

Is The Music Copyright Business Worth More Than Ever?

THE GLOBAL VALUE OF THE RECORDING AND PUBLISHING SECTORS SURPASSED \$30 BILLION IN 2018 — A HIGH IN NOMINAL TERMS AND A 9.3% INCREASE OVER 2017

BY WILL PAGE

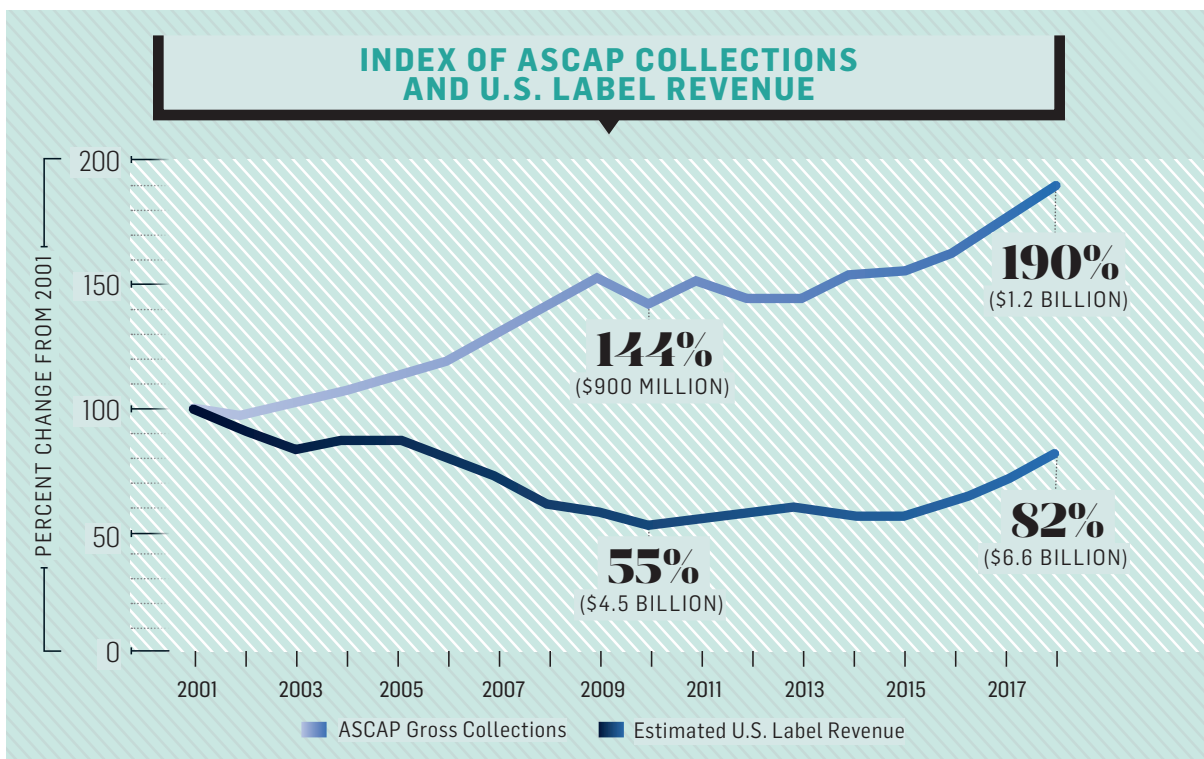


THE USUAL STORY ABOUT THE

music industry goes something like this: The recording business hit its peak in 2001, when it was worth \$23.9 billion worldwide, according to the recorded-music business' trade organization IFPI — and then fell, decimated by piracy and the resulting loss of pricing power, to a low of \$14.3 billion in 2014. In the years since, it has come roaring back, up by a third to \$19.1 billion in 2018. It's an incredible comeback — even though the business is still worth a fifth less than it was at its peak before accounting for inflation.

But that feel-good story doesn't do justice to the overall success of the music business. The recording industry is just part of an overall music copyright business that also includes publishing — the rights to underlying compositions. And that business has grown, too — more gradually, but also more steadily — as songwriters and publishers collect an increasing amount of royalties when their work is distributed, streamed or played in bars, restaurants and on radio stations around the world.

The total global value of the music copyright business reached \$30.1 billion in 2018, an all-time high in nominal terms, based on the best available information,



although still shy of its 2001 peak once inflation is taken into account. Currency fluctuations and the lack of exact statistics make it impossible to directly compare more than two consecutive years, but this 2018 total represents a 9.3% increase over 2017 — and an increase of \$2.6 billion when measured in constant currency. (2018 is the most recent year for which accurate statistics are available.)

The importance of streaming to the music industry's recovery is usually discussed in terms of labels. But this total figure, previously unreported, captures the full value of global music copyright — not just recorded

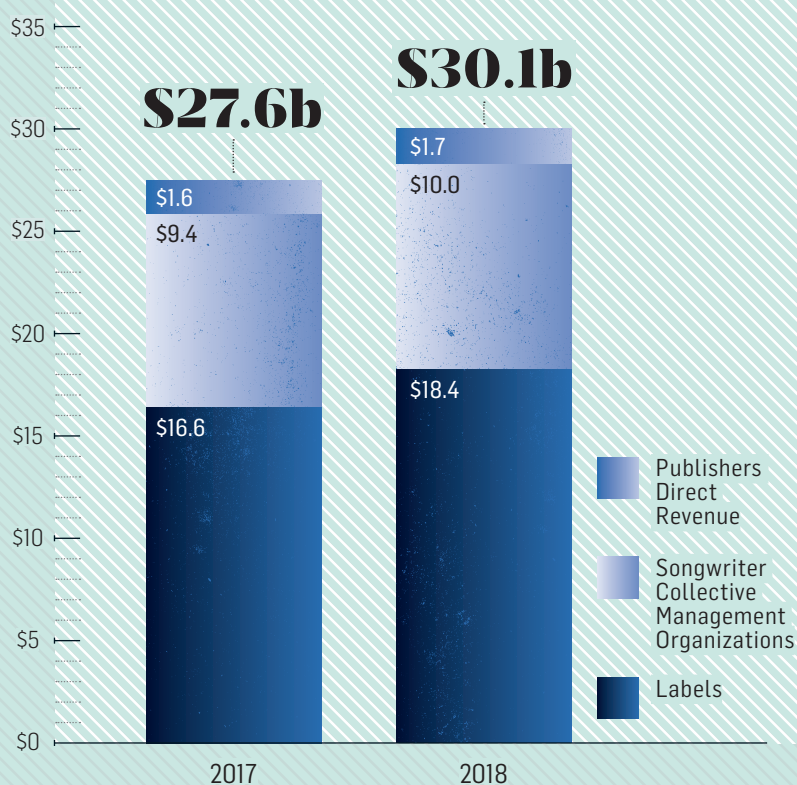
music, but publishing, including performance rights and mechanical royalties, as well as synch licensing — to give the most accurate possible picture of the business. The figures are based on IFPI's Global Music Report 2019 (for recorded music), CISAC's Global Collections Report (for public performance royalties) and estimates of publisher revenue from the industry publication *Music & Copyright*.

Although the recording and publishing businesses are usually discussed separately, the total is important because some creators and companies are involved in both of them. Universal Music Group and Warner Music Group, both of which recently announced plans for initial public offerings, are often referred to as labels, but they also own two of the world's three biggest publishing operations by market share.

Unlike most studies, these figures adjust for revenue that was attributed to record labels but then paid out to publishers as mechanical royalties, which reduces the size of the recording business and increases that of publishing. (While labels pay publishers mechanical royalties for album sales, streaming services pay publishers directly.) Once those payments are taken into account, the recorded-music business grew by \$1.8 billion, or 10.7%, between 2017 and 2018. (All of these figures are measured in U.S. dollars, in constant currency.) The performance and mechanical royalties taken in by collecting societies worldwide grew by just over \$600 million, or 6.6%. Finally, publishing revenue from synch licensing and other sources collected directly by publishers grew by over \$150 million, or 10%.

When the global music business began to recover in 2014, all three sources of revenue grew at broadly similar rates. Over the last two years, however, recording revenue has grown much faster, and its share of the global value of music

THE GLOBAL VALUE OF MUSIC COPYRIGHT



copyright has increased from 60% to 61% — without reducing, in absolute terms, the amount of revenue that went to other rights holders.

Between 2017 and 2018, different sources of revenue grew at different rates. Thanks to streaming, digital revenue from recordings accounted for 80% of the \$2.5 billion growth. On the publishing side, performance royalties accounted for most of the growth, followed by mechanical royalties from on-demand streaming services and sales.

Although it's easier to measure the size of the music business as it gets more digital, these figures come with some caveats: First, it's hard to make consistent comparisons that compensate for varying exchange rates; second, revenue is often earned in one year and accounted for in another, so year-by-year statistics can be inexact; third, advance payments and legal settlements can create spikes in revenue that are unconnected with general trends. It's also important to note that one reason music copyright may be worth more than ever is because historical figures aren't so reliable: Most revenue numbers for the recorded-music business in its heyday represented consumer spending, not revenue collected by rights holders.

It's still possible to make some comparisons, however. IFPI has said that the recorded-music business was worth \$23.9 billion in 2001, the earliest year for which consistent data is available. The industry was 20% short of that figure in 2018, in nominal terms. However, about a tenth of that 2001 revenue was presumably paid out to publishers in the form of mechanical royalties, leaving the real revenue figure closer to \$21.5 billion. That means that the industry would now be worth more — at least in nominal terms — as long as publishing revenue was less than \$8.5 billion, or about two-thirds its 2018 value of \$11.8 billion. The best evidence from publishers and performing rights organizations suggests they collected closer to about half as much revenue then, so it's hard to imagine that the overall music copyright business isn't bigger than ever.

Looking at 2001 also shows how different parts of the music business have grown, and then recovered, in very different ways. At that time, the U.S. recorded-music business was taking in \$8.1 billion, over six times as much as the country's two biggest collection societies, ASCAP and BMI, which exclusively handle performance royal-

WHY MOST PRICES RISE BUT THE SONG REMAINS THE SAME

Inflation, the sustained increase in the general price level of goods and services in an economy, has been relatively steady in the United States for years, generally hovering at about 2% a year. But prices of music copyright goods have not tracked closely with the prices of essentials like food and gasoline. CD and download prices have trended downward, while streaming prices have held remarkably stable.

A subscription to an “all-you-can-eat” music package has cost 9.99 (in U.S. dollars, euros or British pounds) for nearly two decades. Streaming service Rhapsody launched in the United States at \$9.99 in 2002, a full nine years before Spotify, and its \$9.99 price point was partly based on the cost of a Blockbuster video rental card.

Tracking this unchanged \$9.99 price point since 2002 reveals that by 2018, inflation had eroded it by \$2.28, essentially making a subscription 23% cheaper to the consumer. Given rising personal incomes, streaming subscriptions also represent a shrinking share of consumers' disposable income.

While this unchanged \$9.99 price point represents an increased cost to copyright owners, it also has the important benefit of making more consumers willing to pay it year after year.

ties. By 2010, ASCAP reported that the gross revenue it collected — about 30% of which typically comes from abroad — had grown by nearly 50%, while labels saw their revenue fall by about the same percentage. By 2018, however, ASCAP's revenue had grown by 90% over 2001, while the U.S. record labels' revenue is still at only 82% of the 2001 figure, in nominal terms.

Knowing how much the music business has grown in real terms requires factoring in inflation, of course. A global recorded-music business worth \$23.9 billion in 2001 would be worth north of \$31 billion today, when adjusted for inflation in the developed markets that are most important to the industry. And that figure doesn't include the value of the publishing business.

For all the caveats, however, these figures give everyone involved in the music copyright business a consistent way to describe the total value of their business.

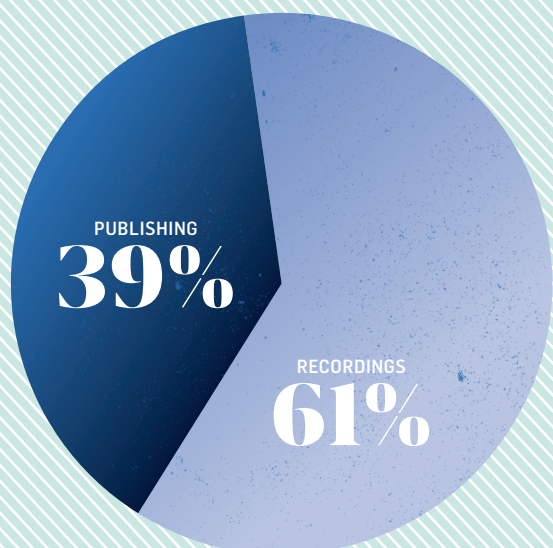
And the fact that it has now passed the \$30 billion mark will make it easier to get the attention of policymakers who make decisions about the legal and commercial framework of copyright.

One huge part of the music industry that these figures do not include: the touring business. The value of the global live-music business was estimated by PricewaterhouseCoopers at \$27 billion worldwide in 2018, most of which comes from ticket sales and sponsorship. Since concert promoters don't own rights to the music they present, however, that revenue isn't counted here, although these figures do include the performance royalties collected from concert venues.

Obviously, calculating the overall size of the music business doesn't say much about how, or how much, money trickles down to companies — much less individual creators. No one tracks how much money is paid out in royalties by labels, collecting societies and publishers, although the recovery of the industry has already resulted in increased investment that helps creators. Also, as streaming services have removed the music industry's barriers to entry, more people are making and writing music than ever before — which, in turn, means more mouths to feed than ever before. At least one of the reasons some creators might be making less than they were years ago is because there are more creators to pay.

Overall, however, the nominal value of music copyright is higher than it has ever been, and the real value has increased again year over year — for the fifth time in a row since these figures were calculated. Growth in dollar terms is increasing, too: from \$1 billion in 2015 to \$1.5 billion in 2016, and from \$2 billion in 2017 to \$2.5 billion in 2018. And the 2019 data that's beginning to come in suggests that the industry's recovery will continue to accelerate. **B**

THE GLOBAL VALUE OF MUSIC COPYRIGHT IN 2018



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