listeners.

And fans are listening more than ever - to the new music arriving every day, and the back catalogue. Because it’s all there in their pockets, all the time. For listeners, this is a musical golden age.

Streaming saved the music industry. Music streaming platforms have attracted hundreds of millions of paying subscribers.

For the recorded sector, when it comes to trade revenues, the European market today is at only 50% of its 2001 value – 35% when you adjust for inflation[2]. It is also concentrated within a small handful of global platforms.

We need new ways for streaming companies to grow revenues, we need to encourage a diverse range of options for consumers, and we need to consider different approaches to the way revenue is distributed. We will come to these last two later in this paper.

But first we must address the root problem.

How is it possible for such a vast – and truly incredible - market to be effectively a third of the value it had 20 years ago in spite of the massive growth in music listening? What’s holding it back?

Safe harbour. It suffocates the market, and it must come to an end.

Safe harbour steals from musicians by removing their right to deny permission or exact a negotiated price for use of their work. They don’t have a say over how their music is used or how much they can earn. Safe harbour forces streaming services that pay for content to compete with those who have treated payment as an option, rather than an obligation. It limits streaming services’ ability to charge enough to reward artists adequately, unless they are major stars.

[1] https://www.ft.com/content/77768846-a751-45ec-9a12-20fff27ddefb - The music industry makes more money but has more mouths to feed by Will Page

[2] Results obtained using figures for Europe from IFPI's Global Music Reports (2001-2019), excluding performance and synchronisation rights.

The market is stifled and distorted: too little revenue comes in. Legitimate new entrants to the streaming market must compete with free, which is ruinously difficult. Competition in the field is near impossible, limited to a few huge multinationals.

Legislators in Europe have begun to resolve this injustice. And digital services that have evolved from that old model now see the potential in better relationships with artists and their partners. Deals done on this more equal footing are entered into freely and deliver value to all.

When they play by the same rules as our fully licensed partners, services that dominated under the safe harbour model become part of the legitimate listening revolution for consumers. And they will deliver immense growth in revenues to creators, and to cultural entrepreneurs.

IMPALA members also welcome new services. They offer new experiences to music lovers and find new ways to captivate listeners. They, too, must work with us to fairly reward the artists who make these experiences possible. Seeking consent, paying for music and building productive relationships with artists and labels is the path to success.

All countries should protect their creative artists – not timidly, but fiercely. It is time to revoke the safe harbour privileges – and to make sure no new loopholes are created.

Ending safe harbour is therefore our first and fundamental recommendation.

Without safe harbour, we can all grow revenue. We can make a bigger pie. But then we must change how the pie is divided - how revenues are shared. Which brings us to our second recommendation.

Record labels must commit to revising all pre-digital royalty rates, and all artists should receive a fair contemporary digital rate.

This benefits all artists, but especially those on older deals where royalties can be as low as 4%.

We also call on the entire music sector to stand with IMPALA to reject any proposals by services that reduce royalties for plays, or privileged treatment, in algorithms or other features. This is payola, and has no legitimate place in improving viability and opportunity for creators.

Differentiation in rates and not reduction is a fundamental part of our optimal model. This is the key to developing a dynamic market.

IMPALA's Vision

IMPALA and its members have learnt a great deal from the ongoing transition to streaming. We have worked tirelessly to improve the industry for all in it and all audiences. And we will continue to do so. This paper and the range of recommendations it contains are built on those principles.

We see music services as our partners, and together we can create a sustainable, diverse, dynamic market, exciting and rewarding for musicians, fans and all of us in the music business.

This paper now sets out a number of further ways to grow revenues and make streaming fairer for artists and more personalised and engaging for fans.

Revenue Distribution Models

Beyond the issues already addressed above on safe harbours and fair royalty rates, we propose reforms to revenue distribution models.

However, we believe that there is no single model that would provide an instant fix to more fairly distribute revenue.

There will be winners and losers with any change. We recommend a spectrum of ideas to investigate and implement as appropriate. These offer multiple differentiated approaches for services to create a rich, pluralistic market with choices for artists and fans.

Equitable Remuneration

Equitable remuneration sounds fair and has recently received a lot of attention. But let's be clear. It is not a new right – it is a compensation mechanism for rights when they are stripped away.

The model on which it's based illustrates the loss of value it brings, with radio paying rates per listener that are up to 200 times lower than streaming. And in some countries, like the USA, terrestrial radio doesn't pay anything to play recorded music.

It may also allow monopoly market participants to end the industry's freedom to negotiate commercial rates for streaming; and it would not result in greater pay-outs to artists.

In addition, equitable remuneration cuts across innovative initiatives such as the Fair Digital Deals Declaration, introduced by the independents to deal with legacy issues and to facilitate the sharing of revenue previously not covered by contracts. It transformed the market, and helped thousands of artists share in the benefits accrued to labels when Spotify floated.

Equitable remuneration would deplete value from the commercial market and reduce capital for investment in new artists and projects. This would disproportionately harm the independent sector, which is responsible for 80% of new releases, and that's before counting the community of artists who are not signed to record labels.

User-Centric

User-centric pay-outs feel more appealing to some who like the idea of their money going to the artists they listen to. We are ready to explore this option and scrutinise the pros, cons and unintended consequences of some services choosing the user-centric model. We feel, though, that on its own it won't create the optimal market for artists, just a different set of artists who gain and lose, without growing the market or embracing other dynamics which we feel are needed to achieve change.

Differentiated Distribution Models

We want a more nuanced approach to the distribution of value from streaming platforms.

For example, differentiating the value of listeners' streaming behaviour. Some services will see value in rewarding deeper relationships with an artist's music. Active engagement with individual creators, such as adding an artist's album or single to your collection, or "liking" her track on a playlist, could drive enhanced value to that artist and their label. This would be an opportunity for services who wish to recognise the key role of the individual artist in the creation of music.

Such a distinction could really enhance synergies between artists, fans and services which we expect would quickly lead to greater opportunity for interaction, innovation and conversion of free customers to payment.

Several of our proposals for revenue growth strategies are in effect user-centric - they encourage fans to pay more for enhanced offerings, exclusive content, and connect with the artists they love.

Further Revenue Opportunities

We have seen during the pandemic that fans like to support and connect with their favourite artists more directly. There has been an explosion of direct-to-fan sales of vinyl and other physical goods, of subscription based digital fan clubs, and of paying for live-streaming experiences.

We want to work with streaming services to create initiatives and products that allow artists to earn more, directly from fans' streaming. This could also reduce artists' reliance on touring and would thus be more sustainable for the environment and for the artists themselves. These new revenues could provide exciting opportunities for different types of new business models and revenues splits.

Diversity in Consumer Offerings

Consumers are listening to a deeper and broader range of music than ever before, yet artists outside the dominant genres don't earn enough from it.

For example, artists who create longer-form pieces of music, such as jazz, electronic and classical, currently have to accept that the consumption of their music is measured in the same way as short-form pop music. An hour of listening might include 20 pop songs, but three classical pieces. In this instance, the classical artists are at a significant revenue disadvantage if streams are paid only 'per song'.

IMPALA's membership agrees that the length of a track should be valued and recognised. We also see opportunities for some services to take a creative approach to attracting fans of longer-form genres, and we have a proposal for rewarding the work of artists in these genres in new ways.

Encouraging Innovation and Adding Value

Audio streaming subscription prices have been static for over a decade. Therefore, despite its growth, the relative value of music has reduced over that time. Video streaming prices and TV subscription services edge up every year; music streaming services are held back by safe harbour, which tethers streaming prices to the bottom.

Once safe harbour is abolished, we see many opportunities to innovate and offer value-added services to consumers. The most voracious, active listeners are willing to pay more for better experiences.

Fans spend on value-added products. It could be limited editions or live streams or music publications. Record stores offer personalised service and recommendations. We can do much more than just automated recommendations driven by artificial intelligence, and offer compelling alternatives.

What is it about fans who stream that makes them less likely to appreciate, and pay for, more layers and levels of engagement and fun? Nothing! Consumers want it and the market needs it now.

This can be done through:

- Artist subscriptions: consumers pay a small supplement for being super-served content by a particular artist/set of artists. For example, 1 euro per month above your subscription gets you extra tracks, live chats, early ticketing offers, discounts on physical goods etc. from your favourite artists. The share of that 1 euro per subscriber would change the equation for artists in terms of ARPU or Average Revenue Per User, which is the key metric for measuring real value in the streaming economy.
- Deep curation/hyper-personalised recommendations: consumers pay a small supplement for curation better targeted to their favourite artists/genres. This could include articles, interviews with artists, histories, retrospectives, podcasts etc. These supplemental revenues would be apportioned to the artists that these consumers engage with.

Inspiring Change

It's easier today for artists to make their music available to consumers than ever before. Immense volumes of diverse new music are uploaded to platforms every day.

There is huge commercial potential in smaller markets, especially in Europe where there is great cultural and linguistic diversity.

Two simple ways to unlock this value are by enabling multiple titles for tracks, in different languages, and implementing search by label. These are key to promoting linguistic diversity, inclusion and market access.

Labels matter to music fans and artists as curators. Artists seek them out more than ever for investment, expert professional services and association with a label's values, identity and track record. Independent labels often specialise and are seen as incisive taste-makers, adding extra synergy and fan appeal in many types and genres of music. Search by label lets fans explore and enjoy the artistic lineages and choices that make labels special and unique. It opens up a deeper and more exciting relationship between musicians, labels and listeners – which in turn offers dynamic ways to grow revenue.

We welcome all opportunities to work with streaming services to boost diversity and market access in Europe and elsewhere, in line with IMPALA's diversity charter.

However, the market is dominated by a small number of multinational conglomerates. They have global business imperatives, so they focus on a small number of global hits, and the most lucrative markets. Few resources go to smaller or emerging markets, even though these have the potential for healthy music ecosystems.

The status quo rewards global homogeneity of content, and under-represents local or niche artists. It gives no incentive to investment in more diverse forms of repertoire, by language or genre.

The variance in ARPU (Average Revenue Per User) across markets also makes it harder for artists outside the top few territories to make sustainable earnings from streaming. We must create new models in markets where streaming services are failing to convert listeners from free to paying.

Finally, no optimal model could be complete without addressing sustainability. We are understanding more about the carbon footprint of our entire industry, and we will work with everyone in it to bring it down.

So what's next? The IMPALA 10-Point Plan to Make the Most of the Streaming Opportunity

Taking these issues forward into concrete recommendations, we believe our paper is written in the best interest of independent record labels and the artists they work with, who are trying to make a living with their passion for music.

We present our 10-point plan as a pathway to achieving these goals.

1. End safe harbours effectively – no new loopholes.
2. Pay artists a fair contemporary digital royalty rate. No "equitable remuneration" (streaming is not radio).
3. Reform allocation of streaming revenue. Different services may wish to explore any or all of the following proposals:
    a) Differentiation of rates:
    I. Pro Rata Temporis Model - To deal with the value imbalance for long-form music content, for example by having a rate for the first 30 seconds to 5 minutes of a song, then further payments triggered at 5 minute intervals until 15m 30s.
    II. Active Engagement Model - Encourage artists to stimulate active fan engagement by attaching a premium value to tracks which the listener has sought out or reached by artist, track or album name, or where she has saved, "liked", or pre-ordered an album or track, for example.
    III. Artist Growth Model - Enabling artists to accelerate revenues to a sustainable level, support a broader diversity of emerging, and credible niche talent. The top tier streams would generate a bit less and bottom ones a bit more to help emerging and niche artists.
    IV. User Choice Model - Facilitate spaces within services for rightsholders to develop incremental revenues through direct relationships with fans, eg by offering access to extra tracks, better audio, and features.
    b) No threshold for a song to start generating revenue from streaming.

4. No reductions in royalties in exchange for enhanced plays, or privileged treatment in algorithms, or other features that recreate elements of payola.

5. Revenue enhancement mechanisms in markets where services are failing to convert users to paid models.

6. More vigilance by music services on unlawful activity that removes value from creators, including streaming manipulation, ad-blocking and stream-ripping software.

7. Enable search by labels/performers/producers/composers/musicians/authors/publishers.

8. Boost local repertoire and languages by better profiling in playlisting and other features, as well as having track titles in more than one language or specific, and ringfenced funding mechanisms allocated to investment in new, local recordings.

9. Work collaboratively with a spectrum of labels, across all markets (e.g. through Merlin for independents) to ensure editorial algorithm developments don't negatively affect diversity, local repertoire and opportunities for artist discovery.

10. Work with the recorded music sector to help assess and reduce the carbon footprint of digital music.

The independent music community stands with artists, ready to help build better models for creators, consumers, services and the environment to make the most of the promise of streaming.