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THE EFFECTS OF SUBSCRIPTION-BASED MUSIC STREAMING SERVICES ON THE MUSIC INDUSTRY

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DECLARATION

I, the undersigned Ali Mahdi Mohamad aware of my criminal responsibility, I declare that the facts and figures contained in my dissertation correspond to reality and that it describes the results of my own independent work.

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1 INTRODUCTION

The music industry has undergone a massive transformation in the past two decades. The introduction of mainstream internet and the development of Peer-to-Peer (P2P) technology which allowed two or more computers to form a network and share information and files in the beginning of the 2000s led to a spike in online piracy. This mostly affected music due to the small digital size of a song which makes it easier to share online, and because CD albums distributed by the industry were overpriced. The equation was very simple: if a piece of content is transformed into digital form, it can be copied and distributed at near-zero marginal cost. P2P technology paved the way to a rise in online piracy which in turn led to a harsh decrease in revenue of producers and rights holders making it harder for them to bring new products to the market through the traditional distribution channels. While the rise of digitization and online piracy came as a shock for record labels, movie studios, and other rights holders, it was anticipated by some futurists and programming enthusiasts.

In 1984, the American writer Stewart Brand attended the first Hackers Conference in Marin County, California where he said: “On the one hand information wants to be expensive because it is so valuable. The right information in the right place just changes your life. On the other hand, information wants to be free, because the cost of getting it out is getting lower and lower all the time. So you have these two fighting against each other.” (Doctorow, 2010) What Brand anticipated manifested itself 15 years later in 1999 through the sharp decrease in revenue experienced by rights holders. A clear example of this phenomenon was witnessed in the music industry by the turn of the century.

This led to the development of the iTunes digital music store that reshaped the way consumers purchase music. But with the advancement in technology, and the introduction of smartphones and wireless internet connection, the music industry was about to go through another major change. The end of the 2000s and beginning of 2010s witnessed the introduction of new access-based music streaming services. The new services allowed users to get unlimited access to large music libraries through the internet. The music is stored in a server that users can connect to with their devices and listen to any song they want. Most services allow users to download the music and listen to it online but only through the service’s app on their devices which prevents users from owning any of the music. In exchange for this access, users are required to pay a monthly subscription fee. Some services offer users access for free and opt for making money through online advertisement. It can be thought of as if the users are renting the right to listen to music, just like they would rent a car. As simple as it sounds, music streaming services revolutionized the way we listen to music. Nowadays, on-demand subscription-based music streaming services are the most popular method to consume music around the world.

This research paper will answer the following research question: how does the emergence of access-based subscription-based music streaming services impact the existing power structures within the music industry? It will examine the music industry in the past two decades and the changes that reshaped the industry. The research is done with the purpose of critically assessing the state of the music industry and the short and long term effects of music streaming services on artists and consumers. The research will start by discussing the phenomenon of online piracy that hit the music industry in the beginning of 2000s, and look at the methods taken by the industry to combat this trend which resulted in the development of the iTunes music store and how effective it was in achieving its goal. This will be followed by a thorough analysis of three of the most famous music streaming services: Spotify, Apple Music, and Tidal, chosen based on their unique characteristics. Spotify was chosen due to the fact that it was one of the first streaming platforms, and the popularity and power that it holds as a market leader. Apple Music was chosen based on the fact that it is backed by one of the biggest technology companies and was built on the legacy of the iTunes music store. Tidal was chosen as the first streaming service owned by artists and which claims to value artists more than its competitors. The research will also take a closer look at the global music market and the streaming market in particular including the few companies that dominate it. Finally, it will discuss the role of record labels in the present-day music industry, and whether these companies are good or bad for artists and the industry as a whole.

2 DIGITIZATION OF MUSIC INDUSTRY

2.1 Online piracy in the music industry

By the end of the nineties, revenues generated by the recorded music industry were at an all-time high. These revenues were mostly generated by direct or indirect sales of recorded music to consumers and, at the time, most music industry executives did not see the need to change or further develop the industry to adapt to the new millennium and the computer age. After all, they were the industry's gatekeepers. With their position at the top of the power structure, they were able to dominate every aspect of the business. However, a team of university students was about to disrupt the entire industry and cripple its revenue streams almost completely. This team, led by Shawn Fanning, a student at the Northeastern University in Boston, created a peer-to-peer file-sharing service called Napster in 1999. (Coffey, 2016) The newly established service allowed users to share and download music tracks for free and, in just a few months, consumers were able to get access to any music record digitally without compensating any of the rights holders. The launch of Napster happened in the same period of time that the music industry suffered a severe decline in revenue around the world. Napster was sued by music industry giants represented by the Recording Industry Association of America (RIAA), as well as some famous bands like Metallica and eventually had to shut down after losing the lawsuit. (Lamont, 2013) But this file sharing service was just the beginning as similar yet more sophisticated websites started appearing all over the internet. In spite of the aggressive legal and technical campaign launched by the music industry to shut down online-piracy websites such as Napster, Limewire, DC++, and The Pirate Bay, new illegal music sharing services emerged every time an old one was sued and forced to cease its operations. (Wikström, 2014)

While it almost seems obvious that the rise in online music sharing services was the main reason behind the sharp reduction in revenue in the music industry, researchers faced many problems while trying to prove the correlation between the two. One of the problems was the inability to gather data on online music file-sharing due to its illegal nature. Furthermore, even if the data on legal and illegal consumption of music was available, it was very hard to prove the effect stealing music has on buying the same music. When data-based research proved impractical, some researchers went on to do survey-based research as a last resort in solving the sharp decline experienced by the industry. Looking back, many researchers concluded that the direct effects on the revenue fall during the period originated from the rise of the consumption of unpaid audio content. (Waldfogel, 2017)

However, it cannot go unmentioned that the exponential growth in revenue witnessed by the music industry was the result of overpriced CD albums. By the end of the twentieth century, CDs were considered a great technological innovation, but the development of technology offered more flexible ways to access the desired music. According to the RIAA, in 1991, the average price of a recorded music album was around $27.54 which is very expensive considering that consumers would normally buy the whole album for one or two hit songs. (Hogan, 2015) It can be suggested that illegal file-sharing websites were a necessary phase to make music more accessible and push the music industry to provide a more innovative method to distribute and sell music.

Instead of attempting to fix the issue of overpriced CD albums, and invest in legal digital solutions to distribute music, the major record labels[1] spent their resources in fighting the illegal web-based music sharing services rather than to compete with them. Despite occasional attempts by the major record labels to compete with the web-based illegal music market by providing legal online distribution services, these were not innovative enough in order to catch consumer's preference. Most record labels were already suffering because of the loss in revenue which shifted the focus of any new legal distribution service to bringing more revenue without affecting the already existing revenue streams created by the physical sales of records. In spite of meeting this criterion, the new distribution methods were not able to compete with the existing physical music market nor the web-based illegal music service. (Wikström, 2014)

An argument could be made that the major record labels were anxious about losing their position as industry gatekeepers on top of the power structure. This prevented them from providing a legal digital distribution channel that would satisfy the consumers and drive them away from illegal websites.

[1] The three big companies that make up around 80% of the music industry worldwide which are: Sony Music Entertainment, Universal Music Group, and Warner Music Group. (Mcdonald, 2019)

2.2 iTunes Music Store

It took the recorded music industry four years after the launch of Napster to successfully create an online service to legally sell and distribute music. Surprisingly, the company responsible for the new service was not a music industry company but rather Apple Computer (nowadays known simply as Apple). Apple launched the iTunes music store in 2003 after successfully convincing most major record labels that consumers would start buying music legally again if they were offered a very simple method to buy and download music on their devices. (CHEN, 2018) The business model of iTunes was simple, providing users with a method that allows them to buy music by track rather than an album and for an affordable price of less than a dollar per track.

Apple offered the major record labels what was the best solution at the time: a new business model, which did not affect the previously established power structure throughout the industry. The record labels, as the rights holders, restored control over their products and kept the same traditional system of royalties paid to music creators and artists with the small difference of paying royalties per every track sold instead of an album. (Wikström, 2014) The iTunes music store proved to be a huge success. One year after its launch in 2003, the iTunes music store reported selling 125 million songs, which three short years later passed one billion. In 2013, a decade after the initial launch, it had sold over 25 billion songs. (Coffey, 2016)

However, what was feared the most while trying to find the alternatives to online piracy slowly realized itself. iTunes dominated the music retail market and led to a decrease in traditional music sales and therefore revenue streams. Apple's innovative online music store offered the consumers cheaper options than a traditional record store. In addition to this, it also allowed users to buy music per track as opposed to the traditional offline purchase that required customers to buy the whole album, giving them the opportunity to be more selective than ever before. (Coffey, 2016) While neither record labels nor the artists were fully satisfied with iTunes, there is no doubt that over its first 10 years, iTunes changed the way consumers buy and listen to music, permanently reshaping the entire industry.

iTunes music store was launched in 2003, only in the United States at first. In the following two years, the store became available in the United Kingdom, Canada, and most EU Member States. However, other countries in the world would not get support for iTunes up until 2011 and 2012.

(Panzarino, 2011) The slow internationalization process by Apple allowed consumers around the world to grow accustomed to downloading music illegally. It also allowed for the rise of many competitors in these countries. Figure1 shows the evolution of the global music market between 1973 and 2010. It can be seen that the emergence of the digital music market with the rise of iTunes was able to slowly compensate for the loss in physical sales. The figure shows that CD albums were the main cause behind the peak in music sales in the mid-nineties. It also shows that iTunes was a great solution as it was able to bring the market back to its normal size before the rise of CDs in the late eighties.

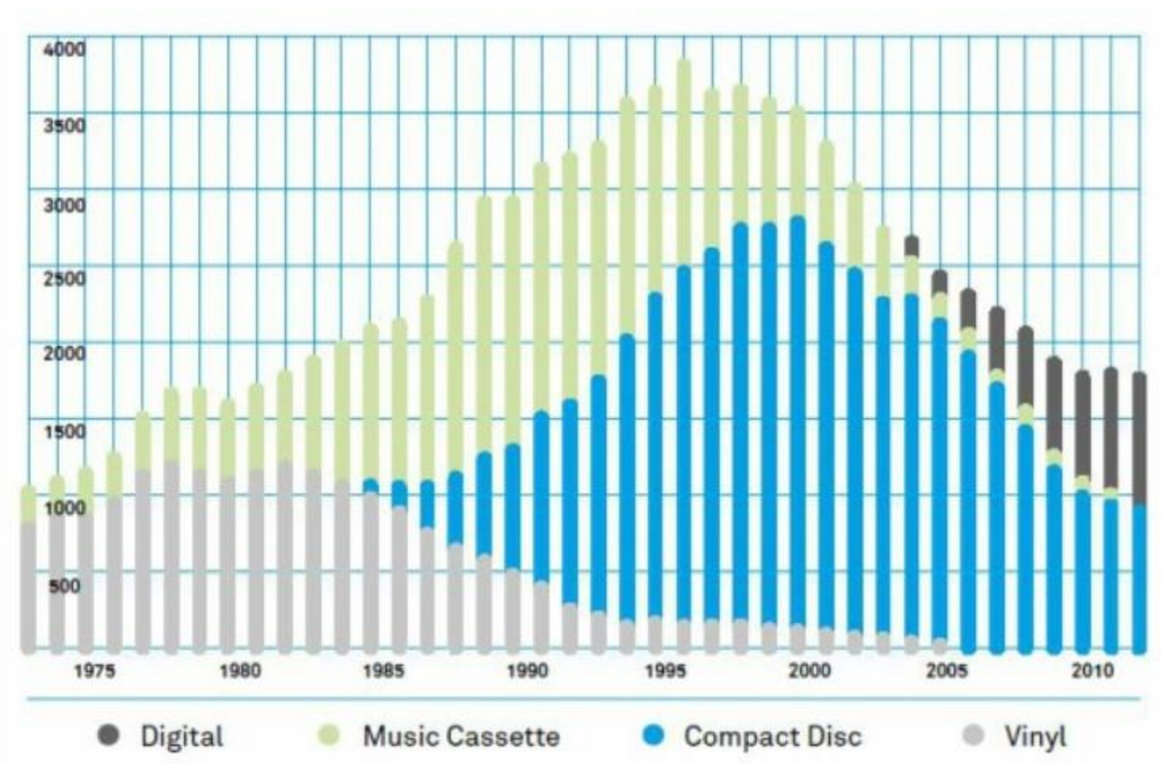

Figure 1: Recorded Music Volume worldwide, 1973–2012. (Wikström, 2014)

While iTunes music store created the first legal digital music store, and continued to be on top of the market for more than a decade, other legal music services emerged at the same time. Moreover, some of them offered a more radical approach when it comes to digital distribution. Unlike the iTunes store, these services do not offer individual tracks for sale at a set price but instead they offer users access to a huge music library where they can listen to music at any time without actually owning any tracks. Users of such services are usually required to pay a monthly subscription fee that allows them to listen to any track in the library as many times as they want to.

While this new business model sounds flawless, many of these new legal music services had two challenges to overcome. First, they had to convince the major record labels to license their music catalogs to these services. Second, they had to convince consumers that it is possible to listen to and enjoy music online without buying and owning the tracks or albums.

The first legal online music service that managed to convince the right holders to license their catalogs, and attract music listeners was a new Swedish start-up called Spotify. Spotify is the best example that can be used to explain the state of the music industry in the digital distribution age as the company introduced a new business model that will later be adopted by most music services around the world. Although there was a lot of controversy on whether this new business model turns out to be sustainable in the long run or not, one can argue that Spotify was able to transform the way the music is thought of from the point of consumers as well as right holders.

3 SPOTIFY

3.1 The rise of Spotify

Spotify was founded in Sweden in 2006 by Daniel Ek and Martin Lorentzon. The founders wanted to create a new legal service supported by ads that will offer consumers free access to music but still generate profit for the music creators and right holders. Their idea was thought of as YouTube, but for music.

Spotify's mission was not easy by any means. After all, the two challenges previously mentioned regarding record labels and consumers are still there. Two years from its initial launch, on October 7th 2008, Spotify announced that it finally reached a deal with the music industry's major record labels to distribute their music in a few European countries. (Lidsky, 2018) In order to reach such an agreement, Spotify had to alter its initial business model. Instead of offering only a free service supported by ads, the company had to develop an additional ad-free option that was supported by subscription fees. This two or more tiers business model will later on be known as "freemium", a play on the words "free" and "premium" which will be discussed later in details.

Three years after experimenting in the European countries, Spotify finally launched in the United States in July 2011. (SORREL, 2011) The new music streaming service offered users three different options to use the service: Free, Premium, and Unlimited. The Free option allowed users to listen to music that will be interrupted by advertisements every few tracks. The Premium option would cost $5 in exchange for removing all advertisements but users would not be able to listen to music unless they are connected to the internet. Finally, the Unlimited user would have to pay $10 and would receive additional features like the ability to download music and listen to it offline, as well as gain access to Spotify on any of their personal devices. Later on, Spotify adjusted its business model to provide only two options, Free and Premium. Premium now offers the same Unlimited features mentioned above and costs $10 per month. Some consider the move of removing a middle tier as a way of directing more users to pay for the most expensive tier.

Although many media outlets predicted the fall of Spotify, arguing that its business model is not sustainable in the long run (NME, 2009), what they were missing is that in order for Spotify to make it into the industry, the founders had to offer the major record labels shares in the company.

Therefore, Spotify was being promoted by all major record labels as it was in their interest for the new company to succeed. (Lindvall, 2009)

While some media outlets and industry critics were arguing whether Spotify's new business model is sustainable or not, the public opinion regarding Spotify was very positive in 2009 and early 2010s. Some users have even considered it as the future of music (NME, 2009). However, Spotify's critics' predictions were based on numbers. Figure 2 shows the number of overall Spotify users compared to paid subscribers in the US market between August 2011 and April 2012. What can be seen is that, while the number of overall users is acceptable for a new start-up, the number of paid subscribers over that period indicates that Spotify was not making any profit. In fact, the numbers show that Spotify was in loss over the mentioned period. However, the number of monthly active users have consistently increased to reach 91 million users by the end of 2015, including 28 million paid subscribers. (Statista, 2021) This major increase in users can be associated with the emergence of smartphones and the growth in mobile communication technology as the users could now access their Spotify music library through smartphones anywhere, and at any time, using mobile data.

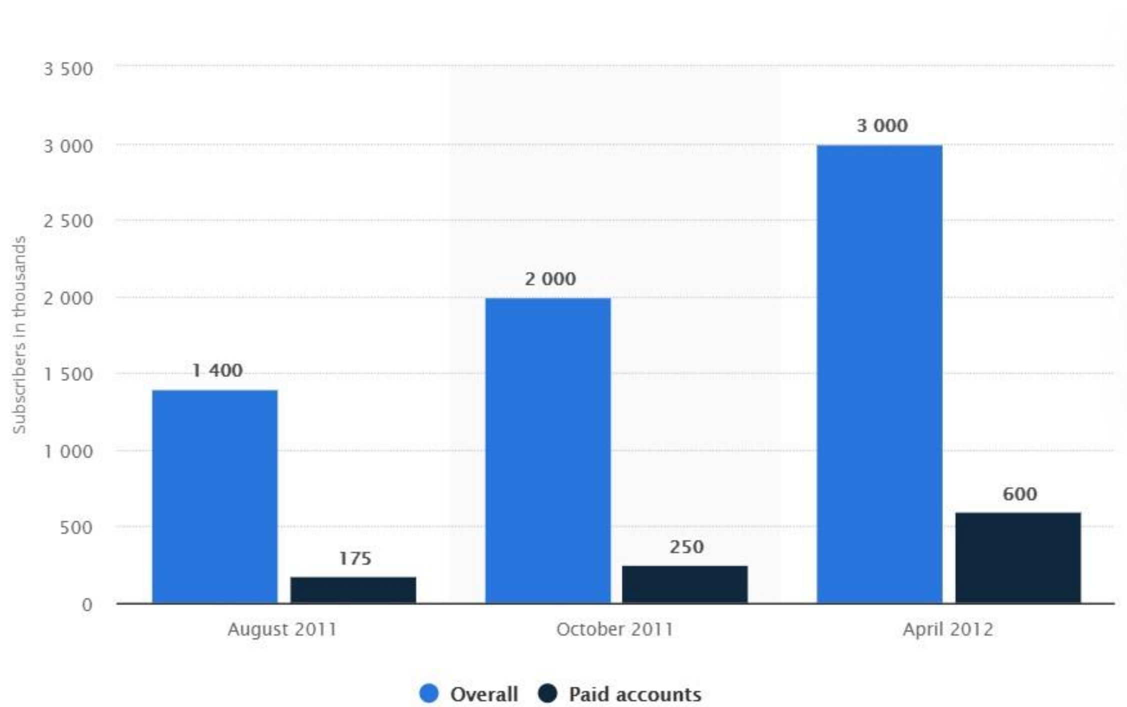

Figure 2: Spotify's paid and overall subscriber numbers in the U.S. from August 2011 to April 2012 (in 1,000). (Statista, 2021)

3.2 Spotify customer base

In 2017, Spotify was available in 61 countries around the world, over the next few years, the streaming company expanded its service to be available in 32 additional markets. This includes countries in the MENA region, some Eastern European countries, and some Asian countries to cover 93 countries by the end of 2020. (Dean, 2021) In February 2021, Spotify announced plans to expand into 85 new countries throughout the year. The new markets mostly include countries in Africa, Asia, and the Caribbean. By mid-2021, the Swedish streaming service plans to be available in 178 markets making it the most popular music streaming service in the world. (Spotify, 2021)

By the end of 2020, Spotify had 345 million monthly active users divided between free users and paying subscribers to the streaming service. According to a report published by Brian Dean on Backlinko, Spotify witnessed a "consistent quarter-over-quarter growth of its active user base since 2015". (Dean, 2021) Spotify has added over 138 million monthly active users over the past two years alone. In a recent shareholder letter, Spotify estimated that by the end of 2021, it will have between 407 and 427 million active users. This translates into an annual increase of 23.77%. (Dean, 2021) Users in Europe and North America make up the majority of active users on Spotify with 59% or 203.55 million users. Europe alone represents 35% of users, followed by North America (24%), South America (22%), and the other 19% of users are spread across Asia and the rest of the world.

The growth in active monthly users indicates a growth in the number of active paying subscribers which also has skyrocketed over the past 5 years. Figure 3 shows the consistent increase in Spotify's premium subscribers worldwide between 2015 and 2020 broken down into quarters.

It can be seen that in 2015, Spotify had only 18 million Premium subscribers. But this number continued to increase year-over-year to reach 155 million subscribers by the end of 2020. The company estimates the number of Premium subscribers to increase by 8.29% in 2021 to reach 172 million subscribers by the end of 2021. (Dean, 2021) the distribution of those users is very similar to the overall Spotify user base discussed earlier with representing up to 40% of Premium subscribers, followed by North America (29%), then Latin America (21%), and the remaining 11% are distributed across the rest of the world.

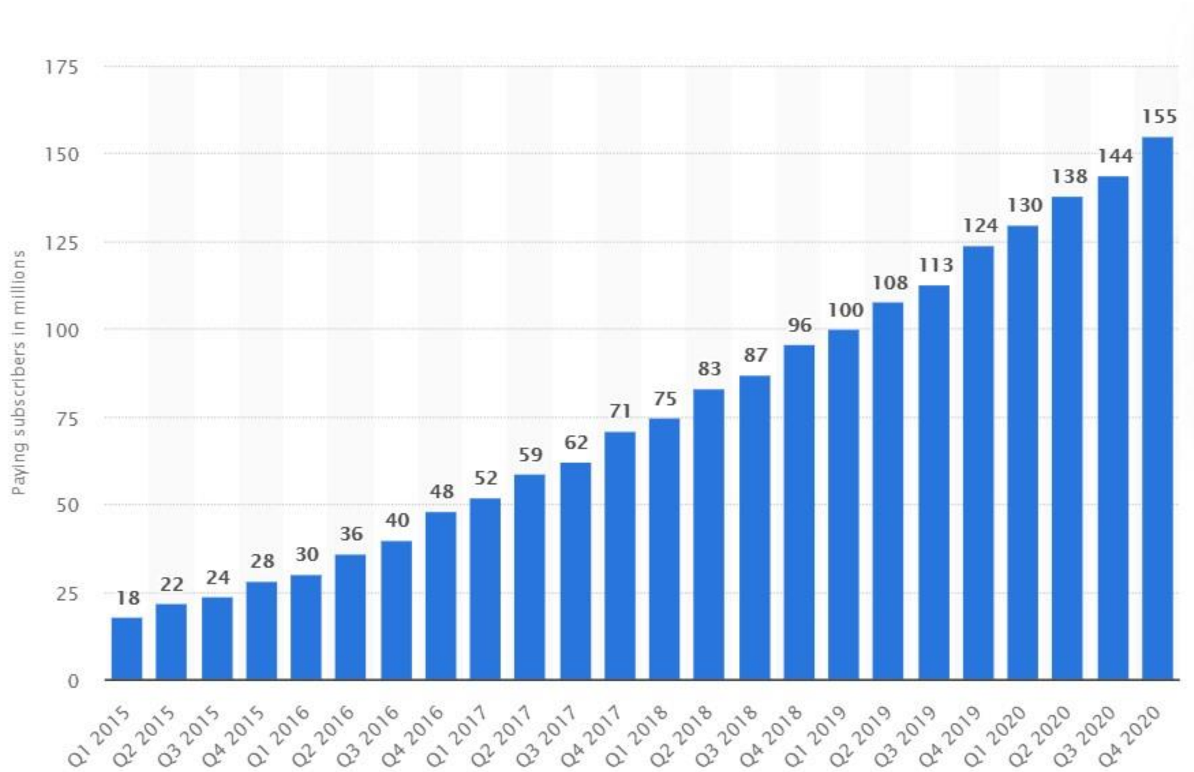

Figure 3: Number of Spotify premium subscribers worldwide from 1st quarter 2015 to 4th quarter 2020 (in millions). (Statista, 2021)

However, it can also be noticed that the rate of growth of Spotify's Premium subscribers is slowing down. Figure 4 shows the slowing year-over-year (YoY) rate of growth in Premium subscribers between Q1 2016 and Q2 2020. It also clearly shows the sharp fall from 73% in Q1 2017 to only 28% in Q2 2020. (Trainer, 2020)

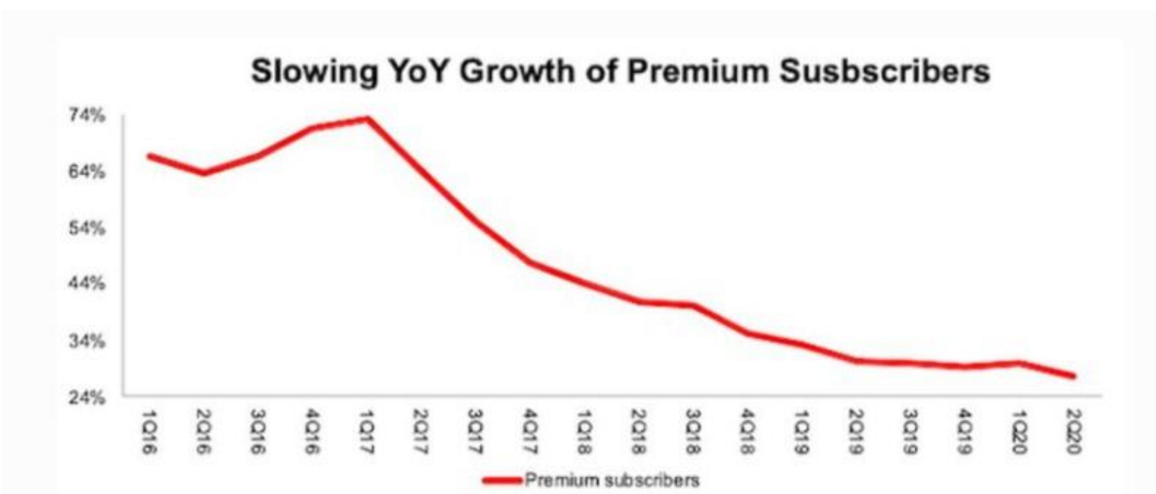

Figure 4: Slowing year-over-year growth of Premium Spotify subscribers. (Trainer, 2020)

This could be attributed to emergence of other music streaming services like Apple Music, Amazon Prime Music, and YouTube Music, all three are owned by giant tech companies and create a very strong competition that threatens Spotify's position as the market leader.

3.3 The "freemium" business model

Although there is a lot of research done on music streaming services and Spotify in particular, there seems to be a misconception regarding the term freemium as many research papers refer to Spotify's Free plan as the Freemium plan. In order to avoid this misconception, a clear definition of the term "Freemium" must first be established. According to the Cambridge dictionary, freemium is a business model where the company offers two or more versions of the service. The basic version is offered for free while the more advanced versions are offered for a monthly payment or a subscription. Companies that use the freemium business model expect to generate a very low or even negative profit margin from the free version. On the other hand, they expect that the subscription fees will generate enough revenue to cover the loss of the free plan and make the company profitable. (Cambridge, 2021)

The logic behind using such a model is that users will sign up for the free, basic version of the service. Over time, users will invest emotionally in the service and develop certain behavioral habits that will make it harder for them to switch to another service. Another technique that such companies use is to rely on young customers that will start using the free version of the services, but as they grow up and start earning money will switch to the premium version and become paying subscribers. The goal of the company is to convert as many users of the free version to the subscription based version. In order to achieve that, the free version of the service usually lacks a few important features (like the ability to download music in the case of Spotify), or has a few annoying features (like ads between songs). The problem of these annoying features or the lack of important ones is then solved on the subscription-based version (the Premium version in case of Spotify) which motivates users to pay a monthly fee in exchange for the best version of the service.

As simple as it seems, Spotify and other freemium services have to create the perfect equation between all the versions in order to stimulate the right customer behavior and motivate as many free users to upgrade their plan and switch to the subscription-based version of the service. (Wikström, 2014) The number of users that switch to become subscribers is referred to as conversion rate. The higher the conversion rate is; the more paying customers the company has. Only a few streaming services have managed to find the right formula between the free and premium versions of their service, and Spotify is one of them.

3.4 Spotify revenue streams

As discussed earlier, Spotify relies on two channels in order to generate revenue, subscription fees from its Premium plan subscribers, and ads sales from its ad-supported Free plan. Following the freemium business plan, Spotify offers its free, ad-supported plan in order to attract as many users as possible and try to convert them into paying subscribers. Therefore, it only makes sense that the revenue generated from selling ads is very small when compared to the subscription fees revenue stream.

In 2020 alone, Spotify registered a total revenue of €7.9 billion ($9.5 billion), an 18% increase in revenue when compared to the previous year's €6.7 billion ($7.3 billion) revenue. Figure 4 shows Spotify's revenue worldwide between the years 2013 and 2020. Spotify witnessed a consistent increase in revenue year after year which correlates with the consistent increase in active monthly users and paying subscribers over the same period of time.

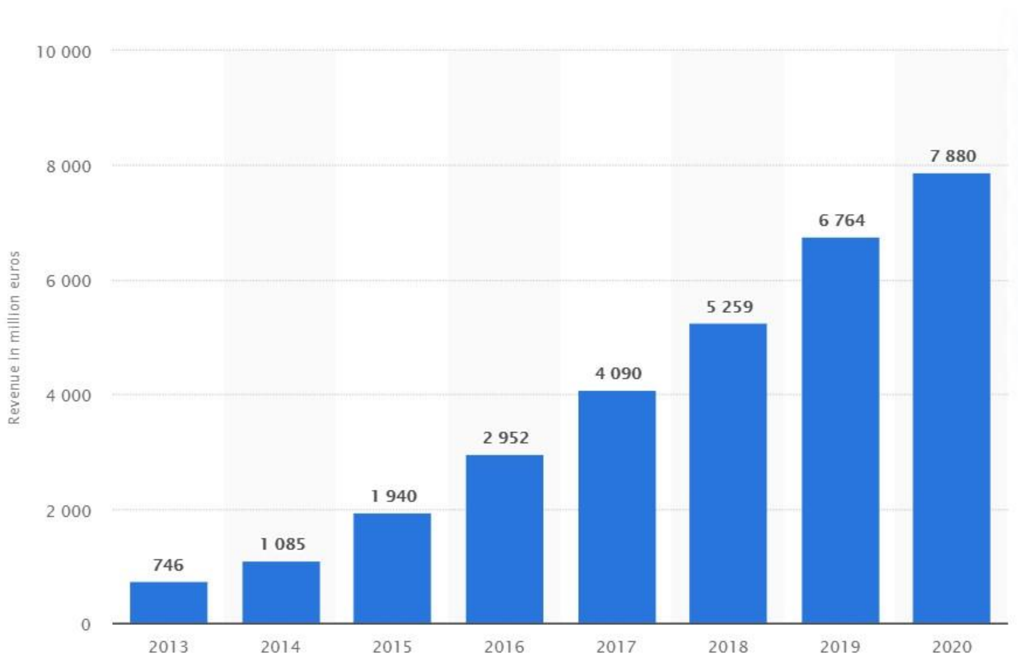

Figure 5: Spotify's global revenue between 2013 and 2020 in millions of Euros. (Statista, 2021)

Out of the €7.9 billion in revenue generated in 2020, €7.13 billion ($8.15 billion) was generated from Premium subscribers, this figure has increased by €1.04 billion ($1.18 billion) from 2019. When compared to the Premium subscribers' revenue generated back in 2013 which accounted for €677.89 million out of a total revenue of €746 million, the exponential growth in Spotify's revenue over this short period of time can be noticed. On the other hand, Spotify registered €745 million ($851 million) in revenue from ad sales in 2020. This figure had also seen an increase of €67 million from 2019.

The same trend noticed when discussing Spotify's Premium subscribers. The revenue growth rate of Spotify is also slowing down after a period of exponential growth. Figure 6 shows the consequent decrease of YoY revenue growth rate from 57% in 2017 down to 33% in 2018. The graph also predicts this decline to continue in 2021.

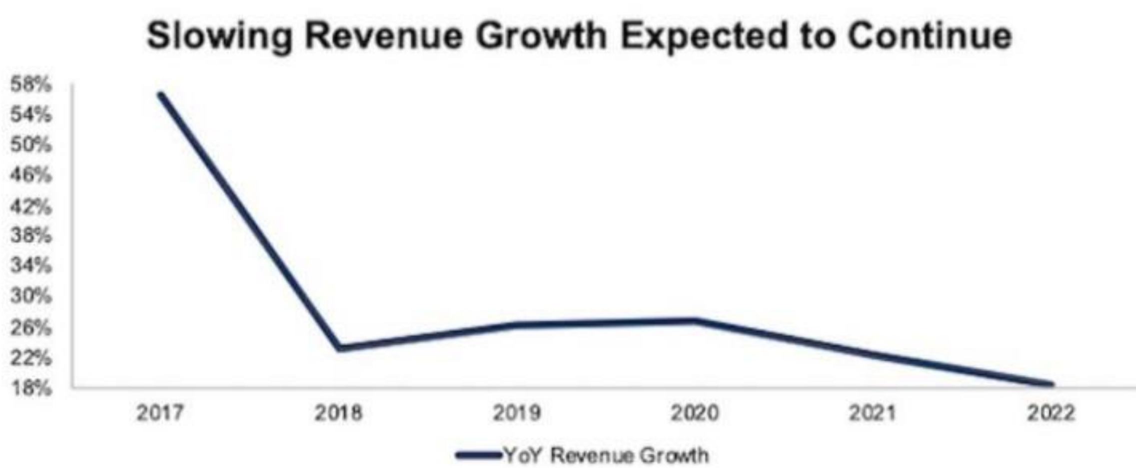

Figure 6: Spotify's slowing revenue growth 2017-2022. (Trainer, 2020)

As mentioned earlier, this decline in the rate of growth can be attributed to the rise of multiple strong competitors in the music streaming market.

3.5 Spotify market share

After the success of Spotify in the music streaming market, big players in the technology market have noticed the opportunity that audio streaming services offer. It did not take long for companies like Apple, Amazon, and YouTube (owned by Alphabet) to enter the market and compete with the

Spotify and other smaller streaming services. (Trainer, 2020) The arrival of such competitors with their extensive resources that was spent on research and development and marketing could have possibly led to Spotify losing some of its global market share.

In 2018, Spotify's market share stood at 42.7%. This number drops down to 36.4% in 2019, and continues to decrease down to 32.5% in 2020. (Dean, 2021) It can be concluded that although Spotify is still leading globally with the largest number of users and paying subscribers, it still did not prove itself as the best music streaming service for users around the world.

By taking a look at the US. market, it is clear that Spotify is not the most popular music streaming service. Apple Music launched only in 2015, and by 2018 it overtook Spotify as the most popular music streaming service in the US. market. (Trainer, 2020) This shows how real the competition is for Spotify. Although the Swedish company has more users and also more paying subscribers globally, this could change very soon with the fierce competition that Spotify is facing.

3.6 Royalties' controversy

Spotify's fast growth to the top of the music market was not welcome by everyone as the streaming platform attracted a lot of criticism from the music industry. Some of the criticism was directed towards Spotify's freemium business model, and whether such a model is sustainable or not. But the company was also criticized for the way revenue is shared with different right holders. In order to understand where this criticism comes from, both sides of the argument have to be considered. On the one hand, there are major record labels which have dominated the music industry for decades through the royalty system where they will get paid for every song sold, or used in any way. These labels own the music and they don't wish to change the royalty system. On the other hand, there are the music streaming services that argue that such a system does not work well when applied to streaming music because these services do not sell songs and they do not make money every time a song is played. Instead, they proposed that they will share their revenues with the right holders regardless of how many times a song is played. This proposal gives an advantage to streaming services. However, right holders did not agree to the proposal, and argued that their revenue should not depend on the success of the streaming platform, and that they should get paid for every song distributed to consumers. (Wikström, 2014)

One of the reasons behind the success of Spotify, is that they were able to convince the major record labels to buy shares in the company, therefore sharing the business interest as well as the risk with the streaming company. (Lindvall, 2009)

Spotify reported that it pays up to 70% of its revenue as royalties to the right holders. (Coffey, 2016) Up until 2020, Spotify has generated over $23 billion in royalties for the right holders around the world, this includes $5 billion generated only in 2020. (IANS, 2021) Spotify can use such figures to argue that its freemium model works and is sustainable. However, the fact that subscription-based services can generate revenue does not make them any less controversial. These services have radically changed the contract structure towards distributors which attracted a lot of criticism. This criticism came mostly from artists, composers, and musicians within the industry and some of them went on to remove their music from streaming services like Spotify arguing that they are not receiving a fair share of the revenue.

While these claims are legitimate, they are not caused solely by the new streaming platforms, but by the nature of the contracts between the musicians and the record labels on one side, and the record labels and the streaming services on the other.

The royalties generated by the music streaming services are paid to the record labels and not directly to the musicians due to the nature of the contracts. The record labels pay the artists their share of the revenue based on the contract between the two parties. The problem here is that the record labels choose to categorize the royalties as unit-based music sales which will allow them to pay the artists a share of 10 to 20 percent (depending on the contract) of the royalties paid by the streaming Spotify to the labels. The musicians on the other hand argue that the royalties generated by online streaming services shall not be treated as traditional record sales but as a performance which will make the musicians eligible for at least 50 percent of the royalties rather than 20 percent. (Wikström, 2014) As established earlier, the origin of this conflict is the contracts between artists and record labels. Those contracts are mostly outdated as most of them were established before streaming services even existed.

It can be argued that most artists and musicians are being mistreated by the record labels over old, outdated contracts which calls for a change in the power structure that has been dominating the music industry for decades. One can even argue that record labels have lost their role in the music industry and are just hanging to the old contracts and using it to exploit artists and generate profit offering very little in return. The rise of access-based music streaming services as well as the technological development in the audio hardware industry have made making new music, publishing it, and distributing it to millions of listeners around the world easier than ever. This pegs the question: what do the record labels offer the artists? And why do they deserve the lion's share of revenue?

3.7 Spotify as a market disruptor

In 2018, the New York Times reported that Spotify is quietly making licensing deals with a few independent artists. Through these deals, Spotify would offer the artists to put their music on the streaming platform, as well as a closer relationship with the company with no involvement from the major record labels. (Sisario, 2018) According to the New York Times, Spotify has paid modest advances (in thousands or hundreds of thousands) to management companies that represent artists who are not signed to any record label. This category includes famous artists who have gained control over their copyrights, as well as up and coming artists who choose not to sign a deal with a record label. (Karp, 2018)

From the artists' point of view, Spotify is offering them two advantages. A bigger share of the revenue generated by their music, and ownership of their work. It is also worth mentioning that the deals were not exclusive, meaning that artists could still publish their music on other streaming platforms like Apple Music. (Sisario, 2018)

However, the major record labels were not happy with Spotify's initiative. Such an initiative creates a threat to the labels as it can develop into bigger initiatives that could reshape the whole music industry and take the labels out of the equation. The labels indicated their disapproval of Spotify's move through various comments made by anonymous industry executives signaling that the labels act to punish Spotify by not renewing its licensing contracts which Spotify depends on.

In July, 2018, Spotify's CEO, Daniel Ek confirmed the initiative by the company in an earning call with the investors. However, he was careful to clarify that these deals do not mean that Spotify is planning to be a label. "Licensing content does not make us a label, nor do we have any interest in becoming a label," Ek said on the call. "We don't own any rights to any music, and we're not acting like a record label." (Sisario, 2018)

This move from Spotify does threaten the major labels and their business models. It also proves that futility. If music streaming platforms can license music without the involvement of the record labels, a label's contract where the label would own the copyrights of the artist's work is more unappealing than ever. Streaming platform could build closer relationships with artists while distributing their music worldwide. This explains why labels feel nervous about Spotify's initiative.

4 APPLE MUSIC

4.1 Development of Apple Music

In 2014, Apple acquired Beats Electronics for $3 billion (Apple, 2014) which marked Apple's plans to develop a new music streaming service to compete with other streaming services such as Pandora and Spotify which will be discussed further on. In 2015, Apple launched Apple Music, (Apple, 2015) a subscription-based music streaming service that was built on Beats Music as well as the base that iTunes created as a music retail market leader. Apple Music launched worldwide on June 30, 2015, and offered users a three-month free trial period after which they can choose to pay a subscription fee of $9.99 per month. By August of the same year, meaning before the end of the free trial, Apple Music had over 11 million free trial subscribers. (Coffey, 2016) After the end of the initial free trial, the new streaming service had a total of 16 million users, with 6.5 million paying subscribers. (Bhoot, 2017) By the end of 2016, Apple Music reported having 20 million paying subscribers, more than three times the initial number of 6.5 million reported in September 2015. (Bhoot, 2017)

However, the launch of Apple Music created some controversy between artists as the company decided not to pay the artists any royalties for the first 3-month free trial period. This decision from Apple was not received well by artists and led to some artists publicly criticizing the new streaming service days before its launch. Taylor Swift is one of those artists, the famous pop star announced that it will not be sharing its latest album "1989" on Apple Music and wrote an open letter to Apple criticizing its decision and asking the company to change its policy. (McIntyre, 2015) Many artists praised and supported Swift for standing up for authors' rights. As a result, Apple decided to change its policy and pay artists for all the music streamed on the platform during the free trial.

Apple Music was launched as a part of the music app available on Apple products like iPhones, iPads, and iPods through a software update. This meant that all Apple users suddenly had Apple Music on their devices and were offered to sign up for the three-month free trial. When the trial is over, those who signed up would automatically switch to be paying subscribers of the new music service. (Segan, 2015) Apple simply replaced its default music player on all its devices with its new music streaming service which guaranteed its initial success. However, this meant that users had little to no choice whether they want to use Apple Music or not, if users decide not to sign up for the service or to cancel their subscription, they would still see the app on their devices but with no access to the streaming service. Users cannot remove the app from their devices as it is a part of the permanent software. (Segan, 2015)

When launching Apple Music, Apple built on the success of its iTunes music store by integrating the two services together. Although the whole iTunes catalog was available for streaming on demand, users of Apple Music were able to access their purchased or uploaded music libraries and playlists through the app, making the switch to the streaming platform even more convenient. (Coffey, 2016) Apple also kept some of the features that were available on Beats Music such as its popular Beats 1 radio channel that was converted into Apple Music 1 radio, a 24 hours radio that only users of the streaming platform can access. In November 2015, Apple launched an Android version of its music streaming app (Kastrenakes, 2015). This meant that anyone around the world with a smartphone can subscribe to the service. Apple also announced in the same month that it will be shutting down Beats Music completely and offered users of the service a migration tool that would allow them to move their music libraries and playlists to Apple Music. (Snyder, 2015) Thus encouraging Beats' users to subscribe to its streaming service.

Apple Music is right now the largest competitor of Spotify with 72 million subscribers by the end of 2020. The streaming platform has almost half the number of paying subscribers as Spotify, but that is still notable considering that Apple Music launched in 2015, almost 10 years after Spotify. While both platforms serve as music streaming services, they have two different business models. The difference between Apple Music and Spotify is that unlike Spotify, Apple Music does not offer a free, ad-supported option. However, Apple Music offers the longest free trial period (three months) among all music streaming services out there, after that, users are required to pay $9.99 if they wish to continue using the service. Although Apple Music does not support the freemium model, similar to Spotify, it offers a 50% discount to students. (Bizzaco & Kennemer, 2021)

During its negotiations with the record labels for the launch of Apple Music, Apple allegedly made efforts to encourage the record labels to remove their catalogs from other free, ad-supported competing streaming services such as Spotify, Pandora, and Amazon Prime Music in order to drive up the demand for its upcoming streaming service. (Singleton, 2015) It was also reported that Apple offered an incentive to Universal Music Group to remove its content from YouTube. (Singleton, 2015) These allegations led the US. Department of Justice, the Federal Trade Commission, and the EU's Competition Commission to start investigating the deals and agreements that Apple was making with the record labels. (Singleton, 2015) These government agencies were worried that Apple would use its massive resources and distribution power to force some record labels to terminate their contracts with its competitors. However, Apple's efforts did not succeed. Not only because of the investigations, but also because record labels already had an experience with Apple dominating the music distribution market with iTunes. The New York Post reported one music executive saying "Why would we want Apple to own the download business and the streaming business?" (Atkinson, 2015) At the time, Spotify had 68 million users, but only 18 million were paying for the service. (Iqbal, 2021) Therefore, terminating the free aspect of Spotify would have benefited Apple and directed the demand toward its new music streaming services.

Apple introduced a new trend to the music streaming market which is the exclusive release of songs and albums. Apple Music was launched with an exclusive song entitled "Freedom" by the American pop singer Pharrell Williams. (Kastrenakes, 2015) Therefore, pushing the fans of Williams to join the new platform if they want to listen to the new song. The then new streaming service continued to sign up popular artists for exclusive releases like Taylor Swift for her popular album "1989", and Drake for his album "Views from the 6". But perhaps the most controversial exclusive was an album by the American singer and songwriter Frank Ocean who released an album entitled "Endless" to fulfill the terms of his contract with Universal Music Group, and only days after released a superior album, "Blonde", on Apple Music as part of an exclusive deal. (Resnikoff, 2016) Frank Ocean was able generate more profit from his deal with Apple Music than his contract with Universal. The problem with exclusives is that they punish consumers for paying for music as they cannot access all the music they love in one place, and they are forced to pay for two or more streaming services to be able to enjoy the music they like. This will lead to an increase in piracy as consumers will choose not to pay twice. Frank Ocean's "Blonde" was spotted on top of the Pirate Bay's (an illegal file sharing website) list for the most downloaded songs shortly after its exclusive debut on Apple Music. (Resnikoff, 2016)

Apple was the first company to offer a working solution to the problem of online piracy with its iTunes Store back in 2003, but it was not the company to introduce streaming music with a flat-rate subscription to the market, as mentioned earlier that company was Spotify. However, Apple developed its own music streaming service in such a short time, and was able to make a clear impact on the streaming market by attracting many users who were depending on the default music app on their iPhones and other Apple devices. Also by building on the iTunes store success as it allowed users of iTunes to keep their music collections and have it alongside a huge library of music that is available for streaming on demand. Yet it cannot go unmentioned that by “replacing the default music player, in the dock of permanent apps, on the world's most popular smartphone” (Segan, 2015), Apple Music had a huge advantage over its competitors as most users would use the default, already available option on their devices rather than downloading a new app that serves the same purpose. Apple relied on its popular hardware from iPods to iPhones to push its streaming service and gain as many paying subscribers as possible, and one can argue that the company is still actively doing so by keeping the app as a default app on all its devices.

4.2 Apple Music customer base

At launch, Apple Music was available in 100 countries around the world. (Apple, 2015) Less than a year later, in February, 2016, Apple expanded its music service to cover 13 new markets. In August of the same year, Apple Music became available in Israel, and South Korea. (Sumra, 2016) This made Apple Music available in 59 countries that its main competitor and market leader Spotify was not. (Ingham, 2016) This rapid expansion can be attributed to the fact that Apple Music is backed by Apple, one of the biggest companies in the world. Spotify on the other hand relied on investments to expand into new markets. The international expansion of Apple Music stopped for the next 4 years until April, 2020 when Apple announced that its streaming platform will be available in 52 new countries, bringing the total number to 167 markets worldwide. (Apple, 2020)

As mentioned earlier, 6 months after its launch, Apple Music had 10 million subscribers. This number continued to rise to reach 27 million by June, 2017. (Curry, 2021) Figure 2 shows the number of Apple Music subscribers worldwide between 2015 and 2020. A steady increase can be seen in number of paying subscribers to reach 72 million subscribers by the end of 2020.

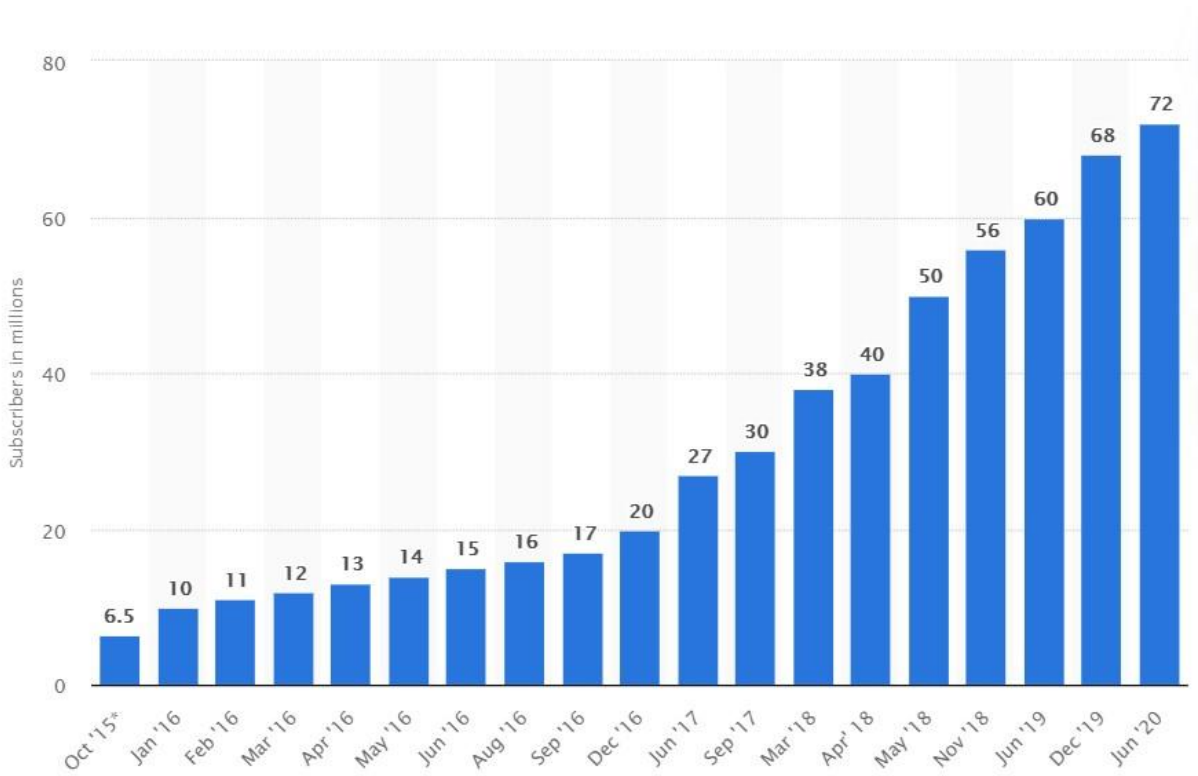

Figure 7: Number of Apple Music subscribers worldwide 2015-2020. (Statista, 2021)

4.3 Apple Music estimated revenue

As a multinational, multi-billion-dollar company, Apple does not disclose its revenue from Apple Music. Apple Music is one out of many digital services that Apple offers to its users. Therefore, the company disclose data on all its digital services, but there is available data on the estimated revenue generated by the music platform based on the total number of global streams, Apple Music's market share, and comparison with competitors on the market.

It was estimated that in 2016, Apple Music generated around $600 million. This number almost doubles in 2017 to reach $1.1 billion, and continue to increase year-over-year to reach $4.1 billion by the end of 2020. (Curry, 2021)

5 TIDAL

5.1 Development of Tidal

Tidal is a subscription-based music streaming service that was launched in 2014 by Norwegian public company Aspiro. A year after its launch, Tidal was acquired by Project Panther Bidco. After the acquisition, Tidal officially relaunched in March 2015 in a glamorous press conference hosted by the American rapper and songwriter Jay Z. (Coffey, 2016) While there are a lot of music streaming services competing on the market, Tidal stands out for three reasons. First, the company is owned by artists. Second, it offers high-quality audio for a higher price than its competitors which generate more money to support the artists. Third, Tidal promises its users exclusive content from a variety of artists. In the following chapters, each of these points will be discussed in depth to evaluate whether Tidal could compete against the big streaming services like Apple Music, and Spotify.

A year after its launch, in 2016 Tidal claimed that it had more than 3 million subscribers globally. (Rys, 2016) The company also reported that 45% or 1.35 million of its subscribers are paying for the HiFi version of the service. However, other reports suggest that Tidal has been inflating the number of paying subscribers as the actual number stood at only 1.2 million subscribers. (Greenburg, 2017) Tidal did not release any new data on the number of subscribers since then.

5.2 Tidal Features

5.2.1 Artist-owned service

As mentioned, Tidal is owned by artists rather than a corporation. Currently the company's website lists Jay Z, Beyoncé, Rihanna, Kanye West, and sixteen other famous artists as "artists-owners". (TIDAL, 2021) Tidal claims that this commitment from artists-owners not only will help bring exclusive music and events to its subscribers, but also helps create a more "sustainable model" for the music industry. (TIDAL, 2021) Tidal's goal is to offer a platform run by artists for artists to distribute their music and receive a higher share of the revenue generated by streaming. This means that Tidal will pay artists more money than other streaming services. Tidal pays the highest rates of royalties in the music industry. However, as discussed in previous chapters, the music streaming services pay the royalties to the record labels based on the contract between the two parties. Then, the record labels pay out the artists based on contracts established between the labels and the artists.

Tidal and other music streaming services cannot control the terms of those contracts. Therefore, it is uncertain whether Tidal is able to pay the artists more than its competitors. It has been reported that Tidal pays out the same rate of royalties to major record labels, independent labels, and self-releasing artists. (Woodworth, 2020) This means that artists who are signed for independent labels will still receive more money than artists signed with the major labels, and independent artists will receive the largest share of royalties compared to the other two categories.

Although Tidal claims to be a streaming service owned by artists for artists, the owners consist of a very few established and famous artists. The majority of smaller, or less famous artists are signed to record labels that own the distribution rights to their music. This means that those artists have little to no choice in deciding which streaming service can distribute their music. It is true that self-releasing artists, or those artists who are signed to independent labels will make more money, but that also applies to other streaming services as it all depends on the contracts.

5.2.2 High-quality music

When it first launched, Tidal promised its subscribers that they will be able to listen to high-quality lossless audio. The term “lossless” refers to audio files that have not been compressed, with the rise of the internet and digital audio players, audio files were usually compressed into MP3 format to make it faster to transfer them over the internet, this process reduces the quality of these files. (Inplayer, 2021) However, this high-quality music would come at a price of $19.99 per month, which is double the price of other streaming platforms. (Bhoot, 2017) Tidal believes that offering lossless, CD-quality music would give it an advantage over its competitors. But that did not seem to be the case as Tidal started offering another standard subscription plan for the regular price of $9.99. (Tidal, 2021)

At the time or writing, the company offers two main subscription types, Tidal Premium which offers standard audio at 320 Kbps quality for $9.99 subscription fee similar to Spotify and Apple Music. Tidal HiFi which offers lossless audio at 1411 Kbps quality for a price of $19.99 per month. (Tidal, 2021)

The majority of music streaming services users grew up listening to music digitally on their computers, mobile devices, and other music players such as the iPod from Apple. This music was usually uploaded by compressing normal audio files into low quality MP3 format. (Coffey, 2016) As a result, those users have grown accustomed to listening to low quality music. This generation of music listeners are the ones signing up for music streaming services now. This makes it harder to convince those consumers to pay $19.99 to listen to music when they can pay half the price and have access to the same music library.

Another argument that explains why Tidal's high-quality music offer for a higher price is not a big advantage is that in order to listen to high-quality music, users will need proper hardware that can deliver high-quality audio which could be expensive. Most users would still use their smartphones or normal headphones to listen to music which makes them not interested in paying more money to receive higher quality music.

5.2.3 Exclusive content

One of Tidal's main marketing strategies is exclusivity. Being owned by established, famous artists, Tidal was able to promise its subscribers exclusive access to some of those artists' full catalogs. (Cohen, 2021) Popular artists like Jay Z, Beyoncé, Kanye West, Rihanna, and others released their new albums exclusively on Tidal. However, many of these artists decided to get their music back on mainstream streaming services like Spotify and Apple Music (Bhoot, 2017) which resulted in some controversies in the media and between Tidal subscribers. (Coffey, 2016) Perhaps the biggest controversy was when Jay Z who owns the majority of Tidal's shares and had his full catalog placed exclusively on the platform, decided in 2019 to return his music back on Spotify. (Hale, 2019)

6 THE MUSIC MARKET

6.1 Recorded music market

According to the annual report published by the International Federation of the Phonographic Industry (IFPI) which is the organization that represents the recorded music industry worldwide, the global recorded music market saw an increase of 7.4% in 2020 which is the sixth consecutive year of continuous growth. (IFPI, 2021) The industry generated a total revenue of $21.6 billion in 2020 which is $1.4 billion more than 2019. Figure 8 shows the global recorded music industry revenue between the years 2001and 2020. In 2001, the total revenue was peaking at $23.6 billion. Since then, the industry suffered a dramatic decrease in revenue until 2015, which was the first year that growth was registered since 2001. The growth seen between 2015 and 2020 was mainly generated by streaming.

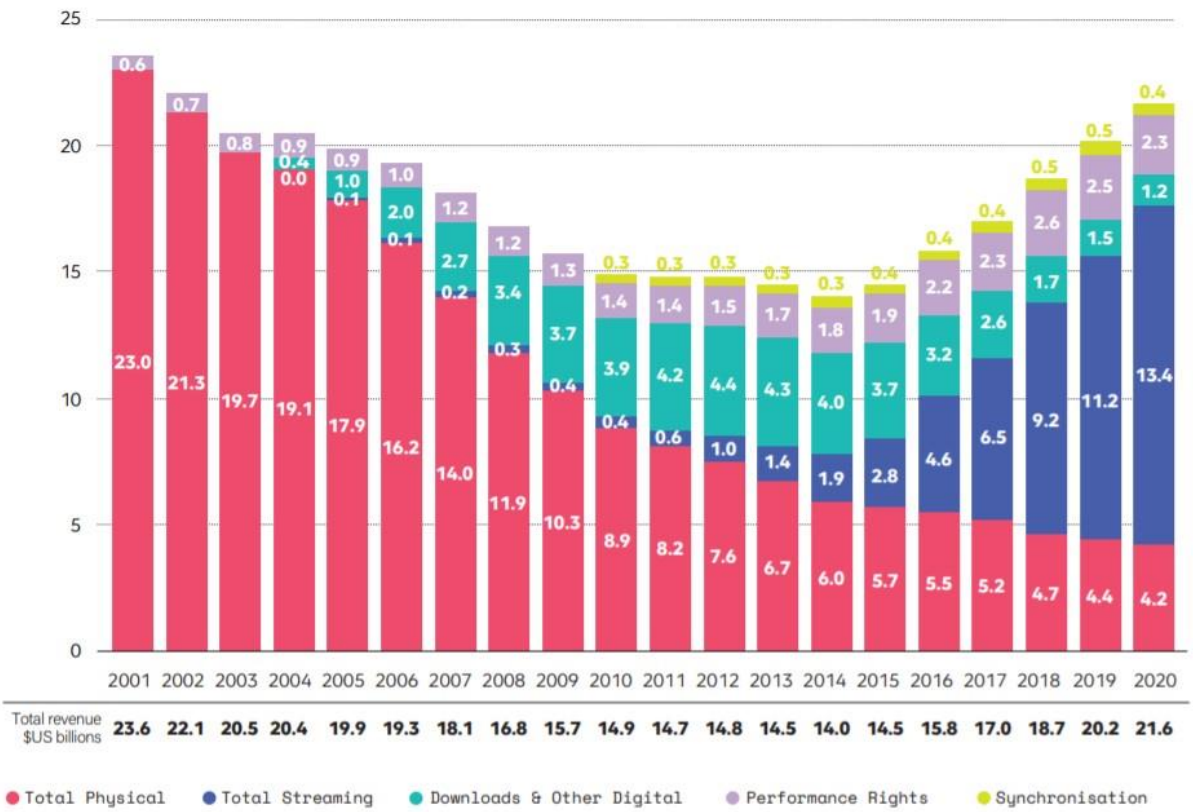

Figure 8: Global recorded music industry revenues 2001-2020 (US$ BILLIONS). (IFPI, 2021)

Streaming revenue grew by 19.9% in 2020, most of this revenue is generated by subscription fees. Music consumers continue to move from the traditional ownership model to the new access model provided by streaming platforms. While the streaming revenue is booming, other revenue streams like physical sales and downloads are on the decline. It is important to note that performance revenue is suffering a decline due to the Covid-19 global pandemic as most artists had to cancel their scheduled concerts and tours.

6.2 Music streaming market

By the end of the first half of 2019, the overall number of music subscribers worldwide was around 304.9 million. This number continued to increase to reach 400 million subscribers by the end of the first quarter of 2020. (Statista, 2021) The number of music streaming subscribers has been consistently increasing for the past few years as music streaming becomes the mainstream method of consuming music around the world. While all forecasts show that the number of subscribers as well as revenue will continue to increase over the next few years, the growth of the market is starting to slow down. (Mulligan, 2020) According to statistics by Statista, year-over-year music streaming revenue growth was at 65.1% in 2016, but this number almost halved in 2018 reaching 34%. (Statista, 2021) This downward trend could be attributed to the global expansion of streaming services and the average revenue per user as subscription fees in emerging markets can be much lower than average subscription fees in developed markets. Another reason for this slow in revenue growth could be the promotional trials offered by streaming services. (Mulligan, 2020)

Forecast reports expect the US. and UK market to stay on top of the list for the biggest streaming market, but other emerging markets like China, India, Brazil, and the MENA region will continue to grow in the next few years and be among the top global markets as soon as 2026. (Statista, 2021)

In terms of market share, figure 9 shows the share of music streaming subscribers worldwide by the end of Q1 2020 divided by companies.

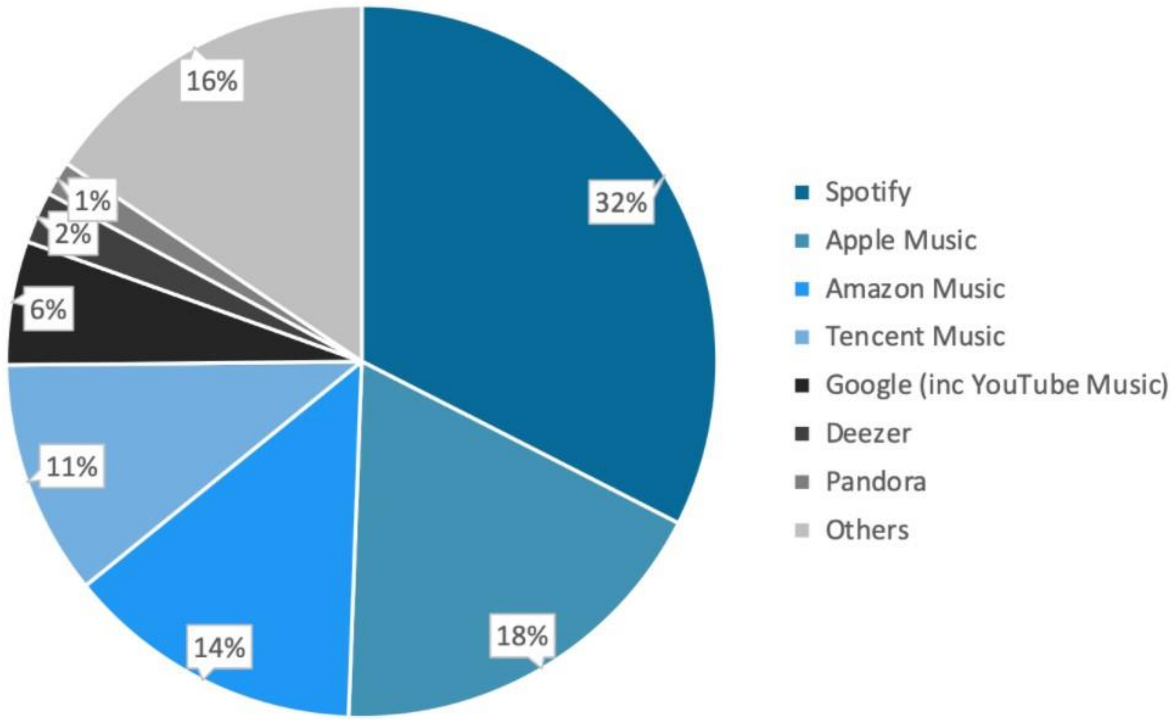

Figure 9: Subscriber share of music streaming services worldwide Q1 2020. (Mulligan, 2020)

Spotify is leading the market with a 32% market share. Spotify's market share has remained in the range between 32 and 34% since 2015. This is an impressive achievement considering the competition that entered the market during that period. (Mulligan, 2020) Spotify's big market share could be attributed to the continuous global expansion which leads to more subscribers from emerging markets.

Apple Music comes in second with a market share of 18%. Although Apple Music's market share is down 3% since Q1 2019, holding almost one fifth of the streaming market is remarkable. Especially that Apple only launched its streaming platform 2015. On the other hand, Amazon Music market share grew by 1% from last year to get to 14% in Q1 2020. (Mulligan, 2020) Amazon offers its subscription services in bundles, meaning that subscribers to its video streaming service would automatically be considered as Amazon Music subscribers.

Tencent Music Entertainment comes in fourth place with an 11% market share which represents the Chinese streaming market. YouTube Music (owned by Google) holds 6% of the market coming in the fifth place, but it is a notable increase from the 3% the company had in 2018. (Mulligan, 2020)

While there are many streaming services, the market is dominated by a few services which are normally backed technology giants like Apple, Amazon, and Google. The only exception is Spotify, but the company's success can be attributed to the fact that it was one of the first companies to enter the streaming market.

7 Outdated Record Labels

7.1 Shift from product to service-based model

For a long time, singing up with a major record label was the best thing an artist could do in order to guarantee a successful music career. With their enormous resources, industry connections, and distribution networks, record labels were able to offer artists what they could never achieve on their own. In fact, the major record labels played the role of industry gatekeepers to the point that no artist could make it in the music industry if he or she has not been discovered by a label. However, the rise of the internet, development of Peer-to-Peer technology, and low-cost home studios created a serious threat to labels. This threat manifested itself when music consumers stopped buying physical records and CDs which led to a sharp decrease in revenue. (Wikström, 2014) At the same time, these factors created the perfect opportunity for artists to become independent.

According to the Recording Industry Association of American (RIAA), in 2002, "95.5% of the music industry's revenue came from CD sales". (HipHopUnrapped, 2019) In 2019, 75% of that revenue was generated by music streaming compared to only 10% generated by physical sales. (HipHopUnrapped, 2019) This is bad for record labels as they make way less money with streaming than with physical sales. For example, 1 million Spotify streams generate around $4,300 for the labels. This number could be generated by selling 233 albums in 2000. (HipHopUnrapped, 2019) While many critics argue that streaming services are bad for the music industry, (Honeyman, 2015) others see that music streaming is what saved the music industry after music sales diminished in the 2000s with the rise in online piracy and iTunes which made CDs obsolete. (HipHopUnrapped, 2019)

The music industry, like many others, has shifted from a product-based business that sells CDs to a service-based business that offers access to music libraries. But the record labels have failed to adapt to the new business model. Today, an artist is able to record a song and upload it to a music streaming service to reach millions of consumers without selling a single CD. Yet according to a Citigroup report, labels are still signing up new artists with contracts that reflect the CD distribution era. (Bazinet et al., 2018) The same report by Citigroup mentioned that out of the $43 billion revenue generated by the music industry, artists received only 12%. (Bazinet et al., 2018) It can be suggested that record labels are trying to justify their existence in the era of streaming which generates far less money than what CD sales used to generate.

In addition to unfair contracts, major record labels have found a new way to generate more profit and stay afloat. They introduced a new, but controversial kind of deal which they named a "360 deal". 360 deals are exclusive recording artist contracts where a record label receives a percentage of all the artist's revenue streams rather than just album sales. This includes live concerts, tours, endorsement deals, movies' deals, merchandise sales etc. (Songtrust, 2021) While many see these deals as a greedy trick by the record labels to make more money without providing any added value, the labels argue that such deals would allow them to focus more on the development of the artist rather than securing record sales. (HipHopUnrapped, 2019)

7.2 Artists' Options

As mentioned earlier, it has never been easier for artists to record a song and distribute it to millions of fans around the world. With that in mind, the idea of signing a deal (whether traditional or 360) with a record label is becoming more and more unattractive. New artists who want to record and distribute their music have many options to choose from. One of those options is to sign a contract with a major record label where the artist sells their creative freedom and control over their copyrights to the label in exchange for the label's massive resources and connections in the industry. (Cole, 2010) Artists who sign such contracts could receive up to 15 or 20% of the revenue generated by their music while the label usually keeps between 80 and 85% of that revenue. (Bazinet et al., 2018) Furthermore, the artist would not receive any royalties until the label collects the money they invested to produce their music. (Bazinet et al., 2018)

Another option for new artists is to sign with an independent record label which can offer the artist less resources but takes a smaller share of the royalties when compared to major labels. Independent labels usually offer artists more creative control over their music. The fact that these labels do not have the massive resources that major labels have does not mean that artists cannot be successful. Some of the most popular artists today started off by signing with an independent label. Most of these artists usually switch to major labels using their initial success to negotiate favorable contract terms and taking advantage of the wide reach they could achieve with a major label. (Mcdonald, 2019)

Alternatively, artists could choose to release their own music independently without the help of a label. This option is becoming more popular and has never been easier. Artists could market themselves using social media websites and upload their music to all music streaming services without distributing physical albums. Figure 6 illustrates a comparison between the number of independent artists and label-employed artists in the USA in the years 2003 and 2012.

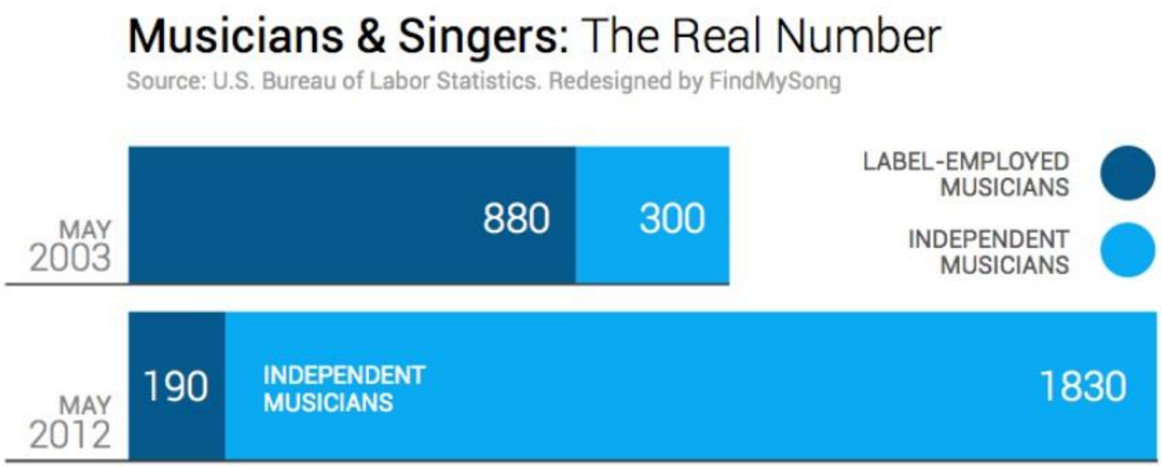

Figure 10: Independent musicians vs. label-signed musicians in 2003 and 2012 (only includes full-time musicians). (Rani, 2018)

As it can be seen, the number of independent artists has increased over six times between 2003 and 2012, while the number of signed artists has shrunk by 78%.

7.3 Independent VS. Signed Artists

7.3.1 Career Control

In terms of career control, independent artists obviously have more control over their careers. (Rani, 2018) However, managing an artist's career can be exhausting at some point, especially when an artist is trying to reach a wider audience and achieve continuous growth. Labels, whether major or independent, can help the artist with their career not only with funding, but also with taking care of the administrative tasks so the artist can focus on the creative aspect of their career.

On the other hand, label-signed artists are bound to the contracts they signed with the label which give the label complete control over the artist's career. The label could constrain the artist into a specific type of music, or push them to work with other musicians, go on tours the label decides, as well as other constraints that the artist is obliged to respect based on their contract. Signing to a label usually gives the label complete control over the copyrights of the music. Owning the rights means that the label could decide whether to publish the music or not, when to publish it, and how to distribute it. Independent artists own the rights to their music, therefore have the freedom when, how, and where to publish their work.

7.3.2 Artist Revenue

Money makes a big factor of the artist's decision whether they should sign with a label or not. Figure 7 illustrates how $1 flows from Spotify to recording artists. The figure breaks down the pay structure of major labels, independent labels, and self-releasing artists. By taking Spotify as an example of a streaming service, it can be considered how artists, record labels, and music streaming services make money from streaming. It can be concluded that 90% of streaming revenue comes from subscriptions to the platform, while the other 10% comes from the free, ad-supported service. Spotify's share of this revenue is around 29%, while the other 71% gets paid out as royalties.

In the case of a major-label artist, the record label receives 59% of the 71% royalties while the remaining 12% is split between publishing and performance royalties. The label then keeps 50% of the royalties while the artist is left with only 18%. Assuming that the artist here is a four-member band, each member will receive around 4.5% of streaming revenue. However, major-label artists have a better chance reaching a wide audience as the label is responsible for the marketing of their work.

In the case of an independent-label artist, out of the 71% of royalties paid by Spotify, the label only keeps 29%, leaving the artist with 40% of the revenue. This translates into 10% per member in a four-member band. Although this is more than what a major-label artist makes, artists signed to independent labels might receive less exposure.

A self-releasing artist on the other hand receives up to 64% of the royalties after the distributor keeps only 6%. These artists would still have to pay attention to marketing, brand building, and work on their publicity independently.

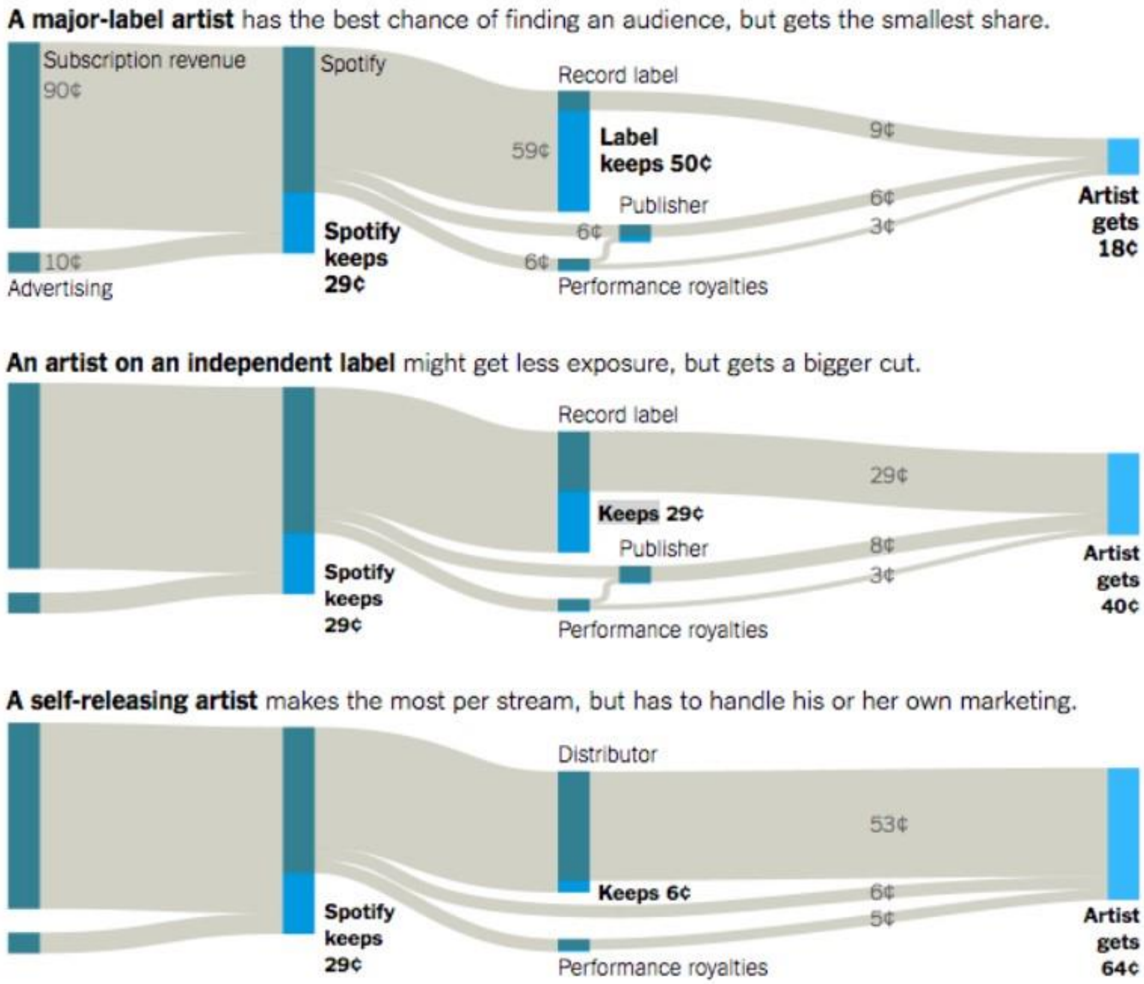

Figure 11: How $1 flows from Spotify to recording artists (some figures include fraction of cents that have been rounded). (Phillips, 2018)

Independent artists can hire a third-party marketing agency, or even a social media specialist to help them promote their brand. Although this option might be as expensive as signing to a label, there is no long-term contract that the artist is obliged to respect, and they still own the copyrights to their work.

7.4 Record label alternatives

Many music industry observers categorized music streaming services as industry disruptors at first, but that was not the case. Streaming services did not affect the power structure within the music industry. The major labels kept their role as gatekeepers and copyrights holders, and streaming platforms had to make deals with the labels if they wanted to have access to their enormous catalogs that include most of the music produced in previous decades but still popular with older customers. Nevertheless, streaming platforms paved the way for new startups to disrupt the industry.

New tech companies emerged after the streaming revolution offering to distribute music to all music streaming services while providing detailed data analysis for independent artists. One of the advantages these companies have over the labels, is that they allow artists to own their music as well as receive 100% of the royalties paid by streaming services. (HipHopUnrapped, 2019)

Some of these companies offer their services for free, while others charge a small annual fee or a very low commission rate. For example, a company called Distrokid charges as little as $20 per year. Another one is called UnitedMasters charges artists a commission of only 10% of all the royalties they receive. (HipHopUnrapped, 2019)

These companies offer artists everything a record label does for a cheaper price while allowing them to own their music and make more money. There is no doubt that artists will choose new tech companies over label deals.

The emergence of these distribution companies, as well as streaming services' deals like Spotify's initiative suggest that major record labels cannot justify their existence, nor the high commission rates they ask for anymore. They are outdated industry gatekeepers that lost their power with the rise of the internet.

8 CONCLUSION

In conclusion, the music industry has experienced drastic changes in the past two decades. Starting with the shift to digital distribution through the iTunes music store due to a spike in online piracy, to the rise of multiple music streaming services that dominate the current music market. Although it was the first to enable legal digital distribution of music, iTunes itself did not affect the existing power structure within the industry. In the position of the gatekeepers, major record labels still held all the power, making it almost impossible for artists to build a career without signing a contract with a label.

However, the technological development and the introduction of smartphones allowed for the emergence of online access-based subscription-based music streaming services. While it was hard to break into the music market, Spotify, as the first of such services, managed to establish a new business model. This offered customers a cheap way to listen to music legally, while providing artists a chance to reach a wider audience. Despite criticism whether the applied freemium business model will be sustainable in the long term or not, Spotify managed to attract a big enough consumer base to become the most popular music streaming service in the world. The growth of Spotify led to the development of Apple Music in 2015 which managed to grow very quickly and become its true competitor. However, Apple has been criticized for using an unconventional approach that can be interpreted as anti-competitive behavior in the music streaming industry. Moving further, Tidal was the first attempt in the industry to create a service that would be more profitable for the artists. Being owned by the artists themselves, it offered more high-quality, as well as exclusive, content, but for a higher price. Unfortunately, due to the particular business approach it had to resort to, it upheld only a small market share compared to other music streaming services.

The music industry witnessed a shift from product-based to service-based business model, but record labels continued to sign contracts with artists that reflect the old business model. Currently, artists are not forced to sign contracts with major labels to guarantee success. Alternative career choices like independent labels or self-releasing became more attractive to artists because it allowed them to have more control over their career and generate more revenue. Additionally, new distribution companies offer artists to distribute their music for a much smaller fee.

The aim of this research paper was to answer the following question: how does the emergence of access-based subscription music streaming services impact the existing power structures within the music industry? Based on the presented research and analysis, it can be concluded that the shift from product-based business model where consumers buy music in a physical or digital form, to a service-based model where streaming services sell consumers full access to their music catalogs, made the existence of record labels redundant. Although access-based music subscription services provide the most efficient method to distribute music digitally as artists can upload their music and quickly reach millions of consumers around the world with no need to distribute physical records, the shift in balance in the music streaming service industry has caused an unfair share of revenue between the artists and record labels. This has consequently led to an increase of the number of independent artists who decline to sign contracts with the labels and prefer to develop their careers independently, supported by technology companies that would distribute their content for a small fee. While the record labels will maintain their position on top of the music industry due to the fact that they own the rights for massive music catalogs, they will struggle to sign new artists as more and more artists choose the alternative and more modern path.

It is important to note the limitation of this research paper which greatly stems from the lack of academic research in this specific area of study. Partial explanation behind the gap is the fact that the concept of streaming services is still relatively new, unexplored, and developing very fast. Moreover, due to allowed company confidentiality, some of the biggest market leaders such as Apple are not required to release all data related to their service which creates an ambiguous environment that does not allow for complete analysis of their music streaming service and its competitiveness. However, this does allow for an opportunity for further research which can focus on analysis of potential solutions to the issues experienced by the music streaming services at the moment, and the possible outcome for both the artist, and the major record labels, but the streaming services too.

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