



Department: *Management*

Course: *Markets, Regulations and Law*

**‘Music Industry in the Digital Era: a  
pendulum swinging between  
dematerialization and new shapes’**

*Supervisor:* Luca Arnaudo

*Candidate:* Leopoldo Lanzoni  
N°713261

*Co-supervisor:* Giuseppe Colangelo

ACADEMIC YEAR: 2019-2020

<b>INTRODUCTION .....</b>	<b>5</b>
<b>CHAPTER 1.....</b>	<b>11</b>
<b>THE INDUSTRY.....</b>	<b>11</b>
1.1 <i>Brief history of Music Industry.....</i>	11
1.2 <i>Recording Industry and its Architecture .....</i>	15
1.2.1 Majors.....	16
1.2.2 Independents.....	20
1.3 <i>Distribution.....</i>	23
1.4 <i>Booking.....</i>	24
1.5 <i>Publishing Companies .....</i>	25
<b>CHAPTER 2.....</b>	<b>28</b>
<b>DIGITAL ERA: THE INDUSTRY REVOLUTION .....</b>	<b>28</b>
2.1 <i>1999: Napster Detonates a New Revolution .....</i>	28
2.2 <i>A New Business Model for the Industry.....</i>	31
2.3 <i>iTunes: a First Experiment in the Legality of Online Music.....</i>	34
2.4 <i>Music File-Sharing and its Consequences .....</i>	35
2.4.1 Global Data from the Digital Revolution.....	36
2.4.2 Global Industry Data and its State of the Art.....	40
2.5 <i>Data on Italian Music Industry .....</i>	43
2.6 <i>Recent Data from US Music Industry.....</i>	48
<i>CASE STUDY A: A Rebirth for the Vinyl Market.....</i>	54
<b>CHAPTER 3.....</b>	<b>59</b>
<b>ASSESSMENT OF COPYRIGHT LEGISLATION .....</b>	<b>59</b>
3.1 <i>Società Italiana degli Autori ed Editori (SIAE).....</i>	61
3.1.1 Subjects Entitled to Claim.....	62
3.1.2 Different Music Licenses.....	64
3.2 <i>Barnier Directive 2014/26/EU .....</i>	66
3.2.1 Key Points of the Directive .....	67
3.3 <i>Directive on Copyright in the Digital Single Market 2019/790.....</i>	69
<i>CASE STUDY B: Soundreef, a new alternative to Siae. Additional insights through an in-depth interview with Davide d'Atri, CEO of Soundreef. ....</i>	71
<b>CHAPTER 4.....</b>	<b>77</b>
<b>MUSIC STREAMING MARKET .....</b>	<b>77</b>
4.1 <i>Music as a Data Container in the «Post-Record Industry» .....</i>	77
4.2 <i>Streaming Market: Industry Profile .....</i>	80
4.2.1 Five-Forces Analysis.....	83
4.3 <i>Spotify: Birth of a new Colossus .....</i>	84
4.3.1 Data and Statistics .....	86
4.3.2 Spotify's Offer.....	89
4.3.3 How Spotify Has Changed the Industry .....	90
4.3.4 The Importance of Being on a Playlist .....	93
4.3.5 Spotify Data in Italy .....	100
<i>CASE STUDY C: Indie Music Explodes in Italy.....</i>	101
C.1 The <i>Indie</i> phenomenon .....	101
C.2 'Il sorprendente album d'esordio dei Cani' .....	102
C.3 Calcutta and Thegiornalisti: Paving the Way to Mainstream .....	103
4.4 <i>Royalties Computation .....</i>	107
4.4.1 Revenues from Digital Service Providers (DSP) .....	109
4.5 <i>The 'Value Gap Question' .....</i>	111
4.6 <i>Insights on the Impact of Covid-19 on Music Consumption .....</i>	114

<b>CONCLUSIONS .....</b>	<b>121</b>
<b>BIBLIOGRAPHY .....</b>	<b>125</b>
<b>SITOGRAPHY .....</b>	<b>129</b>
<b>APPENDIX.....</b>	<b>131</b>
<b>SUMMARY.....</b>	<b>133</b>



## INTRODUCTION

1999, a specter is haunting the music industry.

The beginning of the 21st century brings the gradual but decisive entry of digitisation and Internet into our lives. Any sector, be it economic or otherwise, is overwhelmed by this new technology, which has revolutionized both times and spaces in society.

The following thesis focuses on the pros and cons of the relationship between music industry and the nascent digital age through data collection and analysis, from the initial war against Internet by the leading players, to the industry's inevitable (late) adaptation to the new way music is enjoyed and conceived.

The beginning of the 'end' dates back to 1999, when a programme called Napster appeared online: it was the first illegal service available to download rights-protected music files. Since then, we witness to a progressive collapse of an economy - historically supported by 'physical' revenues from CDs, vinyl and cassettes - that sees its main source of income 'dematerialised'. Hence, music appears as an additional victim of the digital progress that is sweeping the world: the paradox is that it has a new form, even though it can no longer be traced back to something concrete and tangible.

Napster inaugurates a whole series of 'clones' that offer music free of charge to any user, all favoured by Google's negligence, which passively carries online searches in this direction: the inexorable crash of the industry begins.

As a musician, in recent years, I managed to contact important professionals in the sector, whom I have interviewed on various issues related to the changes that have taken place and the new way of approaching this industry. Within the paper there will be statements from interviews to:

*.Carlo Martelli:* record producer since 1990 at BMG, then manager of the ExtraLabels division of EMI from 1999 to 2004 and now manager freelance

collaborating with iCompany. He worked with illustrious Italian and international artists (such as Caparezza, Frankie hi-nrg, Depeche Mode, Nick Cave, Moby etc);

*.Nicola Cani:* Co-founder of Foolica Publishing Srl, manager of Thegiornalisti earlier and now of Tommaso Paradiso;

*.Davide d'Atri:* CEO of Soundreef;

*.Roberto Trinci:* Head of A&R in BMG Music Publishing since 1997, in 2005 he became Artistic Director of EMI Publishing Italia. Since 2013 he is Artistic Director of SonyATV Publishing. He has been manager in Italy of Baustelle and Subsonica.

*.Gianmarco Dottori:* co-founder of live format Spaghetti Unplugged, 2015 winner of Musicultura, artistic collaborator of Tommaso Paradiso.

*.Marco Sannino:* founder and owner of Radiation Records, important italian shop of new and used vinyl, CDs, DVDs, books, magazines, t-shirts and any kind of music-related items.

*.Riccardo Cresseri:* co-responsible A&R for Artist First

*.Riccardo De Stefano:* editorial director for ExitWell and artistic director for MEI (Meeting Etichette Italiane)

This thesis attempts to present the functioning and structure of the industry and analyzes every aspect involved in digital change, while dissecting and collecting data that analytically show the trend as a whole - at both Italian and international level - and highlight the path that has led in about twenty years to overturn and replace the primary source of income of the industry, the physical income, crushed by the rise of streaming.

All the implications that these deflections have had in economic and social terms are then outlined, with a case study dedicated to the 'anomaly' of vinyl, whose market has been constantly growing for years and which probably represents the sole future revenue alternative.

A chapter will explain how copyright works, how it is legislated in Italy and managed by the collecting society Siae, whose monopoly was recently challenged

in 2012 by the birth of Soundreef as a competitor: I dedicated a case study about it, combining an interview with the above-mentioned Davide d'Atri, CEO of the company. Today Soundreef represents an all-Italian excellence in the field of copyright protection at an international level, operating in more than ninety countries and protecting about 39,000 authors and publishers.

When a user enjoys streaming music catalogues, he becomes a data provider: what we listen to is a source of information that the platforms sell to advertisers, in order to canalize us towards advertisements that reflect our ratings and tastes. Hence, music today is a data container.

Further, I will conduct an in-depth analysis of the global streaming market, which will be examined through an industry profile that has been growing for years.

I will then specifically examine Spotify - the leading Swedish company in the legal offer of fixed payment music catalogues - with its position and accounts through the analysis of its income statement. Spotify's role is not exclusively that of being a media provider: it has now taken on an almost 'institutional' guise, which explains the mounting dependence of the industry from it. Any artist today needs to be present on the platform for visibility, despite the 'vicious circle' created by editorial playlists - a key element of today's musical promotion - and the consequent 'creative cage' that current trends and fashions impose, especially on newer or emerging artists - unless their fame and prestige allows them to supersede this kind of logic.

Let us make a further clarification: music as we conceive today has always been a phenomenon strongly based on the customs, fashions and trends of the moment, but in the logic applied by Spotify, as we will see, the power to give numbers and prominence to an artist is concentrated too much in the editorial playlists, which become almost a mandatory springboard for certain types of projects.

This will be followed by a case study on the exploding phenomenon of what is now renown as 'Italian Indie' in the 10's: namely, how the power of the Internet and its intelligent usage has represented a new frontier in the musical promotion

of artists previously unknown to the general public and in a few years became a point of reference for recent Italian pop, thanks to a new type of communication and diffusion of the new 'digital' generations.

One of the big problems of the current negligible remuneration paid by streaming platforms - the so-called 'Value Gap Question' - will be analyzed and highlighted; we will explain how the aforementioned leads to very low earnings for artists compared to the revenue that their content generates for multimedia providers: many were and many will be the collective protests against this system that disadvantages the music creators most of all. Nonetheless, the debate still suffers from unsolvency.

In 2019, the industry had extremely encouraging sales figures close to pre-crisis levels, but in early 2020 the recent Covid-19 pandemic caused a huge halt on a global scale. Months after the outbreak, the whole sector has been brought to its knees by the forced and necessary cancellation of live music (lifeblood of the music economy) and saw its streaming numbers fall during quarantine: a section will be dedicated to this, enhanced by a study on digital music consumption and its decline during lockdown.







# Chapter 1

## The Industry

*«We're just knocked out  
We heard about the sell out  
You're gonna get an album out,  
You owe it to the people!»*  
(Pink Floyd, *Have A Cigar*, 'Wish You Were Here', 1975)

### 1.1 Brief history of Music Industry

Talking about «Music Industry» -from now 'MI'- implies reasoning about a relatively recent phenomenon compared to many other economic sectors. Music, as we well know, has existed for millennia and its relationship with the human being has had, over the centuries, different approaches before becoming the real business we know today. Let's start by saying that there is no single definition of MI.

Generally speaking, it can be defined as the set of companies and individuals who profit from the production, distribution and sale of music produced and from the organization of live concerts, exploiting the editorial rights of the recordings in their possession.

Later we will go on to define the main terms and actors in the sector, in order to make this definition clearer. But first, let's proceed with a brief historical excursus on its birth and evolution until today.

Music is a real product inserted in a context that is constantly changed by factors such as: social customs, technological advancement, fashions, trends and contexts. The embryo of the concept of MI was born at the end of '800 in the USA and in some European countries. During that period the premises for the birth of the sector were being created thanks to elements such as:

- the beginning of mass production of musical instruments (in 1880 about 45,000 pianos were produced in the USA);
- the growth of the music publishing industry (the oldest music publishing house in the world is Breitkopf & Härtel, founded in 1719 in Leipzig by Bernhard Christoph Breitkopf; however, the expansion began at the end of the century, following the spread of melodrama. In Italy, the first was Casa Ricordi in 1808);
- foundation of the first record companies (American Columbia Records in 1888, Gramophone Co. In the UK in 1898);
- regulation of copyright, enshrined in the '*Berne Convention for Literary and Artistic Works*' in 1886 (which for the first time established the mutual recognition of copyright among the member nations);
- broadcasting of clubs and shows of artistic-musical entertainment.

With respect to this last point, it is interesting to point out the phenomenon of the so-called *Minstrel Shows*: American forms of entertainment characterized by variety sketches, dances and music whose protagonists were white actors with their faces painted black (*blackface*) who gave a comic representation of African-Americans, with marked offensive and caricatural elements. While on the one hand they provided a mirror of how American society perceived the black population, on the other hand these performances played a fundamental role in the birth of MI and in stimulating the white population's interest in Afro-American culture. This is an important consideration if we think that musical genres such as blues and jazz originate from this kind of culture<sup>1</sup>.

The crucial factor for the turning point in mass diffusion comes from radios and especially from the birth of the first musical reproduction media: vinyl.

The first vinyl format is the so-called *78 rpm* -referring to the number of rpm needed for listening-, introduced by Emile Berliner in 1889. The invention of

---

<sup>1</sup> Lewis A. Erenberg (1984), *Steppin' Out: New York Nightlife and the Transformation of American Culture, 1890–1930*, University of Chicago Press, p. 73, ISBN 0-226-21515-6

sound recording dates back to the French Charles Cros who preceded Thomas Alva Edison's patent by a few months (1877)<sup>2</sup>.

This format, which soon replaced the phonographic cylinder (the first audiophonic support introduced by Edison), gradually improved: only after 1925 the 78 rpm recordings were made with electrical equipment, which allowed a better sound quality.

The great diffusion of 78 rpm took place immediately after the war, from 1946 to 1955, with many companies involved in the sector. In Italy there were companies like Carisch -which also distributed Odeon, Pathé, Parlophon, Vis Radio-, Cetra, Fonodisco Italiano Trevisan Milano (Fonit), RCA Italiana, Voce del Padrone, Durium-Telefunken (Italian-German) and Compagnia Generale del Disco.

The format then began to suffer from its defects: heaviness, bulky bulk and fragility. So, in 1948 the *45 rpm* was inaugurated by Columbia Records, starting the mass music market.

Until the end of the '50s, the sector was dominated by singles (i.e. physical supports with less than four tracks); in the '60s there's a gradual shift towards the actual album, which overtakes (in terms of turnover and more) towards the end of the decade: it's the beginning of the real mass music market, as we understand it today. At the same time the *33 rpm*, by far the most successful vinyl format in history, takes shape and success.

After the parenthesis of cassette tapes (extremely popular in the 80s), the era of Compact Disc Digital Audio (CD-DA) opened in the 90s, a physical support that revolutionized the industry. While technological progress had over the years implemented and improved physical playback media, this step represents an important departure from the past and other media.

The price of the CD in the shops was much higher than the cost of production. This guaranteed important profits for the whole production chain, in particular for the record companies: they could therefore allocate greater sums of investment

---

<sup>2</sup> <https://www.history.com/topics/inventions/thomas-edison>

towards the promotion of their artists, also taking advantage of the wave of the massive diffusion of music video (in 1997 MTV was born) which was becoming a further means to enhance the artist<sup>3</sup>.

On the threshold of the internet revolution, the industry was in good health and unaware of the change that would take place in a few years.

In 1999 Napster was born, the first peer-to-peer system for sharing music files online: it was the beginning of the fall of the record industries.

This was followed by many other programs (eMule, Torrent just to name a few), whose diffusion led more and more people to think «why pay for music, when I can get it for free?».

The fight against file-sharing systems gets inflamed with the passing of time, but the vastness and uncontrollability of the Internet phenomenon makes it complicated to limit these programs. Moreover, Google itself is indirectly guilty (?) of conveying users' search for pirated files, creating a paradox: those who produced music risked, those who spread it earned.

Apple is the first to realize the potential of the new business: in 2001 iTunes was launched, the first online software to legally sell music through downloads (recognizing a part of the proceeds to the artists).

While the illegal file-sharing continues, in 2006 Spotify was born in Sweden, the company that will revolutionize the music distribution system in the following years through legal agreements with major and independent labels, forced in turn to adapt to the change to avoid further losses.

This is the beginning of a radical evolution in the way music is played and enjoyed. It is the beginning of the digital era and the definitive change in the market. Today we all have free and easy access to all the content we want and the industry has managed (or rather, is managing) to adapt to the changing market. This has

---

<sup>3</sup>Interview by me to Carlo Martelli, ex record producer since 1990 at BMG, then manager of the ExtraLabels division of EMI and later at iCompany, which boasts collaborations with illustrious Italian and international artists

happened with many difficulties and sacrifices in recent years on the part of those working in the industry. In the course of this work, we will see in detail how.

## **1.2 Recording Industry and its Architecture**

The *recording industry* is concretely the group of record companies that produce, market and (in some cases) distribute music through physical or digital media. In order to clarify terminology, the *music industry* incorporates the record industry in its essence, but also includes all the part of the music business not included in *record industry* definition.

The ‘modern’ music industry began to exist when recordings replaced sheet music, between 30' and 50': music had become a product in its own right. Record labels (from now ‘RL’) were born with the intent to manage and economically exploit recordings: they are one of the actors acting within the MI.

Over the years there has been a ‘struggle’ to conquer market shares: some RL have established themselves as leading firms, some have been incorporated by bigger labels, others have closed down and a multitude have tried (and still try) to gain a relevant position.

We will now go on to analyze what kind of RLs act in the market and the roles played within it.

There are several types, whose discriminating factors are related to market share and approach to the music business (from both an economic and ‘artistic’ point of view).

### 1.2.1 Majors

The Association of Independent Music (AIM) defines it as «a multinational company which (together with the companies in its group) has more than 5% of the world market(s) for the sale of records or music videos»<sup>4</sup>.

What characterizes them is a decidedly «commercial» (from an artistic point of view too) and monetarily massive approach to music business.

In general terms we can say that this category includes the RLs which produce, finance and (in most cases) distribute the major national and international artists.

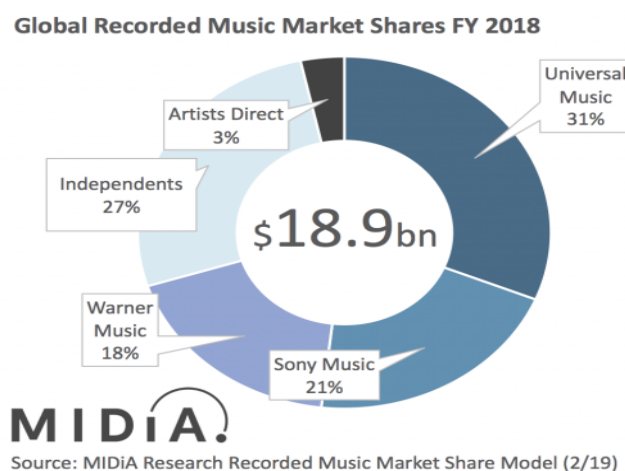
Today they are recognized as such three companies:

- 1) *Universal Music Group* (known as MCA Music until 1996).
- 2) *Sony Music* (known as CBS Records until January 1991)
- 3) *Warner Music Group*

They hold about 2/3 of the global market.

As figure 1.1 shows, in 2018 Universal has been the label with the largest share and the independent industry is ‘struggling’ to carve out a bigger slice of the market. The opportunities for these companies to grow are increasing over time, thanks to new technological means of dissemination and promotion.

Figure 1.1 – Global recorded music market shares FY 2018



Source: MIDiA Reserch Recorded Music Market Share Model

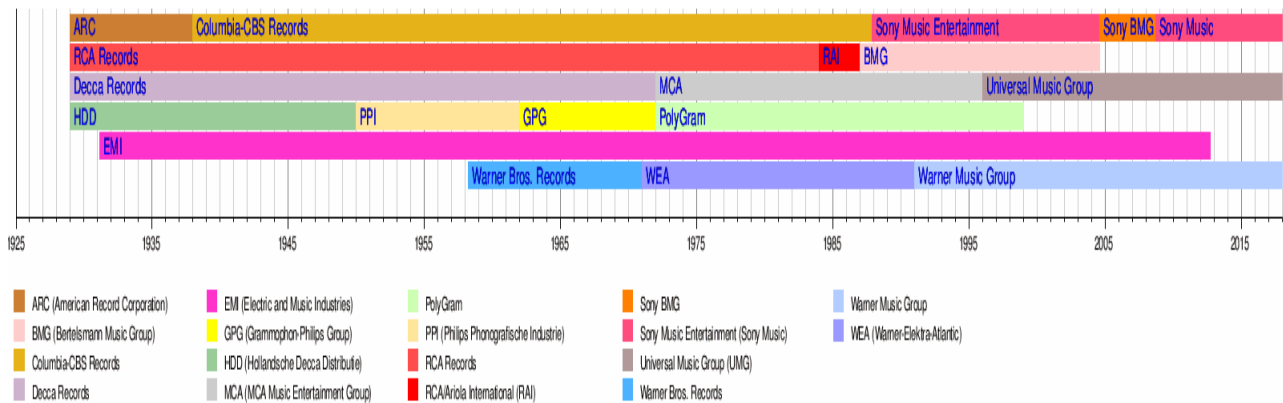
<sup>4</sup> <http://www.musicindie.com/independent-music-now-growing-force-global-market/>



Each of the Majors has control of several sub-labels, i.e. labels with their own names and brands but which refer to the main label that owns them.

Throughout history, there has been a continuous change in the morphology of the Majors, shown in this chart<sup>5</sup>:

Figure 1.2 Evolution of Majors's morphology



Source: Wikipedia

The current set-up persists since 2012, when most of EMI's recorded music division was absorbed into UMG, EMI Music Publishing was absorbed into Sony/ATV Music Publishing, while EMI's Parlophone and Virgin Classics labels were absorbed into Warner Music Group in July 2013<sup>6</sup>.

The change in the music business over the last decade has also changed the traditional roles played within the major labels. In particular, the line that combined what was the *sales department* (which was responsible for providing physical records to retailers, also ensuring that they were put in plain sight for customers) and the *marketing department* (which was responsible for organizing the advertising structure aimed at getting consumers into music stores) has become

<sup>5</sup> [https://en.wikipedia.org/wiki/Record\\_label](https://en.wikipedia.org/wiki/Record_label)

<sup>6</sup> Joshua R. Wueller, Mergers of Majors: Applying the Failing Firm Doctrine in the Recorded Music Industry, 7 Brook. J. Corp. Fin. & Com. L. 589, 601–04 (2013).

increasingly tighter in the digital world. In fact, if we now see an Ad for a song posted on a website, it means both that it was highlighted (i.e. work related to the work of *sales*), and that the advertising was addressed to consumers (work of *marketing*).

Let's now see the anatomy of the record company by listing those departments that have not undergone radical changes, not depending on how the music is delivered or marketed<sup>7</sup>.

*.A&R (Artists & Repertoire)*: the one who has the task of finding, writing and guiding musical talents. Some time ago, this figure also sometimes played the role of producer (i.e. the one who directs, manages, arranges and chooses the sound of the artists' musical recordings within the production of a single or an album; to make an understandable comparison, let us say that if the artist/band is a football team, the producer is the coach). Today the two figures are split. The A&R now matches the artists with the producers and supervises the work.

*.Promotion*: it takes care of having the records reproduced by radio stations. Today, in the digital world, the importance of radio has decreased, but streaming companies are more available to featuring the music if it has gone into radio.

*.Finance*: it takes care of keeping track of the company's expenses and income, including calculation and payment to artists of royalties resulting from the economic exploitation of their music, depending on the contract.

*.Business Affairs/Legal*: it deals with contracts related to artists, digital service providers, foreign licensor, and more. Before the recent industry crisis, these two sectors were separate. Business Affairs people negotiated contracts and decided

---

<sup>7</sup> Donald S. Passman, *All you need to know about music business*, USA, 10<sup>th</sup> edition, 2019, Simon & Shuster, p.70

how much to give and how much to keep (in collaboration with other executives); at that point the legal department provided legal input and negotiated contracts.

*.International:* handles the release and monitoring of records worldwide at an international level. We could say that today, with globalization and new media and their speed, this department acts in a different way than in the past years.

*.Catalog:* it represents a separate marketing department for older products.

*.Film/TV:* it deals with managing the use of company's records in movies, TV shows and advertisements.

Speaking of the other departments, in addition to the already mentioned «Sales» and «Marketing», historically there were also:

*.Production:* (manufacturing, printing covers, etc.) now plan the releases, meaning they get together final edits of the music, credits, delivery to the DSPs, etc.

*.Product Management:* (which used to supervise the work of the other departments) now manages TV appearances, or Facebook and Spotify promotions.

With the change in the industry, the concept of physical product is now a ‘contour’ to the main product: the digital one. Today, stores are not (anymore) physical music stores, but the so-called digital service providers (DSPs), i.e. the various Spotify, Apple Music, etc..

*Sales* and *Marketing* are divided according to the stakeholders they interact with: DSPs and consumers respectively.

Today the above-mentioned Marketing department is called *Digital Marketing department*, whose task is to «hype» the music through website design, social media marketing, etc. in addition to monitoring its performance.

On the other hand the *Sales department*, while before it dealt with physical sales, today it is directly responsible for all the technical functions around digital files, such as correctly encoding metadata<sup>8</sup> on the masters and sending the music to the most DPSs in the world: in particular they push them to maximize the streams as much as possible. As we will see later in this discussion, the importance of DPSs is enormous because they are the ones who manage the playlists and the amount of people reached by a given song: playlists are a fundamental element in the diffusion of a musical product.

Finally, we have *Distribution*: the biggest labels are distributed by major distributors, huge distribution networks owned by the major labels' parent companies that coordinate digital distribution from manufacturing plants to stores; they also provide streaming data to the labels.

### 1.2.2 Independents

The Independents are record companies not owned by a Major.

The independent reality was born in music with the intent to go against the artistic and economic logic implemented by the Majors, linked more to the extreme commercialization of the music product and inclined (according to the detractors from the independent world) to the distortion of any message conveyed by the music itself. Historically the indie labels started to impose themselves during the diffusion of Punk, with an enormous development also thanks to Hip-Hop. Many have even become pioneers of real music genres. In the 90s there is the definitive affirmation of this type of label. Later they initially (like everyone else) will suffer from the internet revolution, but then they will took advantage of it to better spread their projects.

---

<sup>8</sup> metadata is the embedded information that provides the name of the song, artist, album, who receives royalties from it, etc.

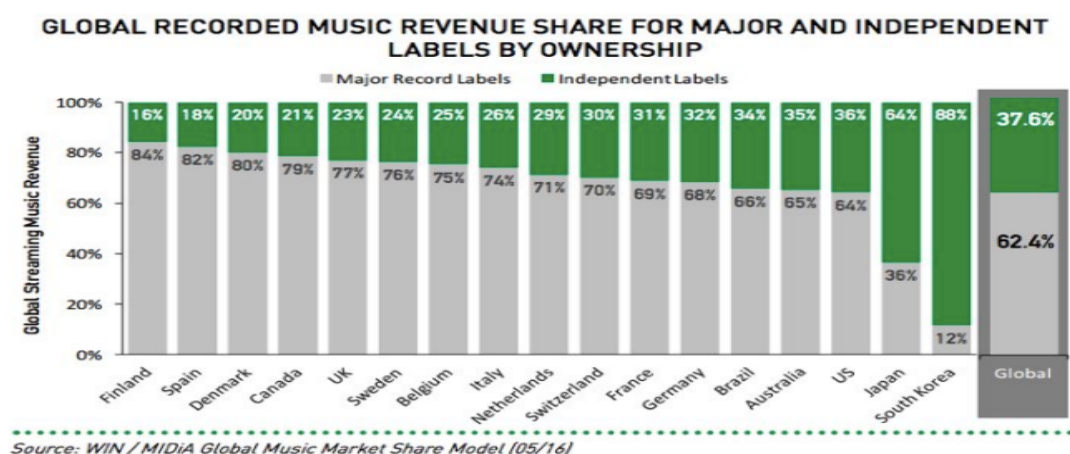
Many people claim that Majors do -with a lot of money- what indies do with little amounts of money.

In the world there are an incalculable number of independent labels and although it is unthinkable to make a detailed analysis of them, it is possible to summarize some points that these realities have in common:

1. the owner can be a self-producing artist or someone who also plays the role of A&R and manager;
2. the label tends to specialize towards a single musical genre (even if labels with a wider range of genres have also become established);
3. the relationship between owner and artist is free from commercial logic, which allows a mostly musical promotion and greater artistic freedom.

It should be specified, however, that the current scenario shows independent realities that have imposed themselves at such a level that real ‘hybrids’ have been created, in which the new labels act as independent but with budgets and intentions closer to the Majors than in the past. In 2017, the UK indie market had a 23% share of the total music market, while in the USA 34%<sup>9</sup>. In the UK since 1999 there is the AIM (Association of Independent Music), a non-profit trade body representing the sector.

Figure 1.3 – Global recorded music revenue share for major and independent labels by ownership



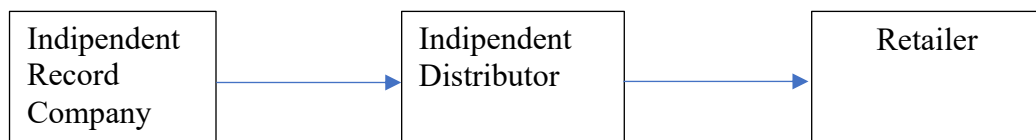
Source: WIN/MIDiA Global music market share model (05/16)

<sup>9</sup> Christie Eliezer, 2017, *New report puts Aussie indie labels at 30% revenue share, in Top 10 of global indie markets*, available at <https://themusicnetwork.com/new-report-puts-aussie-indie-labels-at-30-revenue-share-in-top-10-of-global-indie-markets/>

We can distinguish independents in:

**.True Independent:** it's not owned by a major label, either in whole or in part. Usually it uses independent distributors that can adapt to the specific requirements of companies. Most of the big independent distributors are owned by the same companies that own the major labels (for example RED and The Orchard by Sony; Caroline by Universal; ADA by Warner).

*Figure 1.4 – Business scheme of a true independent*



*Source: M. Passman, All you need to know about music business, p.72*

**.Major-distributed Independent:** independent entity that writes artists and agrees with a Major to make it perform most of the functions in addition to recording to music. These realities can be totally indie in ownership or be totally or partially owned by a Major. Published music may appear under the name of the indie label or even the distributing company's label -leaving the name of the independent company unaware of the public-.

Usually this kind of situation happens when the indie label grows a lot thanks to its products, attracting the attention of the Majors.

*Figure 1.5 – Business scheme of a major-distributed independent*



*Source: see figure 1.4*

### 1.3 Distribution

Distribution is the tool with which companies bring their products and services to the market.

As in all economic sectors, distribution plays a fundamental role in music business too. For a few years now, with the beginning of the digital era, this tool has varied adapting to today's technological changes.

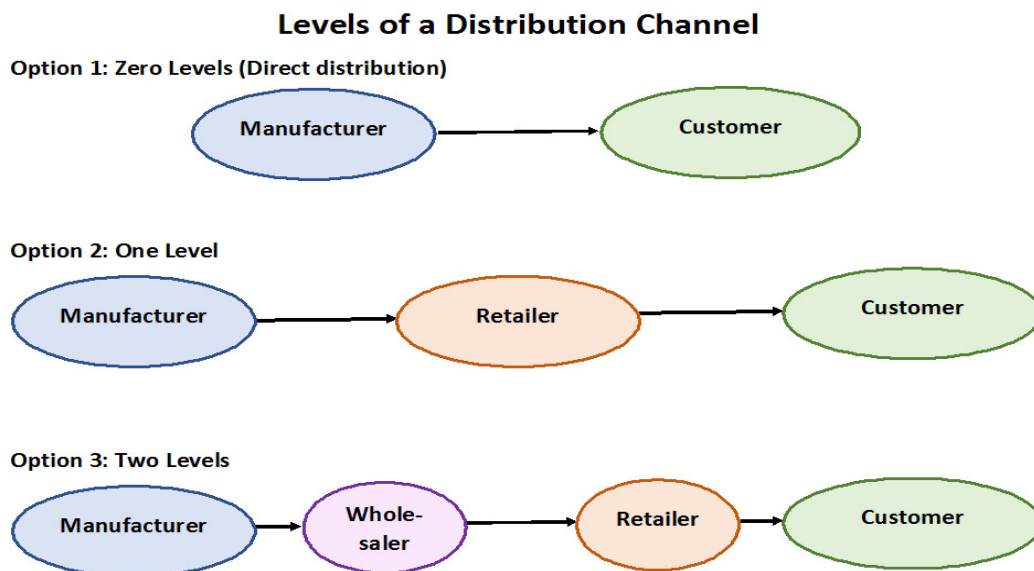
In general, we can distinguish three types of distribution, based on the number of intermediaries between producer and consumer:

**1. zero-level distribution / Direct Marketing:** represents the direct channel between the two subjects, without any intermediary;

**2. level one / One-Tier:** between manufacturer and customer there is an intermediary (retailer);

**3. level two / Two-Tier:** between manufacturer and customer there are two intermediaries (retailer and wholesaler).

*Figure 1.6 – General scheme of levels of a distribution channel*



Historically, in the music industry, distribution consisted in bringing records, vinyl and cassettes into music stores. Having an important distributor guaranteed a large diffusion of the product through channels that guaranteed the display of the product in stores. Today the discourse is very different.

As the sale of physical reproduction media fell more and more steadily, distribution shifted to another dimension: digital.

Today the goal of distribution is to get music to digital platforms such as Spotify, Apple music etc. as they guarantee royalties from reproductions and downloads. In this sense, digital playlists play a fundamental role, a topic that I will deal with in the part dedicated to Spotify.

There are many companies that offer this service. As for the Majors, Universal and Warner have implemented distribution internally, while Sony has acquired the brand The Orchard which was one of the first companies to deal with digital distribution in the new millennium.

The few independent labels that have emerged in the market sign contracts with the Majors to use their distribution services, while the vast majority use the services of other companies (e.g. LANDR, CD Baby, TuneCore, Ditto Music, Loudr, Record Union, MondoTunes, Reverbnation, Symphonic, iMusician, etc).

## **1.4 Booking**

In the music industry the so-called *booking agency* is the one that deals with organizing and making profit from the artists' live performances. The agency has the task of assessing the types of contexts and places where to make the performance, taking all the risks of the case: it is in fact care of booking maximize profits based on the expected amount of audience. Usually the artists are contracted a fixed cachet for their shows, so everything related to promotion, ticket prices and tour expenses are managed by the agency. Some examples at national and



international level are Live Nation, Vivo Concerti, DNA Concerti, BPM Concerti, D'Alessandro and Galli, etc.

## 1.5 Publishing Companies

The role of the publisher is to support the artist in the development, protection and enhancement of the works. It is important that it discovers and supports new talents by offering them the necessary support for the dissemination of the project.

He must<sup>10</sup>:

- guarantee the deposit of the works in collecting societies;
- promote their authors to record companies, TV, media, advertising;
- produce, distribute, market and/or license printed music;
- monitor the use of the works to ensure the protection of the resulting economic rights;
- take legal action if these rights are violated.

In Italy, the reference body is the Federazione Editori Musicali (FEM).

The relationship between artist and publisher is based on the transfer of the first to the latter of part of the rights of a work: in doing so, the publisher tries to spread the author's work as widely as possible and receives a predetermined percentage of what is collected. The percentage varies according to many factors.

*Administration rights* are defined as the obligation for the publisher to<sup>11</sup>:

- finding users;
- issuing licenses;

---

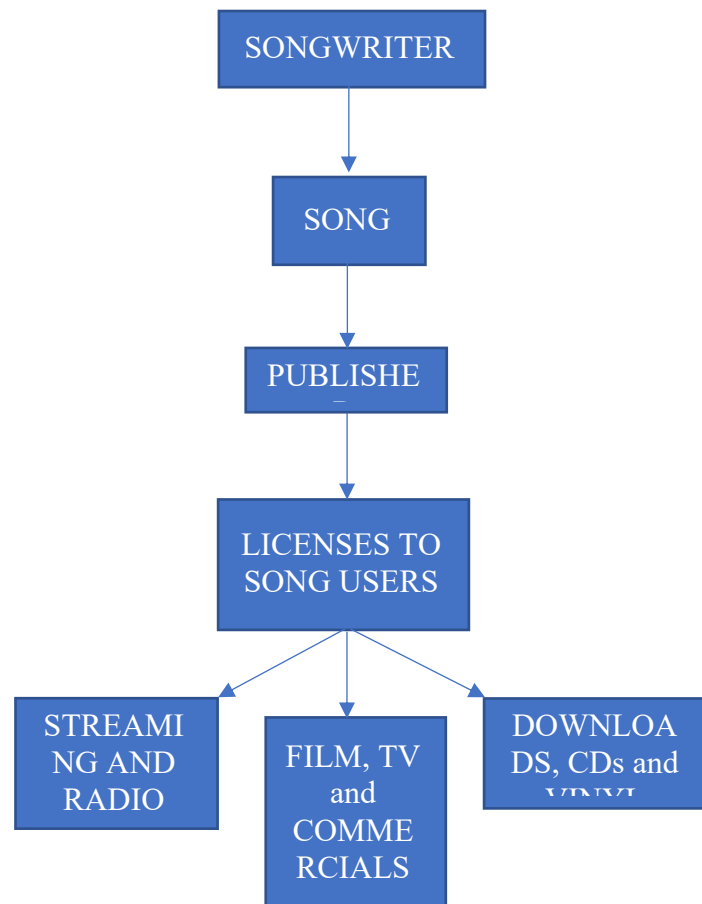
<sup>10</sup> <http://www.fem-italia.it/it/3.2/il-lavoro-delleditore.htm>

<sup>11</sup> See note 7

- collecting money;
- paying the writer.

The flow of rights looks like this:

*Figure 1.6 - Publishing industry structure*



*Source: see figure 1.4*

Traditionally, the publisher received about 50% of the income from the works.

Today this percentage is more variable.

The money's share of the publisher is called *publisher's share*, while the artist writer's share is called *writer's share*.

The role of music publishers has always been dominant over the years. Many singers did not write songs and they depended on the publishers, who held the power over the songwriters. The role has changed today, although they have remained major players.

There are the so called «*creative publishers*» -which combine songwriters with each other and help them to implement their skills- and publishers who tend to be bankers -which manage the purely monetary aspect of the artist, maximizing profit-.

There are three categories of publishing companies<sup>12</sup>:

-*Majors*: Universal Music, Sony/ATV/EMI and Warner Chappell (all associated with record companies). This category also includes companies such as Kobalt and BMG Rights.

-*Major Affiliates*: they are independent publishers, with a professional staff managed by the majors. Affiliation with a major can be global or territorial from state to state.

-*Stand-Alones*: the term does not really belong to the lexicon of industry, but they represent real independent realities.

---

<sup>12</sup>See note 7

## Chapter 2

### Digital Era: the Industry Revolution

*'The grabbing hands*

*Grab all they can*

*All for themselves*

*After all*

*It's a competitive world*

*Everything counts in large amounts'*

(Depeche Mode, *'Everything Counts'*, Construction Time Again, 1983)

Music, in the history of mankind, has existed for millennia; however, as we intend it today -in terms of a commercial product- it is a very recent phenomenon. Its fruition has always been intertwined with technological progress: as already pointed out, there has been a constant change in the reproduction media. The arrival of the internet has decisively upset music and its industry: digitization has taken everyone by surprise, especially the main actors, from the insiders to the artists themselves.

Technological progress has been a determining factor for the change in the systems of fruition; in the last twenty years there has been a progressive upheaval in the way music is broadcast and reproduced, which has greatly influenced customer behaviour.

#### 2.1 1999: Napster Detonates a New Revolution

During the last quarter of the 20<sup>th</sup> century there had been a constant growth of sales: in 1974 there had been the sale of about one billion records and at the end of the century the number was ten times higher<sup>13</sup>, mainly thanks to the total diffusion (since the mid 80's) of the Compact Disc as a reproduction instrument.

---

<sup>13</sup> Wikström, Patrik, 2013, *The Music Industry in an Age of Digital Distribution. In Ch@nge: 19 Key Essays on How the Internet Is Changing Our Lives*. Madrid: BBVA

*«The introduction of the CD takes place in a historical period in which the music market tended to be in good health, with the merit of perfecting it resulting in a physical format of greater usability because of the size, the elimination of dust risk (which for vinyl was a constant), the practicality and the profit margin that guaranteed, due to the low cost of production.»*<sup>14</sup>

(C. Martelli)

The price of the CD in the shops was much higher than the production cost. This guaranteed important profits for the whole production chain, in particular for record companies: they could therefore allocate greater amounts of investment to the promotion of their artists, also taking advantage of the massive diffusion of music video (in 1981 MTV was born) which was becoming a further tool to enhance the artist.

*«On the one hand, important monetary advances were guaranteed for artists (especially for the "big" ones), but there was little research into elements of technological innovation».*<sup>15</sup>

(C. Martelli)

The industry, therefore, on the threshold of the technological revolution of the Internet, was satisfied with its earnings without keeping a watchful eye on the changes taking place.

Meanwhile, towards the end of the 90s, a young man named Shawn Fanning created a program to download and share music without the recognition of artists' rights: in 1999 Napster was born, a real unicum until then.

---

<sup>14</sup> See note 3

<sup>15</sup> Ibidem

*Figure 2.1 – Napster logo*



*Source: Google*

The industry reacted immediately by trying to suppress this threat, but it had already started the birth of similar and even more sophisticated programs (Kazaa, Limewire, Grokster, DC++, The Pirate Bay).

The fight against file-sharing systems got inflamed with the passing of time, but the vastness and uncontrollability of the Internet phenomenon made it difficult to limit these programs. Moreover, Google itself was indirectly (?) guilty of conveying users' search for pirated files, creating a paradox: those who produced music risked, those who broadcast it earned.

The companies, instead of understanding the historical moment and exploiting the technological opportunity in their favour, continued to fight an uncontrollable phenomenon.

By now the die was cast and the industry gradually began to be suppressed by illegal file-sharing. In the following years there was a complete change in the reference model of the industry, previously based on the control of the physical distribution of products; the Internet began to make this aspect obsolete and technological innovation pushed many companies to an internal redefinition of the business model.

*«The Internet is not the heritage of discography, it is the invention of others. The fault was not to have intercepted and understood the potential of the phenomenon, and then to have suffered the shame»<sup>16</sup>*

(C. Martelli)

## **2.2 A New Business Model for the Industry**

To fully understand the dynamics influenced by these changes, it is important to stress that the music industry is not unique: it derives from the union of different industries linked to each other but based on different structures and logic<sup>17</sup>.

The industry as a whole is based on the creation and exploitation of music-based intellectual properties.

Artists elaborate lyrics, music and arrangements that come:

- executed live at concerts;
- recorded and distributed to consumers;
- licensed for some other kind of use (TV, movies, advertising etc).

This structural distinction brings out three core music industries:

- the *recorded music industry* (RM), which focuses on recording songs and distributing them;
- the *music licensing industry* (ML), primarily licensing compositions and arrangements to businesses;

---

<sup>16</sup> Ibidem

<sup>17</sup> See note 12

-the *live music industry* (LM), for the production and promotion of live entertainment.

Before the internet, RM was the largest of the three and the one that generated the most revenue, while ML was much more limited. The music publishers operating there acted according to the business-to-business model, without any direct contact with customers: their job was to make sure that the proceeds from the exploitation of licences were distributed.

The LM was halfway between these two, and the concerts generated substantial income, although less than that of RM.

RM itself was the first to be hit by the crisis, progressively causing the loss of its primary role: over the last twenty years the other two industries have increased their importance, redefining the overall balance of the three.

It is clear that the industry as a whole, having seen its main source of revenue decline, has had to compensate for the loss by increasing the revenue of the other two. Publishing and recording in the past operated within a blockbuster economic structure<sup>18</sup>, where a few ‘star’ artist got the most part of income and the majority of musicians achieved neither critical acclaim nor commercial reward.

In the last fifteen years the revenues from ML have more than doubled, not only because of new and more active licensing practices, but also because the media industry has moved in that direction: compared to the past there is a much larger amount of radio stations, TV channels, websites, shopping malls, etc., which often use music as their main theme.

In this sense, publishers have been quicker to exploit the new demand than labels<sup>19</sup>, optimising their role as licensees.

---

<sup>18</sup> Elberse A, 2013, *Blockbusters: Why Big Hits – and Big Risks – Are the Future of the Entertainment Business*. London: Faber & Faber

<sup>19</sup> Wikström



Traditionally, the entity that controlled the rights of the recording of the musical work (master) and the entity that controlled the rights to the compositions were split: now publishers hold both, which makes the process of exploiting music licenses faster and more efficient. Further, major labels negotiated preferential licensing agreements and acquired stakes of companies and music platforms offering streaming services.<sup>20</sup>

The live department has become the most profitable today, the artists have increased the number of concerts and the price of tickets. To give you an idea, during the second half of the last century the largest music company was a record company, while now one of the largest is Live Nation<sup>21</sup>, a U.S.-based live music company spun off from Clear Channel in 2005, which manages the concerts of many international artists: this is a further marker of the changing power relationships in the music industry.

*Figure 2.2 – Live Nation logo*



*Source: Google*

Nowadays many music companies, including Live Nation itself, act as a business partner to artists for things that may involve not only concerts, but also merchandising, licensing, distribution or promotion: this implies that it is often not easy to categorize a music company within one of the three industries either.

---

<sup>20</sup> Seabrook J, 2014, *Revenue streams: is Spotify the music industry's friend or its foe?*, The New Yorker, 24 November. Available at: <https://www.newyorker.com/magazine/2014/11/24/revenue-streams> (accessed 5 January 2015).

<sup>21</sup> *ibidem*

### 2.3 iTunes: a First Experiment in the Legality of Online Music

The first company that legally proposed an online music sales and distribution service was not a player in the reference market, but Apple: in 2003, Cupertino company convinced the labels that music customers would buy music online if they could use a service that would make this process simple, fast and cheap (about one dollar per track). Thus, iTunes was born.

It represented a significant turning point in the industry, as it made available entire catalogues of artists with a very unique price model and the possibility to download only the user's favorite songs, all designed also in relation to the digital symbiosis with the iPod.

The rights holders were paid precisely and transparently by Apple for each track downloaded: just think that in ten years (from 2003 to 2013) about 25 billion songs have been sold.

*Figure 2.3 – iTunes logo*



*Source: Google*

A program like iTunes paves the way for the legalization of digital music: a process that gradually takes the user from downloading to streaming, which is the most popular form of reproduction today.

In June 2019, Apple ended the service: in recent years, it had fallen further and further behind Apple Music, the streaming service by Apple in response to Spotify.

## 2.4 Music File-Sharing and its Consequences

The scenario that appears to be developing in the '00s is dramatic: the record industries decrease their revenues, until a real zeroing of many musical-entrepreneurial realities that were well established until a few years earlier.

In this sense Martelli provides considerations and emblematic data:

*«Some companies were completely wiped out by the streaming phenomenon: EMI (the one that had been the Beatles' label) failed.*

*There was a reduction of 80% of the main market players: from at least a dozen, they became three.*

*In Italy, at the beginning of the '90s there were about 40,000 employees working in the industry and production chain.*

*Today no more than 2000.*

*The consumption of music has increased a hundredfold, to the detriment of the element of social sharing: the latter has been replaced by a kind of immaterial sharing, considering the ease of access to content.*

*This facility has also led to a consequent decrease in artistic quality: the excess of information eliminates the message.*

*The albums are released 50 times more than in the past, with an eloquent paradox: in one year, 300 employees released 70 albums, while today 30 release 300. The life cycle of the product is immediate, as is its consumption.*

*In this case we refer to the "Kleenex effect": listening to a record is like blowing your nose, you finish listening to it and another one has already come out.»*

(C. Martelli)

This situation has also changed the way consumers listen to music:

*«If you look at the statistics on music video views on YouTube (and those who have a channel can confirm this), it turns out that almost no user watches the videos all the way down.»*

(C. Martelli)

The transformation had a devastating effect from an economic point of view, and it was at the expense of those working in the sector.

The subsequent period led to a significant drop in revenues: sector took several years to return to an acceptable level of recovery.

In their indecisions, major labels showed a corporate pattern of «structural and organizational inertia», «institutional path dependency» and «overestimation of their power», features identified within many other industries and economic sectors that faced social and technological changes<sup>22</sup>.

The 00's have been a bridge between the «old» music world and the new: the birth of the first music providers was decisive for the transition to digitalization. The birth of Spotify (2006) was the driving force behind the creation of a new business, that of legal streaming music platforms.

#### **2.4.1 Global Data from the Digital Revolution**

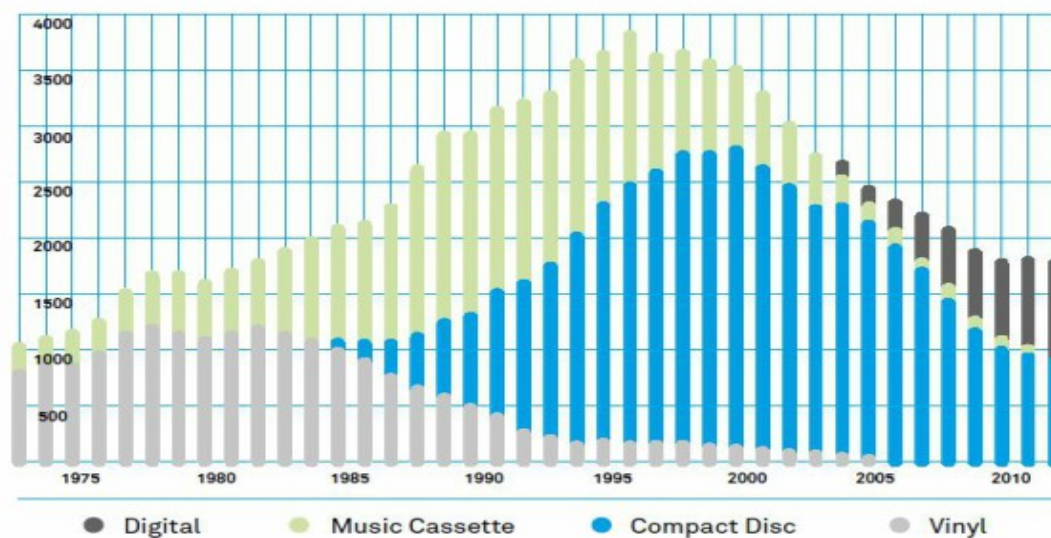
Let us look at the record music industry revenue figures: as explained, until the digital era RM was the most profitable department in the music industry.

---

<sup>22</sup> Dolata U, 2011, *The music industry and the internet: a decade of disruptive and uncontrolled sectoral change*. SOI discussion paper 2011–02. Stuttgart: Department of Organizational Sociology and Innovation Studies, Institute for Social Sciences, University of Stuttgart.

As we can see from figure 2.4 showing the sales volumes<sup>23</sup>, vinyl dominated the market until the mid 80's: they had been the main means of music reproduction, and then make up for the rise of Music Cassettes. However, the invention of the Compact Disc (thanks also to the quality of the format) gradually led customers towards this new format, which made quality and practicality its strong points.

*Figure 2.4 – Recorded Music Volume 1973 - 2012*



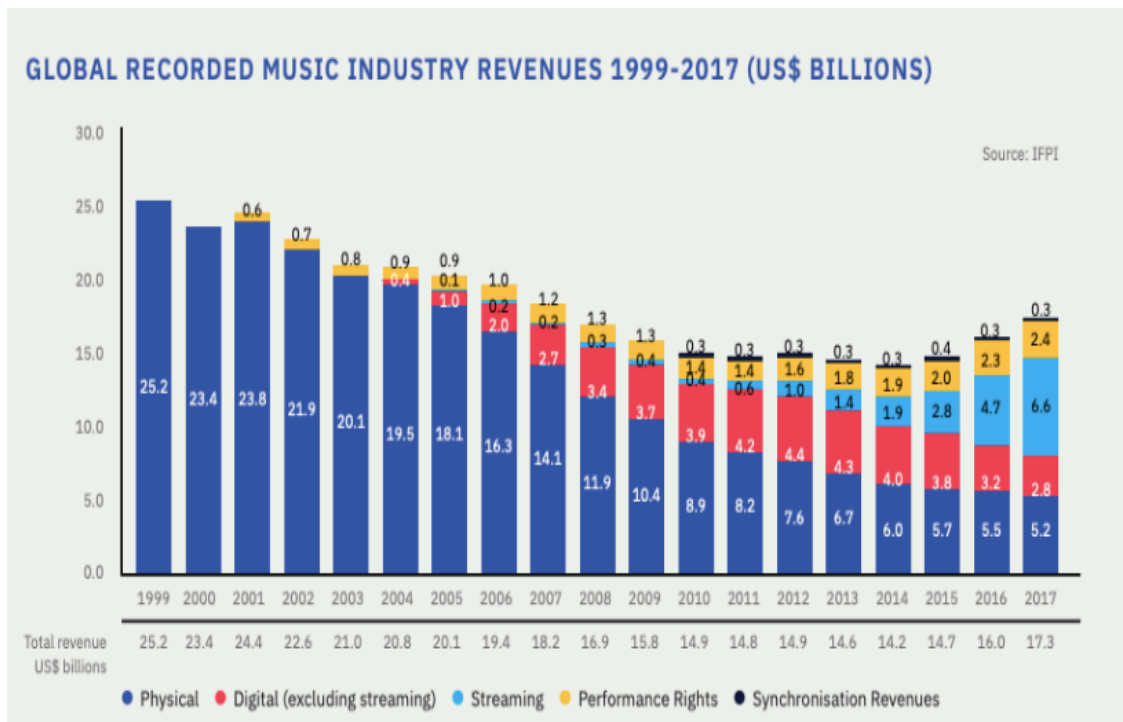
*Source: IFPI 2013*

The chart shows how healthy the industry was at the turn of the 21st century: in 2000 there had been the highest volume of CD sales and (almost) no one would have thought that soon afterwards a real decline would begin. Since Napster's creation, RM has suffered a steady decline in physical sales at the expense of digital. It's important to note that until the first legal music download system, iTunes, there was no revenue from that part of the market.

<sup>23</sup> Recorded Music Volume, 1973–2012.

Note: Digital includes full-length albums and singles split by 4. Vinyl includes LPs and EPs split by 4. Music DVDs are not included. Source: IFPI 2013

Figure 2.5 – Global Recorded Music Industry Revenues 1999 – 2017



Source: IFPI 2018

As can be seen from figure 2.5<sup>24</sup>, with the exception of 2001 - the only year physical sales had had a positive variation of 0.4 billion - there has been a continuous decrease in revenues in general and in physical sales especially.

The only items with continuous growth were performance rights - which, as we recall, began from the 00's onwards to represent a necessary source of income for the sector - and streaming, which in 2017 for the first time exceeded the physical in terms of revenue.

In fact, the physical has had an inversely proportional trend with respect to streaming; in addition, digital, which seemed to be the new department with higher revenues, has had a reversal of the trend from 2012 onwards.

<sup>24</sup> Source: IFPI 2018

Figure 2.6 – Revenues variation year by year

YEAR	REVENUES	Δ % YEARS
1999	25.2	
2000	23.4	-7%
2001	23.8	+1.7%
2002	21.9	-8%
2003	20.1	-8.2%
2004	19.5	-3%
2005	18.1	-7.8%
2006	16.3	-11%
2007	14.1	-15.6%
2008	11.9	-18.5%
2009	10.4	-14.4%
2010	8.9	-16.8%
2011	8.2	-8.5%
2012	7.6	-8%
2013	6.7	-13.4%
2014	6	-11.6%
2015	5.7	-5.26%
2016	5.5	-3.63%
2017	5.2	-5.8%

Source: own illustration

The table above<sup>25</sup> dramatically shows the decline in sales of the physical market: the variations began to be more contained in 2015, although in 2018 the negative variation was -10.3% and in 2019 was -5.3%<sup>26</sup>; the relaunch of vinyl market keeps the physical market still alive.

The four-year period from 2007 to 2010 was the worst: in these years the sector faced its worst moment and in which many companies - including EMI - had to face the reality of an ever-closer failure.

<sup>25</sup> Own illustration based on Ifpi data

<sup>26</sup> IFPI Global Music Report 2019

In 2017, not only is the physical revenue about 1/5 of that of 1999, but the sector as a whole does not even come close to past earnings; in this year, for the first time in history, the revenue generated by streaming has exceeded the revenue from physical, even if it is far from offsetting the losses since 1999: the overall revenue is less than 30.3%.

## 2.4.2 Global Industry Data and its State of the Art

In the last two years, the sector has experienced significant and decisive growth in earnings: it is slowly returning to pre-crisis levels.

This has been possible thanks also to the gradual but decisive adaptation of market players to the new modes of fruition.

In particular, in 2018 and 2019 we had the following data:

*Figure 2.7 – 2019 variation of the main revenue sources in the global industry, in millions*

	2018	2019
<b>PHYSICAL</b>	4.6	4.4
<b>STREAMING</b>	9.2	11.4
<b>DIGITAL&amp;DOWNLOAD</b>	1.7	1.5
<b>PERFORMANCE</b>	2.6	2.6
<b>RIGHTS</b>		
<b>SYNCHRONISATION</b>	0.5	0.5

*Source: own illustration*

Streaming is now the biggest source of gain at the expense of the physical and digital.



The industry in 2019 grew by 8.2% overall: it is the fifth consecutive year that there is a positive change in global revenues, which since 2014 -in billions- were 14 → 14.5 → 15.8 → 17 → 18.7 → 20.2.

If we consider that in 1999 total earnings were 25.2, the industry's performance is more than reassuring.

*Figure 2.8 - % variation between 2018 and 2019 of the main revenue sources*

	<b>Global revenues growth</b>	<b>Paid streaming revenues</b>	<b>Streaming share of global rev</b>	<b>Growth in stream revenues</b>	<b>Physical revenues</b>	<b>Growth in paid stream subscribers</b>
<b>2019</b>	+8.2%	+24.1%	56.1%	+22.9%	-5.3%	+33.5%

*Source: own illustration*

→ STREAMING +22.9%

It accounts for more than half of the sector's total revenue (around 56.1%). In this sense, streaming providers were a determining factor (+24.1%) with nearly all markets worldwide reporting growth in this area for the second year.

→ DOWNLOADS AND OTHER DIGITAL -15.3%

This item accounts for 5.9% of the market. Latin America is the region that has had the fastest decline in downloads. The global trend is now increasingly close to being abandoned.

→ PHYSICAL REVENUE -5.3%

They account for about 1/5 of the global market, although the negative change is halved compared to the previous year (-10.3%). However, a small number of

countries had a positive change in this item: USA (+3.2%) and Spain (+7.2%). In addition, vinyl revenues increased by 5.3% and make up 16.4% of total physical revenues.

→ PERFORMANCE RIGHTS REVENUES -3.6%

Revenues from the use of recorded music by broadcasters and public venues.

→ SYNCHRONISATION REVENUE +5.8%

Revenues from the use of music in films, advertising, games and TV.

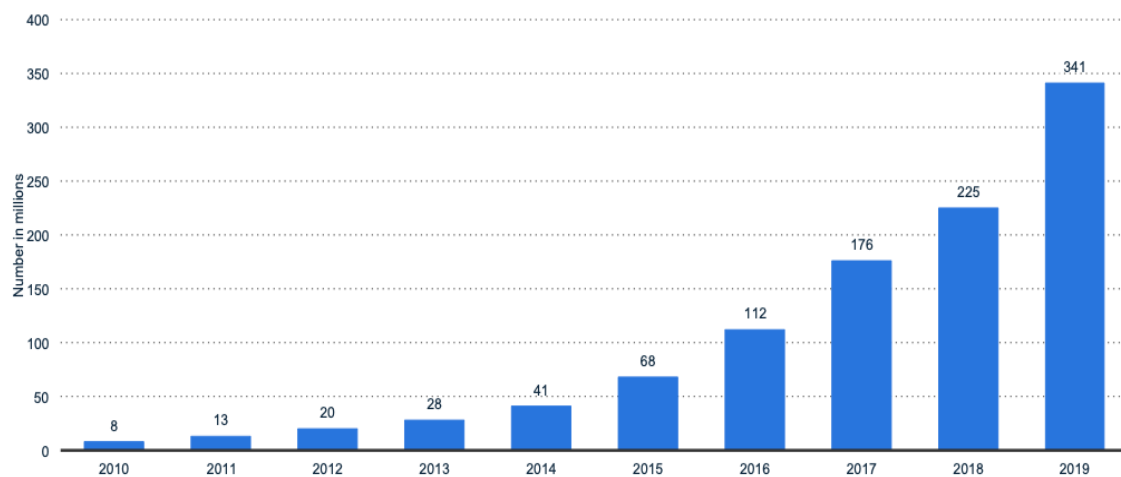
Down from the previous year (the change was +11.6%), but still maintains a stable share of the overall global market (2.4%).

The growth was driven by streaming services and an increase in the number of related accounts: at the end of 2019 this figure was 341 million, with associated revenue up 24.1%<sup>27</sup>.

*Figure 2.9 – Number of paying online music service subscribers worldwide in millions (2010-2019)*

**Number of paying online music service subscribers worldwide from 2010 to 2019 (in millions)**

Number of paying online music service subscribers worldwide 2010-2019



*Source: Statista*

---

<sup>27</sup> ibidem

The industry is investing heavily not only in artists, but also in infrastructure and people crucial to maintaining a sustainable marketplace around the world.

## 2.5 Data on Italian Music Industry

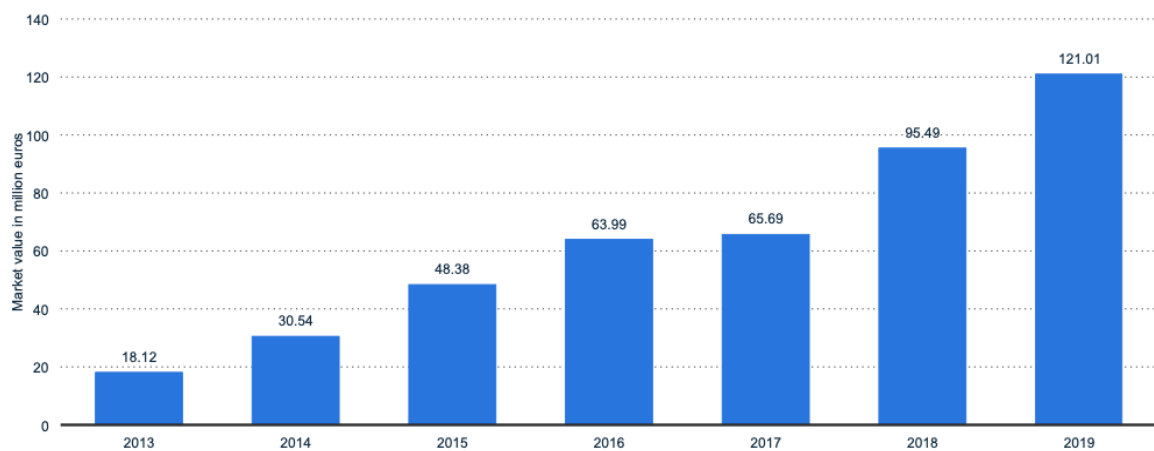
Now let's see some data on music in Italy.

The trend of the local market has been similar to the global one: there has been a gradual decline of the physical market accompanied by an increase - first of all - of the digital market and then of streaming.

*Figure 2.10 Market value of music streaming in Italy in million euros (2013–2019)*

### Market value of music streaming in Italy from 2013 to 2019 (in million euros)

Music streaming market value in Italy 2013-2019



*Source: Statista*

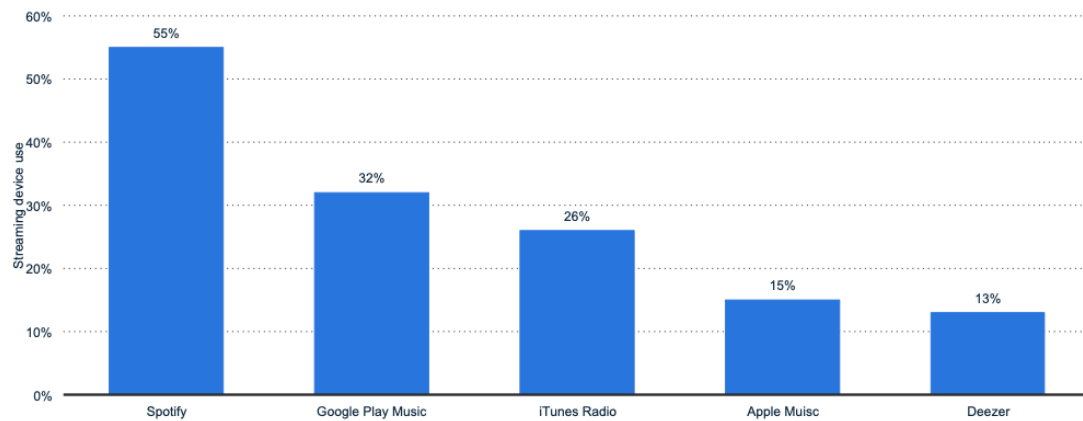
Such a growth in streaming is certainly due to the growing diffusion of audio devices such as smartphones, which telephone operators have made more and more accessible to everyone, pushing customers using Internet to listen streaming music through targeted offers.

Among streaming providers, Spotify in recent years has been the main one.

Figure 2.11 – Streaming platforms used to listen music in Italy (2015-2016)

### Streaming platforms used to listen to music in Italy in 2015 and 2016

Italy: music streaming platforms 2015-2016



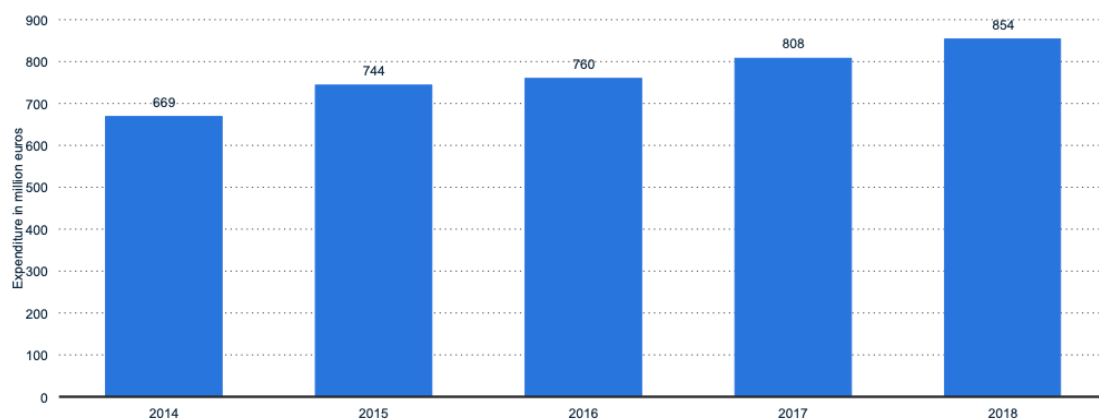
Source: Statista

The industry has moved with investments to take advantage of new digital opportunities. Between 2014 and 2018 the expenditures of the sector increased by 27.65%.

Figure 2.12 – Expenditure of the music industry in Italy in million euros (2014-2018)

### Expenditure of the music industry in Italy from 2014 to 2018 (in million euros)

Expenditure of the music industry in Italy 2014-2018



Source: Statista

The growing expenditure in the sector is also due to a rebirth of Italian music thanks to an important generational turnover of artists and musical genres.

Let us analyze the industry data of the last two years, divided by the main five sections: physical, streaming, digital, performance rights, synch.

Figure 2.13 – Italian industry revenues in million euros (2018-2019)

Music Revenue (€ Millions, Trade Value) - Dato IFPI						
	2019	share Total PHY & Digital	share Total Mkt	2018	share Total PHY & Digital	DELTA
CDs	37.244,65			47.103,62		-20,9%
Vinyl	14.660,98			13.665,08		7,3%
Other Phy	1.494,02			1.177,33		26,9%
<b>TOTAL PHYSICAL</b>	<b>53.399,65</b>	<b>29%</b>	<b>22%</b>	<b>61.946,03</b>	<b>37%</b>	<b>-13,8%</b>
subscription audio streams incom	81.109,67			65.423,62		24,0%
Ad-Supported audio strems incorr	21.794,43			12.317,51		76,9%
Video streams income	18.106,81			17.750,34		2,0%
<b>TOTAL STREAMING</b>	<b>121.010,91</b>	<b>66%</b>	<b>49%</b>	<b>95.491,47</b>	<b>56%</b>	<b>26,7%</b>
Download	8.739			11.443		-23,6%
Mobile	222,6			412,9		-46,1%
<b>TOTAL OTHER DIGITAL</b>	<b>8.962,03</b>	<b>5%</b>	<b>4%</b>	<b>11.855,80</b>	<b>7%</b>	<b>-24,4%</b>
<b>TOTAL DIGITAL</b>	<b>129.972,94</b>	<b>71%</b>	<b>52%</b>	<b>107.347,27</b>	<b>63%</b>	<b>21,1%</b>
<b>TOTAL MKT PHY + DIGITAL</b>	<b>183.372,59</b>		<b>74%</b>	<b>169.293,30</b>		<b>8,3%</b>
<b>PERFORMANCE RIGHTS</b>	<b>55.976,60</b>		<b>23%</b>	<b>50.549,90</b>		<b>10,7%</b>
<b>SYNCH</b>	<b>8.443,71</b>		<b>3%</b>	<b>9.178,58</b>		<b>-8,0%</b>
<b>TOTAL MKT</b>	<b>247.792,90</b>			<b>229.021,78</b>		<b>8,2%</b>

Source: Ifpi 2019

→PHYSICAL -20.9%

This is due to a sharp decline in the sale of CDs (a steady decline in the sector every year). Despite the positive growth in revenues from vinyl (+7.3%) and other

physical media (+26.9%), this was not enough to offset the decline in CDs. Physical accounts for 22% of the market.

→STREAMING +26.7%

Revenues from subscription to streaming platforms increased by 24% and video stream revenues by 2%. There was significant growth of 76.9% in revenues from ad-supported audio streams. It now accounts for 49% of the market.

→OTHER DIGITAL -24.4%

It has suffered a big drop at the expense of streaming. It confirms more and more the tendency to decrease inexorably year after year. It accounts for 4% of the market.

→PERFORMANCE RIGHTS +10.7%

It now accounts for 23% of the market. In the last years there has been an increase in live music due to the decrease of physical: this has brought to a constant rise of revenues from performance rights.

→SYNCH -8%

Slight inflection compared to 2018. It accounts for 3% of market

Overall, the market grew by 8.2% from a total revenue of €229,021 millions to €247,792. However, the post-quarantine analysis shows a decrease of about 60% in the physical sector, in related rights of over 70% (for the closure of stores and live venues) and in synch. Streaming has decreased due to the absence of releases and the low use of streaming by consumers (according to IFPI data, 76% of respondents listen to music in the car and 43% on the home-work journey)<sup>28</sup>. Italy is also one of the countries with the highest domestic music production, which

---

<sup>28</sup> <https://www.fimi.it/mercato-musicale/dati-di-mercato/mercato-discografico-in-italia-covid-19-fermer-la-crescita-nel-2020.kl>

accounted for 87% of the albums sold in 2019 in the peninsula. Due to the stop in the production chain, there could be devastating effects for the national sector.

Compared to the Italian user's music consumption, by a research it was found that<sup>29</sup>:

→on average, 16.3 hours per week are spent listening to music, or just over 2.3 hours per day, equivalent to about 46 3-minute songs;

→57% of users have used a streaming service in the last month;

→59% of users claim to be music fanatics/lovers;

→43% listen to music on the home-work trip;

→47% listen to music while cooking or cleaning the house;

→49% listen to music alone;

→63% listen to music to relax at home;

→76% listen to music in the car.

---

<sup>29</sup> Ifpi Music Listening 2019: IFPI conducted research on a global scale between April and May 2019, through a demographically representative sample (34,000 users) of the population aged 16 to 64 years.

## 2.6 Recent Data from US Music Industry

The USA has the first music market in the world.

Factors such as the English language and the great historical affinity that this country has had with the sector, has allowed it over the years to increasingly establish its leading position.

The top 10 music markets in the last year were<sup>30</sup>:

1. USA
2. Japan
3. UK
4. Germany
5. France
6. South Korea
7. China
8. Canada
9. Australia
10. Brazil

What emerges from the last annual report of 2019 by the RIAA<sup>31</sup> are two quite evident elements<sup>32</sup>:

1. Paid subscription streaming is the engine that is driving the industry to steady growth in recent years and those to come.
2. Achieving long-term sustainable success still requires ad hoc public policies

---

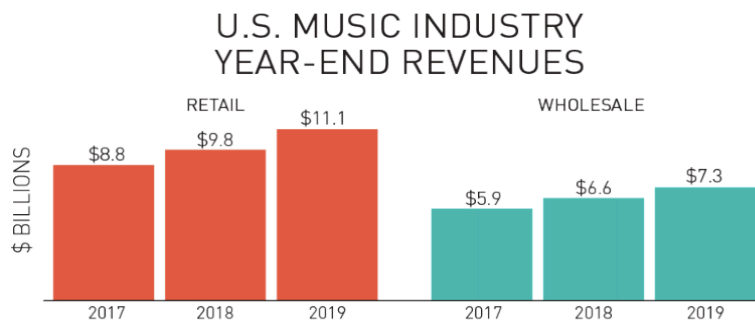
<sup>30</sup> Ifpi, *Global Music Report 2019*

<sup>31</sup> Record Industry Association of America, founded in 1952

<sup>32</sup> Mitch Glazier, 2020, *Charting a Path to Music's Sustainable Success*, available at <https://medium.com/@RIAA/charting-a-path-to-musics-sustainable-success-12a5625bbc7d>



Figure 2.14 – U.S. Music industry year-end revenues



Source: year-end 2019 RIAA music revenues report

Revenues are growing continuously, both in retail and wholesale: there was a positive increase of 13% in the former and 11% in the latter. This is the fourth year in a row of growth, thanks to the increase in subscriptions for digital services, which in the USA today are 60 million.

Figure 2.15 – Data on main revenues sources of U.S. industry (2018-2019)

United States Estimated Retail Dollar Value (In Millions, net after returns)				
DIGITAL SUBSCRIPTION & STREAMING		2018	2019	% CHANGE '18 to '19
(Units)	Paid Subscription <sup>1</sup>	46.9	60.4	28.7%
(Dollar Value)		\$4,656.0	\$5,934.4	27.5%
	Limited Tier Paid Subscription <sup>2</sup>	\$747.1	\$829.5	11.0%
	On-Demand Streaming (Ad-Supported) <sup>3</sup>	\$759.5	\$908.1	19.6%
	SoundExchange Distributions <sup>4</sup>	\$952.8	\$908.2	-4.7%
	Other Ad-Supported Streaming <sup>5</sup>	\$251.4	\$251.1	-0.1%
	<b>Total Streaming Revenues</b>	<b>\$7,366.8</b>	<b>\$8,831.3</b>	<b>19.9%</b>
DIGITAL PERMANENT DOWNLOAD				
(Units)	Download Single	399.8	335.3	-16.1%
(Dollar Value)		\$490.4	\$414.8	-15.4%
	Download Album	49.7	40.2	-19.2%
		\$499.7	\$394.5	-21.0%
	Ringtones & Ringbacks	10.0	8.6	-14.1%
		\$24.9	\$21.4	-14.1%
	Other Digital <sup>6</sup>	2.2	1.8	-17.6%
		\$24.1	\$25.0	3.8%
	<b>Total Digital Download Revenues</b>	<b>\$1,039.1</b>	<b>\$855.7</b>	<b>-17.6%</b>
<b>TOTAL DIGITAL VALUE</b>		<b>\$8,405.8</b>	<b>\$9,687.0</b>	<b>15.2%</b>
	Synchronization Royalties <sup>7</sup>	\$285.5	\$276.3	-3.2%
PHYSICAL				
(Units Shipped)	CD	52.0	46.5	-10.5%
(Dollar Value)		\$698.4	\$614.5	-12.0%
	LP/EP	16.7	19.1	14.6%
		\$419.2	\$497.6	18.7%
	Music Video	1.4	1.3	-5.2%
		\$27.6	\$27.7	0.5%
	Other Physical <sup>8</sup>	0.5	0.4	-17.2%
		\$9.6	\$8.5	-11.9%
	<b>Total Physical Units</b>	<b>70.5</b>	<b>67.3</b>	<b>-4.5%</b>
	<b>Total Physical Value</b>	<b>\$1,154.8</b>	<b>\$1,148.3</b>	<b>-0.6%</b>
TOTAL DIGITAL AND PHYSICAL				
	<b>Total Units<sup>9</sup></b>	<b>532.3</b>	<b>453.3</b>	<b>-14.8%</b>
	<b>Total Value</b>	<b>\$9,846.1</b>	<b>\$11,111.6</b>	<b>12.9%</b>
	<b>% of Revenues<sup>10</sup></b>	<b>2018</b>	<b>2019</b>	
	Physical	12%	11%	
	Digital	88%	89%	

Source: year-end 2019 RIAA music revenues report

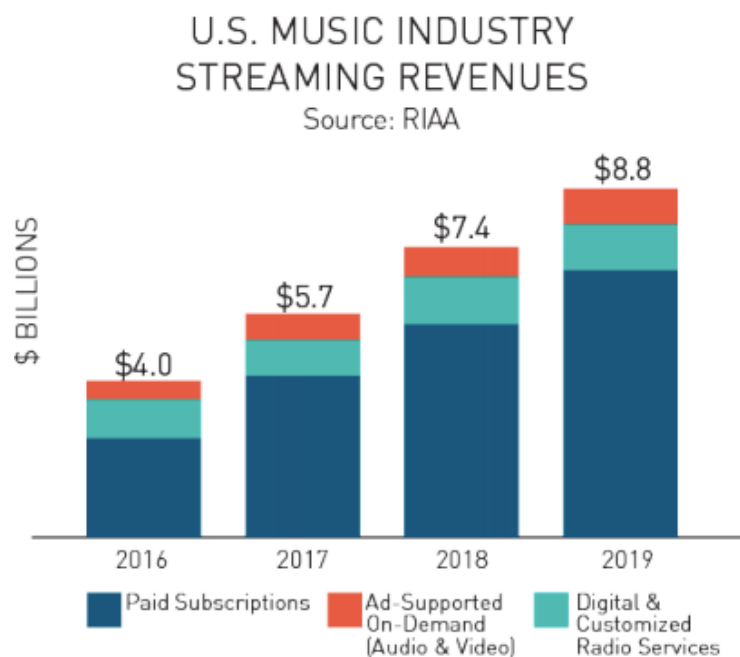
→STREAMING +19.9%

Streaming holds a 79.5% share of total revenues. There are included different formats, including premium subscription services, ad-supported on-demand services (such as YouTube, Vevo, and ad-supported Spotify), and streaming radio services (like Pandora, SiriusXM, and other Internetradio services).

The revenue achieved this year was greater than the sector's entire revenue in 2017. In 2019 Americans streamed 1.5 trillion songs.

Paid subscriptions to on-demand streaming services has been decisive: in 2019 subscription revenues of \$6.8 billion were up 25% versus the prior year, and accounted for 61% of total recorded music revenues in the U.S.

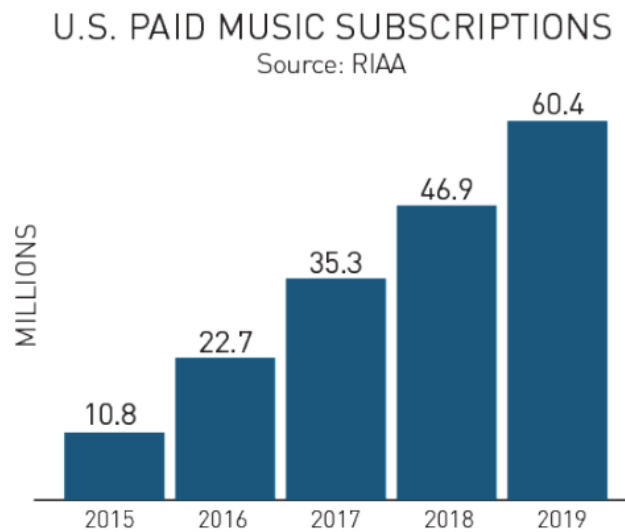
Figure 2.16 – U.S. Music industry streaming revenues in billion dollars



Source: RIAA

The number of paid subscriptions to on-demand streaming services grew by 29% from 2018: they now account for 60.4 milion. From 2015 it has grown by 82.2%:

Figure 2.17 – U.S. paid music subscriptions in millions



Source: RIAA

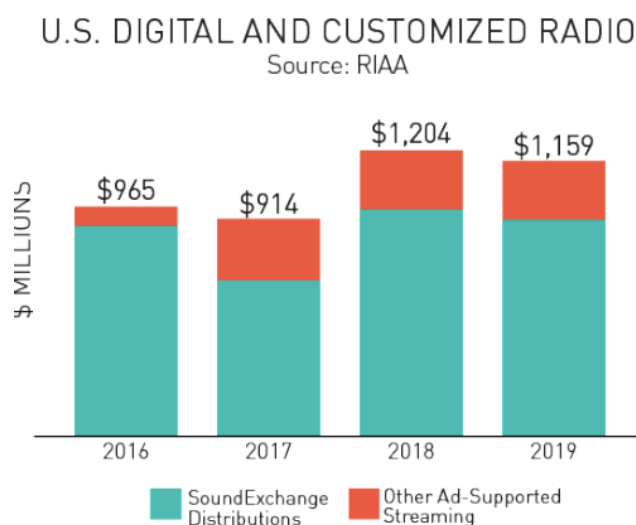
As concern revenues from on-demand streaming services supported by advertising (such as YouTube, Vevo, and the free version of Spotify), there has been a rise of 20% to \$908 million: this type of service offers streaming of more than 500 billion songs for more than 100 million U.S. listeners, but still contribute only 8% of annual revenues.

Revenues from digital and customized radio services decreased 4% year-over-year to \$1.16 billion in 2019. The category includes SoundExchange<sup>33</sup> distributions for revenues from services like SiriusXM and internet radio stations, as well as payments directly paid by similar services, included in this report as «other ad-supported streaming».

---

<sup>33</sup> From soundexchange.com, « SoundExchange provides royalty solutions for sound recordings and publishing, serving as a critical backbone to today's digital music industry. The organization collects and distributes digital performance royalties on behalf of more than 200,000 recording artists' and master rights owners' accounts. Its technology solutions help turn massive amounts of data into accurate revenue for creators and include: Music Data Exchange (MDX), International Standard Recording Codes (ISRC) Search, and the Notice of Intention to Use (NOI) LOOKUP. To date, SoundExchange has paid out more than \$7 billion in royalties.»

Figure 2.18 – U.S. revenues from digital and customized radio in million dollars

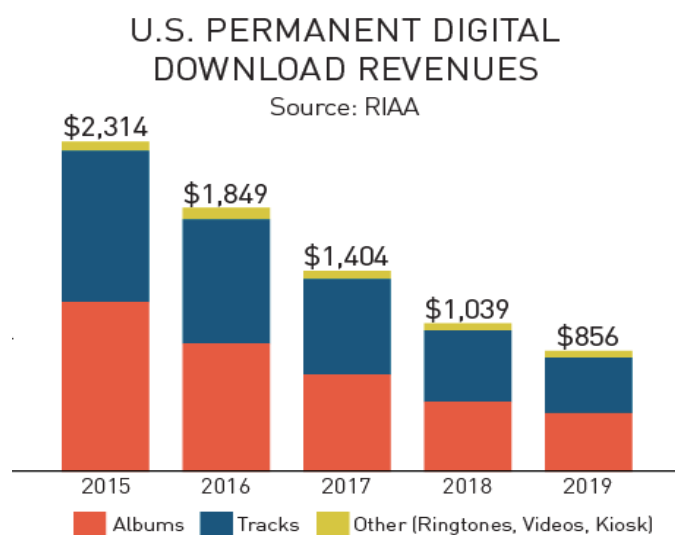


Source: RIAA

### →DIGITAL DOWNLOADS -18%

Revenues dropped to \$856 million: for the first time since 2006, download revenues fell below one billion<sup>34</sup>. Permanent downloads of albums decreased 21% by value to \$395 million and individual track sales were down 15% to \$415 million in 2019. Downloads accounted for only 8% of revenues in 2019.

Figure 2.19 – U.S. permanent digital download revenues



Source: RIAA

<sup>34</sup> RIAA, Year-end 2019 RIAA music revenues report

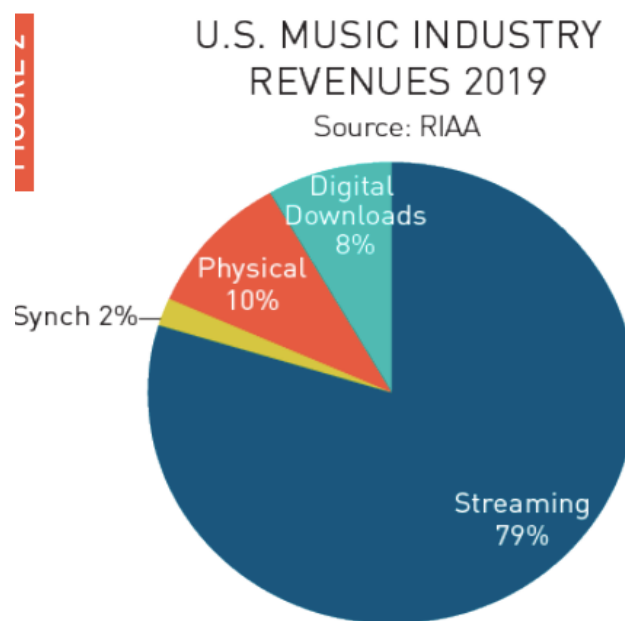
→PHYSICAL -0.6%

In 2019 revenues fell to 1.15 million: -12% of CDs and -11.9% of other physicals were not offset by the increase in the vinyl market (+18.7%). This was the largest vinyl revenue recorded since 1988 and the 14th year in a row of sales growth; this department accounts for only 4.5% of total revenues.

The report that emerges from the analysis of this report is certainly encouraging. The first music market in the world is moving towards a future significantly marked by the use of streaming: in this sense it is necessary to emphasize the importance of factors such as the spread of smartphones and high-speed internet connections available to all at an economic level.

As in Italy, digital downloads are decreasing year after year. What has to be made more positive is the revenue from synch, as a future based on revenues entirely (or almost) from streaming risks 'strangling' even more a sector that is continuously recovering from the crisis of the 00's. Besides, with the recent Covid-19 pandemic the market has to face a new crisis that risks weakening and slowing down all the progress of recent years.

Figure 2.20 U.S. music industry revenues 2019



Source: RIAA

## CASE STUDY A: A Rebirth for the Vinyl Market

In the past, if we had thought of a vinyl, we would have focused our imagination immediately on something belonging to the past and which today would seem anachronistic. I say 'would seem' because this precious means of reproduction has come back in vogue more than ever in recent years.

The vintage flavour that exudes and the sense of nostalgia that it provokes for those who have experienced its diffusion, have led vinyl to be a product that is once again marketed. The revival phenomenon that distinguishes it is noteworthy in a historical period of absolute digitisation of music and a drastic drop in sales of CDs. Indeed, it should be noted that it is even slowing down the decline in revenues in the physical sector. A real 'anomaly', in a way, with sales figures comparable to the 1980s.

*«It is probably connected to the need for an instinctive response to all this. Nothing better than a vinyl record (big, beautiful, uncomfortable, heavy, representative of a way of enjoying music that we can hardly afford anymore) could symbolize in that particular historical moment the common need to oppose the dissolution of music. The music industry, although digitised, has not 'batted eyelid', because this digitisation has not rewarded anyone in particular. Even the major streaming platforms have a deficit balance. »*

(Marco Sannino)<sup>35</sup>

In 2019, at a global level, the increase in sales was 5.3% and it represents 16.4% of revenues from the physicist.<sup>36</sup>

The vinyl records market size in Europe has the potential to grow by USD 91.94 million during 2020-2024, at a CAGR of almost 6%, and the market's growth will accelerate during the forecast period. The rising demand for vinyl records in

---

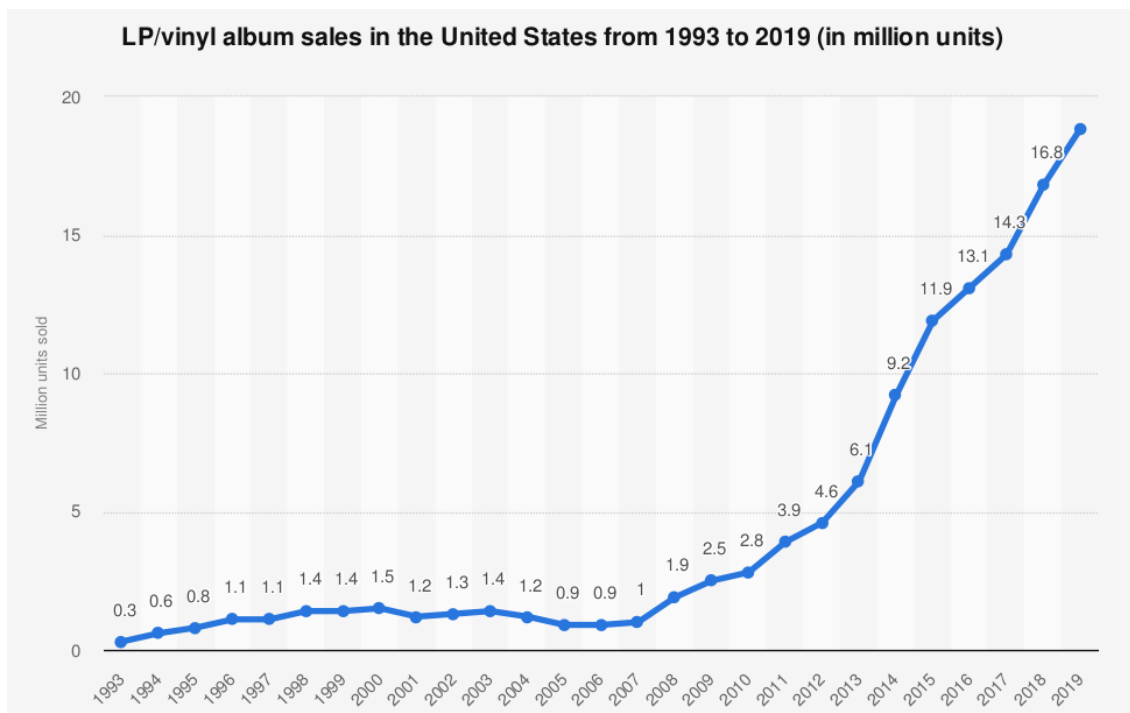
<sup>35</sup> Interview made by me to Marco Sannino, owner of Radiation Records, an important Italian shop of new and used vinyl, CDs, DVDs, books, magazines, t-shirts and any kind of music-related items

<sup>36</sup> Global Music Report, 2019

Europe is expected to attract regional vendors to set-up their manufacturing base in the fast-growing countries such as the United Kingdom, Germany, Netherlands, Italy and Poland<sup>37</sup>.

In Italy, despite a 26% decline in the physical sector, vinyl accounts for +4.8% and represents 31% of the physical market <sup>38</sup>; in America there is a growth of 19%, with an overall gain in the last year of \$504 million generated by 18.8 million units sold <sup>39</sup>: is the largest revenue recorded since 1988 and the 14th year in a row of increased sales <sup>40 41</sup>. From 2008 to 2019 the units sold are almost ten times larger.

Figure 2.21 – LP/vinyl sales in U.S. in millions (1993-2019)



Source: Nielsen Music

<sup>37</sup> Vinyl Records Market in Europe by Product, Distribution Channel, and Geography - Forecast and Analysis 2020-2024, available at <https://www.technavio.com/report/vinyl-records-market-in-europe-industry-analysis>

<sup>38</sup> <https://www.fimi.it/mercato-musicale/dati-di-mercato/nei-primi-sei-mesi-del-2019-il-mercato-italiano-cresce-del-5.kl>

<sup>39</sup> Nielsen music

<sup>40</sup> YEAR-END 2019 RIIA MUSIC REVENUES REPORT

<sup>41</sup> Only new vinyl is considered in the sales data, not second-hand vinyl.

Since its recent rediscovery, many non-music shops have joined this business: in 2014 the clothing chain 'Urban Outfitters' sold more than 8% of new vinyl in the US, second after Amazon <sup>42</sup>.

Vinyl has such a historical value that it has generated a market of music lovers and collectors alike: in fact, in 2018, the sale of Prince's "Black Album" for \$24475 - on the well-known online platform Discogs for buying and selling records and LPs - set a real record<sup>43</sup>. The value of rediscovering this format has made buying and selling rare vinyl also a form of investment in forms similar to modern art: buying them at the lowest possible price and then reselling them to collectors.<sup>44</sup>.

It is possible that in the future this market will become like the art collectors' market, i. e. therefore characterized more by objects purchased to be only exhibited for their historical value?

*«At certain levels, there is and always has been this practice. There are records that have been growing in value steadily for twenty or thirty years, and records that are often very solid investments. Those who sold records in the 90s, to buy everything back in CDs, can't say they made a great move, but try to see the prices of the records that came out in that decade. The 'physical' market will increasingly overlap with that of collecting, precisely because of that principle I explained earlier. From the digitisation of music on, if you own even one record, you are a 'default' collector. »*

(Marco Sannino)

---

<sup>42</sup> Billboard Staff, 2015, *The resurgence of vinyl in seven graphics: A breakdown*. Billboard. Available at: <https://www.billboard.com/articles/business/6495044/the-resurgence-of-vinyl-in-seven-graphics-a-breakdown> (accessed 19 December 2018).

<sup>43</sup> Sean Cannon, 2018, *SOUND INVESTMENT: WHAT WE KNOW ABOUT THE HIGH-END VINYL MARKET*. Available at <https://blog.discogs.com/en/vinyl-investment-trends/>

<sup>44</sup> M. Palm, 2019, *Keeping What real? Vinyl records and the future of independent culture*, UNC-Chapel Hill, USA



Some new-generation vinyl reproduction supports also include the possibility of converting to communicate via USB outputs with other devices.

The relationship with today's music is evidenced by the fact that the vast majority of artists - even the most recent ones - combine their releases on digital platforms with the physical releases of records and vinyl (often in limited editions): it is not surprising, therefore, that from the 2019 list of the best-selling LPs in Italy from the IBS website, in first place is the everlasting *Dark Side Of The Moon* by Pink Floyd followed by *Persona* di Marracash, the latest album by the Sicilian rapper<sup>45</sup>, as well as in America, where the Beatles' *Abbey Road* took first place and second (with 176,000 copies) *When We All Fall Asleep, Where Do We Go?* by new young pop star Billie Eilish.

Despite these figures, according to Sannino *«there is no comparison, at least as far as my sales are concerned. The vinyl market is strongly 'retro-referred'. New releases are better than a few years ago, because by now everyone has bought the turntable back, but the numbers are all for vinyl reissues.»*

Jack White has recently said: *«I definitely believe the next decade is going to be streaming plus vinyl – streaming in the car and kitchen, vinyl in the living room and the den. Those will be the two formats. And I feel really good about that.»*<sup>46</sup>. The future income of Recording Industry will be represented by streaming and vinyl?

*«Wow, thanks to Jack who always gives us brilliant insights. It's certainly not the CDs or cassettes (whose value on the collecting market is already growing strongly), but the situation seems much more complex. In fact, streaming doesn't seem to be able to reach such numbers to feed anyone, and let's remember that until yesterday downloading was supposed to be the new frontier and today it*

---

<sup>45</sup> <https://www.ibs.it/classifica/vinili/1year/sold?defaultPage=1>

<sup>46</sup> <https://www.rollingstone.com/pro/news/the-end-of-owning-music-how-cds-and-downloads-died-628660/>

*seems prehistoric when you think about it. The point in my opinion is another: for some years now listening to music and 'collecting' it have become two completely separate things. Buying a physical support makes you a collector, because the content of that record is available everywhere. Whereas before the record (in the broadest sense of 'physical' support) was an essential means of listening to the music it contains, now it is an object that represents it. The 'cognitive' approach to the issue has really changed.»*

(Marco Sannino)

## Chapter 3

### Assessment of Copyright Legislation

«Potremmo vivere anche solo dei diritti SIAE...»

«We could almost live only of SIAE's rights...»

(i Cani, *Questo Nostro Grande Amore*, 'Aurora', 2016)

In Italy copyright is regulated by Law 633/1941 and Title IX of the Fifth Book of the Italian Civil Code. At the time of its enactment it followed the minimum standards laid down in the Berne Convention for the Protection of Literary and Artistic Works of 1886. Over time it has undergone variations following European directives on the subject.

The law contains 206 articles divided as follows:

- Title I - Copyright provisions (Articles 1 to 71decies)
- Title II - Provisions on rights related to the exercise of copyright (Articles 72 to 102)
- Title IIa - Provisions on the rights of the maker of a database (Articles 102a - 102b)
- Title IIb - Technological protection measures. Information on the rights regime (Articles 102-quater - 102-quinquies)
- Title III - Common provisions (Articles 103 to 174d)
- Title IV - State property law (Articles 175 to 179)
- Title V - Bodies governed by public law for the protection and exercise of copyright (Articles 180 to 184)
- Title VI - Scope of the law (Articles 185 to 189)
- Title VII - Standing Advisory Committee on Copyright (Articles 190 to 195)
- Title VIII - General transitional and final provisions (Articles 196 to 206)

In the context of copyright law, we find the conceptual distinction between an intellectual work as such (*immaterial*) and the support in which it is incorporated

(*material*). The link between the two is strengthened when the work itself is marketed and sold (e.g. a music record or a book).

From the moment the work is digitalized, this link tends to break, as there is no material to support its incorporation: the work is now infinitely duplicable, at a cost of 0, and able to ‘travel’ freely within a telematic network such as that of the Internet.

Two clarifications need to be made:

-Independently of the rights of economic use of the work, the author has and keeps, even after the transfer of them, a series of faculties, called *moral rights*, which are regulated by articles 20 to 24 of the law on copyright.

The purpose of the moral right is to protect the personality of the author as manifested in his work, provided that this is among those that can be protected.

-*Patrimonial rights* are the exclusive rights of the author to use his work economically in any form and manner, original or derived<sup>47</sup> and to receive compensation for any type of use of the same.

The patrimonial rights are independent among them<sup>48</sup>: the exercise of one of them does not exclude the exclusive exercise of each of the other rights. They can therefore be exercised separately or jointly and may have as their object the work in its entirety or in each of its parts.

Unlike moral rights, patrimonial rights are renounceable, can be transferred to third parties<sup>49</sup> and have a time limit, i.e. they last the whole life of the author and until the end of the 70th year after his death<sup>50</sup>.

Article 12 of Law 633/1941 reads as follows:

«The author has the exclusive right to publish the work.

---

<sup>47</sup> art.12 633/1941; art 2557 cc

<sup>48</sup> art.19 633/1941

<sup>49</sup> art. 107 633/1941; art. 2581 cc

<sup>50</sup> art. 25 633/1941

He also has the exclusive right to use the work economically in any original form or manner, or derivative, within the limits set by this law, and in particular with the exercise of the exclusive rights set out in the following articles. The first form of exercise of the right of use shall be considered as the first publication».

By virtue of this, the legislator, with Legislative Decree no. 68 of 09.04.2003 enacted in application of Directive 2001/29/EC, has therefore had to extend the meaning of the right of reproduction<sup>51</sup> to also include any other reproduction, direct or indirect, temporary or permanent, of a work in any manner and form carried out.

The regulatory process is still underway, as the phenomenon of digital reproduction is in the course of evolution.

### **3.1 Società Italiana degli Autori ed Editori (SIAE)**

In Italy the SIAE -*Società Italiana degli Autori ed Editori*, established in 1882- acts as a public body based on associations, responsible for the protection and exercise of copyright intermediation in Italy, in the form of a non-profit collecting society, being responsible for the granting of licences and authorizations, and the collection and distribution of royalties<sup>52</sup>. It also performs functions related to the protection of intellectual property and may assume, on behalf of the State, public or private bodies, service of assessment and collection of taxes, contributions and other rights.

«(SIAE) exercises the activity of intermediation, however implemented in any direct or indirect form of intervention, mediation, mandate of authors or their heirs, representation and also assignment for the exercise of rights of representation, performance, acting, reproduction and broadcasting, including communication implemented through any technical means of protected works; for the aforesaid

---

<sup>51</sup> art.13 L.633/1941, Title I, Chapter III, Section I

<sup>52</sup> art. 171-ter L.633/1941

purpose, the Company takes care of the granting, in its own name and on behalf and in the interest of its Associates and Non Associates (*Mandanti*), of licenses and authorizations for the economic use of works protected by law, and also takes care of the collection and distribution of the proceeds that in any case derive from the use of the works themselves, adopting suitable procedures for the timely identification of the recipients of the collected rights.»<sup>53</sup>

Whenever a subject intends to reproduce a protected work in any format (audio, video, etc.), he must pay a variable amount (depending on a number of factors such as the number of tracks to be performed or the number of artists to be paid) to the rights holder of the work.

There are also cases where permission is not required:

- . in case of use for home parties (i.e. without income);
- . for the use of pieces belonging to authors who have been dead for more than seventy years.

### **3.1.1 Subjects Entitled to Claim**

The registration to the SIAE can be made by copyright holders (or their heirs), or publishers (whether Italian or foreign natural or legal persons), as well as associations or copyright management entities.

Those who register can choose whether to enter as an associate or not associate (*mandante*); the economic protections and benefits are the same, the element that differentiates them is that the associate can:

---

<sup>53</sup> Statuto della Società Italiana degli Autori ed Editori, art.2, a).

- . participate in corporate meetings;
- . vote for the election of their representatives to the Corporate Bodies;
- . access the benefits of the Solidarity Fund in favour of authors in need due to age, economic, social and family health conditions.

A relevant figure is the *publisher*, i.e. a subject -usually a society- to whom authors can assign the rights of use and economic exploitation of their works. His role is fundamental especially for the dissemination of artistic works, which is why the choice of a publisher should be evaluated carefully.

The assignment has no time limit (unless the contract limits its duration) and is exclusive: once the rights have been assigned to one publisher, they cannot be assigned to others. The author will then receive eventual compensation deriving from the exploitation of the work. The publisher will deposit (or re-deposit) the musical work with the SIAE or other foreign collecting society, keeping for himself a maximum of 12 twenty-fourths of the public performance rights (e.g. for live performances) and 50% of the phonomechanical reproduction rights (e.g. for CD recordings).

For these rights, SIAE will make all the receipts and will make them available directly to the authors and the publisher.

Each deposited work is numerically divided into twenty-four parts (called "twenty-fourths"), of which:

- . twelve for the author (author of the text and musical composer);
- . twelve for the editions.

### 3.1.2 Different Music Licenses

Once your music is deposited in a collecting society, the author can legally license the use of the works.

Here are the different types of music licenses<sup>54</sup>:

- a. *Blanket License*: collecting societies offer this type of license by granting access to a music repertoire in exchange for a fixed annual fee. This is an advantageous formula for customers such as radios or shopping centers who want to play ambient music. For customers it is very convenient as you do not waste time negotiating the rights of each work. The payment of the rights to the author is done through a mixed system of digital monitoring and direct communication of the licensee. However, it is a system that does not guarantee complete monitoring of reproductions, although some companies can guarantee full payment to the rights holder.
- b. *Synchronization license*: among the most used in the market, this license grants the licensee the use of a song to synchronize, coordinate with a certain digital output. Frequently used for TV shows, movies and advertising, the value of the fee to be paid for the customer depends on several variables, including:
  - use of the song
  - media used
  - number of users
  - importance of the project using the protected work
  - experience and fame of the singer of the song

When royalties are collected, publishers and writers generally share the payment at 50%.

---

<sup>54</sup> <https://www.soundreef.com/blog/licenze-musicali/>



- c. *Master recording license*: this type of license allows the licensee to use the registered version of a composition for projects such as movies, shows, advertisements or others. The master license must be requested from the right holder or label for each song you intend to use in your project. The difference between a master license and a synchronization depends on whether the latter allows the licensee to re-record the song, for example by performing a cover, while the master allows you to use the pre-recorded version of the song with the voice of the original singer.
- d. *Mechanical license*: This license is paid every time a copy of a song is made, for example when a CD is produced. The license involves a formal agreement between the right holder, the publisher and the composer granting the licensee the possibility to reproduce the recording. An artist who does not write his own songs and who records a cover must apply for this type of license. Royalties generally go directly to the musician, however there are cases where payments are shared with the group, label or publisher; such payments are generally in the range of €0.20 to €0.50 per song.
- e. *Performance license*: paying a fixed annual fee, you are allowed to use compositions that are not in the public domain. this license allows you to use the composition of an artist obtaining approval directly from the composer, arranger or publisher for each single track. The musical performance license is required for activities such as live performances, audio/video presentations or for occasions when listening to the music implies enjoyment for the listener.

- f. *Print license*: this license must be required to copy and/or print lyrics and musical compositions. Examples of use of this license may be music scores or song books.

### **3.2 Barnier Directive 2014/26/EU**

The subject has undergone corrections and additions over the years due to changes in the way of enjoying music: nowadays an artist basically earns from live and streaming reproductions, only to a much lesser extent (compared to the past) from the sale of physical albums.

In 2014, Europe enacted Directive 2014/26/EU (also known as the *Barnier Directive*) for the collective management of copyright and multi-territorial licensing for the use of musical works online: in 2017 it was adopted in Italy with the entry into force of Legislative Decree no. 35/2017, definitively harmonizing all those aspects that the old legislation could not collide with the digital enjoyment of music. The objectives of the directive were twofold:

- 1) to meet the need to amend and harmonise the legislation on collecting societies;
- 2) to make the exploitation of copyright and other intellectual property rights efficient, as well as the related rights in protected works online in the European Union.

This has ensured greater transparency by collecting societies in the gathering and distribution of remuneration for copyright and related rights, redefining governance and imposing information and financial management obligations.

### 3.2.1 Key Points of the Directive

The directive is based on a number of key points:

- 1) First, under art. 5 (clause 2<sup>55</sup>) and considering art. 19<sup>56</sup> of the Directive:
  - . the holder of the rights is granted the freedom to choose a collecting body to which to entrust all or part of the rights, regardless of the EU Member State and regardless of nationality or residence, in order to overcome nationalistic constraints and inefficiencies no longer acceptable from the point of view of a Digital Single Market and the creation of a legalized digital fruition against piracy;
  - . to ban the forms of state monopolies of collecting societies (SIAE in Italy);
  - . there is the right to revoke the mandate and to grant licences also for non-commercial uses;

It should be specified that this type of rule extends the possibility of choice of the entitled party not only with respect to the choice of the collection itself, but also with respect to the geographical extension. There is no real break-up of the monopoly, but the possibility of relying on foreign companies is granted.

At the same time, the foreign companies that are chosen must be able to reduce their negotiation costs so as to be competitive with the domestic monopolist.

---

<sup>55</sup> «rightholders shall have the right to authorise a collective management body of their choice to manage the rights, categories of rights or types of works and other subject matter of their choice, for the territories of their choice, irrespective of the Member State of nationality, residence or establishment of the collective management body or the rightholder [...]».

<sup>56</sup> "It is important that rights and categories of rights are determined in such a way as to maintain a balance between the freedom of rightholders to dispose of their works and other subject matter and the possibility for the body to manage rights effectively taking into account, in particular, the category of rights managed by the body and the creative sector in which it operates. With due regard to that balance, rightholders should be able to easily withdraw those rights or categories of rights from a collective management body and manage them individually or entrust or transfer all or part of their management to another collective management body or another entity, regardless of the Member State of nationality, residence or establishment of the collective management body, the other entity or the rightholder [...]".

2) According to art. 6<sup>57</sup>, clarity and transparency of governance are regulated, as well as the obligation to provide information on it. This is done through mechanisms for the participation of members in decisions with a fair representation of the different categories, to allow an informed choice and the possibility of revocation of any mandates given and to monitor the management activity.

3) According to Article 16<sup>58</sup> it is established that:

- . the licensing is carried out in an objective and non-discriminatory manner;
- . rightholders must also receive fair and proportionate remuneration.

In addition, an assessment has been carried out for all at national level of the minimum criteria and requirements for carrying out the mediation activity. In order to avoid discrimination, potential anti-competitive behaviour and requirements

---

<sup>57</sup> «1. Member States shall ensure that collective management bodies comply with the rules set out in paragraphs 2 to 5. 2. A collective management body shall accept as members rightholders and entities representing rightholders, including other collective management bodies and associations of rightholders, who meet the membership requirements, which shall be based on objective, transparent and non-discriminatory criteria. Those membership requirements shall be laid down in the statutes or conditions of membership of the collective management body and shall be publicly accessible. Where a collecting society rejects an application for membership, it shall provide the rightholder with a clear explanation of the reasons for its decision. 3. The statutes of a collective management body shall provide for adequate and effective mechanisms for the participation of its members in the decision-making process of the body. The representation of the different categories of members in the decision-making process shall be fair and balanced. 4. A collective management body shall allow its members to communicate with it by electronic means, including for the purpose of exercising their rights as members. 5. A collective management body shall keep a register of its members and update it regularly.»

<sup>58</sup> «1. Member States shall ensure that collective management bodies and users conduct in good faith the negotiations for the granting of licences on rights. Collective management bodies shall exchange all necessary training. 2. Licensing conditions shall be based on objective and non-discriminatory criteria. Collective management organisations granting rights clearance are not required to rely, for other types of online services, on the licensing conditions agreed with a user when the latter has been providing a new type of online service offered to the Union public for less than three years. Rights holders shall receive appropriate remuneration for the use of the rights. The tariffs for exclusive rights and rights to remuneration shall be reasonable in relation, inter alia, to the economic value of the use of the negotiated rights and shall take into account the nature and extent of the use of the works and other subject matter and the economic value of the service provided by the collective management body. Collecting management organisations shall train the users concerned on the criteria used to establish such tariffs. 3. Collecting organisations shall respond without undue delay to users' requests by specifying, inter alia, the information necessary for the collecting society to offer a licence. Upon receipt of all relevant information, the collecting society shall, without undue delay, offer a licence or provide the user with a reasoned statement explaining why it does not intend to license a particular service. 4. A collecting society shall allow users to communicate by electronic means, including, where appropriate, for information on the use of the licence»

that may result in excessive burdens, the intermediation activity may also be carried out by persons without a specific legal form or organisational structure.

4) In accordance with articles 33-36, the procedures for the treatment of complaints are regulated, also through an extra-judicial settlement of disputes.

They must also ensure compliance with the provisions by the competent authorities designated by the state, which must also intervene with sanctions in case of non-compliance.

### **3.3 Directive on Copyright in the Digital Single Market 2019/790**

The evolution of technologies and the role of the Internet has led - in recent years - to make the Network a universe of data and content constantly exploited: nowadays, it is an integral part of our daily lives. Over the years, new uses, new protagonists and new business models have emerged and new opportunities have opened up for consumers to access content protected by copyright. However, the incredible vastness of the phenomenon makes it difficult to control it and this significantly undermines the protection of the creators of content that is disseminated globally: the need for a regulatory intervention that would make Internet Service Providers more responsible. Over the years, this "loophole" legislation has allowed the giants of the web - see Google and Facebook - to exploit the work of creative producers - of any field - to attract advertising addressed to users who used such content<sup>59</sup>.

In 2001, it was enacted the Directive 29/2001/EC that first regulated the matter, but in a context that was still primitive and totally different from the current one.

---

<sup>59</sup> Dirittodellinformazione redaction, 2020, *La nuova direttiva sul diritto d'autore: un lungo e controverso iter normativo*, available at <https://dirittodellinformazione.it/la-nuova-direttiva-sul-diritto-dautore-un-lungo-e-controverso-iter-normativo/>

With a process that began in 2016, after three years of conflicting negotiations, the Strasbourg Parliament finally approved the text of the Directive on Copyright in the Digital Single Market 2019/790<sup>60</sup>, aimed at providing an instrument of protection for those entitled against the giants of U.S. technology: authors are strengthened in the negotiation of fairer agreements for the exploitation of their works, especially for the protection of publications in the press and the reduction of the *value gap* between the profits made by Internet platforms and content creators. On the other hand, providers are required to use all means to prevent the dissemination of unauthorized protected material.

From the date of publication of the new legislation in the Official Journal of the European Union (OJEU), individual Member States will have two years to transpose the Directive, adapting them to their national legal systems: the aim is also to break down national barriers and create a single digital market.

The text of the Directive, after the negotiations of the trialogue, was approved by the European Parliament on 26 March 2019 and then by the Council of the European Union on 17 April 2019<sup>61</sup>.

---

<sup>60</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019L0790>

<sup>61</sup> <https://ec.europa.eu/digital-single-market/en/copyright>

**CASE STUDY B: Soundreef, a new alternative to Siae. Additional insights through an in-depth interview with Davide d'Atri, CEO of Soundreef.**

*Figure 3.1 – Soundreef logo*



*Source: Google*

Once the Barnier Directive had been transposed, the monopoly exercised by Siae had disappeared: this allowed genuine competition within the collecting societies to begin.

Soundreef is an independent copyright management company founded in 2011 in London by two Italians, Davide D'Atri and Francesco Danieli, and recognised by Intellectual Property in the UK. Thanks to the EU Directive 2014/26/EU; it is a competitor of Siae in Italy and a collector in many countries around the world: its growth is gradual but significant.

Its activity is mainly based on two dimensions:

1) in-store: music played in the background in commercial activities around the world (with the possibility for artists to geographically locate the reproductions);

2) live: live performances, with online compilation of the *border*

Founded in 2011 in London by Davide D'Atri and Francesco Danieli (34 and 35 years old respectively) with an endowment of 85,000 euros of investment paid by

Luigi Capello. The two had had numerous disagreements with the first group of investors (a family of entrepreneurs), although they later left. After Capello's payment, VAM INVESTMENTS -private equity holding company located in Milan, the current main player in Soundreef- entered as an investor.

In October 2015 the official creation of Soundreef S.p.a. took place and the acquisition of the latter by Soundreef LTD.

I asked Davide d'Atri<sup>62</sup> how the challenge to compete with SIAE was born.

*«This is an old passion born during university. I've worked in the music industry since I was younger. Then I did economics at university and I became passionate about antitrust: I did not understand how distortions were allowed in the European market which was organized with 27 companies for 27 countries. On the other hand, the first two rules of antitrust are that you cannot do price fixing<sup>63</sup> and you cannot divide territories.*

*My experience in the music world then showed me all the inefficiency of collecting societies: very slow payments, not very transparent reporting and in particular a lack of innovation aimed at an analytical breakdown. I then became very interested until 2012 when I realized that an alternative to the existing situation could be launched. »*

The turning point came with the Italian transposition of the Barnier Directive in 2017 and with the agreement signed on 19 April 2019 between Siae, Soundreef and LiberiAutoriEditori (a non-profit company that will deal with copyright in Italy on behalf of Soundreef), stating the following<sup>64</sup> :

---

<sup>62</sup> Interview done on my own to Davide d'Atri, CEO of Soundreef

<sup>63</sup> Price fixing is an agreement (written, verbal, or inferred from conduct) among competitors that raises, lowers, or stabilizes prices or competitive terms.

<sup>64</sup> <https://www.soundreef.com/blog/regole-operative-accordo-soundreef-siae/>



- a) the definitive liberalization of the market although within the limits dictated by Legislative Decree 35/2017;
- b) SIAE acknowledges the legitimacy of LEA to collect copyrights on behalf of Soundreef Ltd and its direct members;
- c) SIAE recognizes that Italian music users will have to finalize an additional license to that of SIAE also with LEA (on behalf of Soundreef Ltd) if the user plays repertoire of the latter and that therefore the payment of the SIAE license is no longer exhaustive with respect to the use of music;
- d) the circumstance that each copyright brokerage body – whether constituted in the form of the independent rights management body or the independent management entity – will only administer the portion of the copyright entrusted to it for management by the rights holder with the exclusion, therefore, of the application of any rule on the communal rights of the individual work and regardless of any possible agreement between publishers and authors;
- e) the granting of so-called *blanket* licences is a practice in the sector and is necessary for its correct functioning also in the interest of authors;
- f) SOUNDREEF LTD, LEA and SIAE will waive all pending cases following the agreement reached.

The communiqué continues: “*SIAE, SOUNDREEF LTD and LEA hope that the agreements reached are suitable to solve the problems recorded so far on the market and to guarantee a calm, correct and fair competition in a sector that is crucial for the cultural and creative development of the country*”.

*«At that time in 2012 in the absence of targeted legislation we were entering a rather 'dark' field. However, already in 2008 a decision of the European Commission had come out (CISAC decision) which already talked about a possibility of pan-European competition. We also had the legal conviction that with EU laws we could enforce, regardless of Barnier, the fact that if a right is mine -hence a private right which I manage on behalf of a person-, I can sell it wherever I want. There is no difference with a 'shoe' for example (even if ugly to say). So if I want to sell it in France instead of Italy, what is the legal principle that prevents me? This principle was very right and was then taken up again by the Italian antitrust authorities (after many years): the sentence for abuse dominant of Siae on us is also based on this concept. The monopoly on works licensed from abroad could not exist: it existed, if at all, in Italy, but never cross-border.*

*In general we realized how risky it was, but with the advantage of leaving before the others in the absence of clear legislation.»*

(Davide d'Atri)

SIAE, Soundreef Ltd. and LEA have also mutually committed to agree on a set of operating rules to ensure that users are able to easily finalise all licensing agreements necessary to use the rights represented by the different companies.

The parties undertake to make it clear in their contracts/permits/agreements that there are other intermediaries entitled to license directly for the rightholders and the repertoires represented.

*« We work in a very obscure market, which even the most experienced people in the industry don't know about. It is certainly very boring. So we wondered a lot about how to tell our story (also needing political attention): we played the David versus Goliath story card, which worked. Moreover, many famous artists came to us and this attracted the attention of journalists, who elevated the discourse to a*

*more 'emotional' than technical dimension in the strict sense. Without this sounding board we would not have made it: otherwise we would have paid a lot for the newspaper campaign. Sia herself gave us a big hand with some attitudes: when you throw yourself at a gnat with instruments of national breath, you inevitably publicize that gnat.»*

(Davide d'Atri)

Today, Soundreef Ltd operates worldwide directly or through representation agreements and manages the rights of over 39,000 authors and publishers, 22,000 of whom are represented by Italians including Enrico Ruggeri, Fedez, J Ax, Maestro Giancarlo Bigazzi, Maestro Maurizio Fabrizio, Rovazzi, Gigi D'Alessio, Nesli, 99 Posse, Noyz Narcos, Ketama 126 but also important publishers such as Smilax Publishing, Kromaki Music and many others, with over 2 billion listenings tracked, verified and analyzed every year and over 60,000 stores in more than 90 countries in the world.

It is on the public register of the Intellectual Property Office of the United Kingdom, Italy, Spain, Greece, Portugal and the Czech Republic.

Soundreef guarantees its subscribers 90-day payments, live reporting within 7 days, the possibility to monitor the reproduction of their music in real time and monthly YouTube reports for rights holders.



## Chapter 4

### Music Streaming Market

*«We are everyday robots on our phones  
In the process of getting home  
Looking like standing stones  
Out there on our own»*

(Damon Albarn, *Everyday Robots*, 'Everyday Robots', 2014)

#### 4.1 Music as a Data Container in the «Post-Record Industry»

The impact of digitization has led to many major corporations to reposition themselves as «music companies» rather than «record companies»: the awareness of having to look for profit started to focus from multiple rights rather than the poor income from record sales. In the Internet world, companies often seek growth first, the strategy for monetizing the product comes later. This is a sensational way of going broke<sup>65</sup>.

Majors began to be drawn into further tensions with newer digital conglomerates of the information technology (IT) and data industry (Big Tech)<sup>66</sup>: the importance of data is starting to grow more and more, making in this sense the conglomerates as «transmission vehicles».

For them, music is no longer considered in the artistic sense of the term: it becomes a content that attracts subscriptions and internet traffic, a «customer engagement tool»<sup>67</sup>.

The squabble over advertising and rights may have created waves in recording and publishing, but these are simple «ripples» for digital conglomerates considering the other broader ways they generate income<sup>68</sup>.

---

<sup>65</sup> Lanchester J, 2014, *How to Speak Money*. London: Faber & Faber.

<sup>66</sup> Mosco V, 2017, *Becoming Digital: Towards a Post-Internet Society*. Bingley: Emerald Publishing

<sup>67</sup> Seabrook J, 2014, *Revenue streams: is Spotify the music industry's friend or its foe?* The New Yorker, 24 November. Available at: <https://www.newyorker.com/magazine/2014/11/24/revenue-streams> (accessed 5 January 2015).

<sup>68</sup> Negus K., 2019, *From creator to data: the post-record music industry and the digital conglomerates*. University of London, UK

First of all, the generation of revenue from advertising: Alphabet/Google and Facebook account for over 50% of global internet advertising<sup>69</sup>. The reports suggest that advertising accounts as income for 90% *circa* for the first and 95% for the second, providing also significant return for Amazon and Microsoft<sup>70 71</sup>; nevertheless, the real aspirations are beyond the advertising: the power exerting over production and consumption.

Digital conglomerates like that mentioned get revenues also from the production, management and maintenance of servers and data storage systems, used by many big corporations along with governments and charities<sup>72</sup>. Basically, for them music is not one of the most profitable businesses.

The recorded music is used as a means of production, analysis, packaging and sale of data to third parties who manage them (labels, publishers, etc.).

The information obtained from these processes is part of a cauldron of big data that conglomerates use to study and anticipate consumer behavior through forms of «digital positivism»<sup>73</sup>.

Basically, all listening time is data-generating time<sup>74</sup>.

Digital music is able to provide three kind of different types of data<sup>75</sup>:

1. Data about characteristics of listeners as concern geographic location, time of accessing music, how many repeats of the same track or artist are made,

---

<sup>69</sup> Fortune, 2017, *Why Google and Facebook prove the digital ad market is a duopoly*. Fortune, 28 July. Available at: <http://fortune.com/2017/07/28/google-facebook-digital-advertising/> (accessed 11 January 2018)

<sup>70</sup> Frommer D, 2016, *Google's first alphabet earnings in charts*. Quartz, 1 February. Available at: <https://qz.com/607378/were-live-charting-googles-first-alphabet-earnings/> (accessed 8 January 2018).

<sup>71</sup> Mosco V, 2017, *Becoming Digital: Towards a Post-Internet Society*. Bingley: Emerald Publishing.

<sup>72</sup> Mosco V, 2014, *To the Cloud: Big Data in a Turbulent World*. Boulder, CO: Paradigm Publishers.

<sup>73</sup> *ibidem*

<sup>74</sup> Prey R, 2016, *Musica analytica: the datafication of listening*. In: Nowak R and Whelan A (eds) *Networked Music Cultures: Contemporary Approaches, Emerging Issues*. London: Palgrave, pp. 31–48.

<sup>75</sup> Negus K.

adjustment of volume, musical preferences and general information about hardware use, software use and internet activity.

2. Data about «semantic analysis of online conversations about music»<sup>76</sup> .

These are based on words and description used by users about artists, reviews, blogs and social media platforms. These *semantic data* includes also collecting and analyzing the users' playlists and the specific links between music and activities of different types (running, cleaning, studying, etc).

3. Data about the sonic content of digital music: tracks can be analysed and compared for features such as melody, harmony, rhythm, pitch, instruments used, vocalist characteristics, danceability etc.

Sonic analytics are means used to algorithmically manipulate user listening behavior, providing constant targeted suggestions.

All these kinds of data are combined and cross-referenced to be sold to advertisers. Sometimes, due to the amount of data produced, they can be merged with other data sets: this can lead to «function creep», whereby data and technology - developed for a particular apparent use- are merged with other data. This practice has led to discussions about government surveillance, privacy and human rights<sup>77</sup>. So, the post-record industry gives a significant quantity of data that are used and exploited by digital conglomerates creating imminent conflicts about how musicians and music companies should be reviewed for the data value of their music.

---

<sup>76</sup> Prey R. (2016)

<sup>77</sup> Bernal P, 2016, *Data gathering, surveillance and human rights: recasting the debate*. Journal of Cyber Policy 1(2): 243–264.

## 4.2 Streaming Market: Industry Profile

The online music streaming market refers to music and music-video streaming revenues, that are made-up from subscription service charges and ad-supported streams. Let's have a look of the market overview and data<sup>78</sup>.

Streaming market has experienced a very prolific growth in last years (see pg 28), but the trend has begun to decelerate: it is expected to remain strong, but at slower rate than that prior to 2019.

Surely the growth has been driven by proliferation of high-speed internet device and cloud technologies: 60% of global the population have adopted smartphones by 2018, with over 5 billion subscribers and 3.6 billion internet users<sup>79</sup>. The number of internet users is expected to raise to 5 billion in 2025 with 70% of population having mobile subscriptions.

*Figure 4.1 – Global % revenues growth from streaming market in million \$ and € (2015-2019)*

YEAR	\$ MILLION	€ MILLION	%GROWTH
2015	2,993.1	3,352.1	
2016	4,800.4	5,376.3	60%
2017	6,768.6	7,580.6	41%
2018	8,731.4	9,778.9	29%
2019	11,700.1	13,103.8	34%
CAGR			40.6%

*Source: MarketLine*

The streaming market made total revenues of \$11.7 bn in 2019, with a compound annual growth rate (CAGR) of 40.6% between 2015 and 2019.

<sup>78</sup> Based on 'Global Online Music Streaming', MarketLine industry profile, March 2020

<sup>79</sup> The Mobile Economy Report, GSMA



In 2018, 47% of the revenues from recording industry come from streaming, whereas physical and digital account for 25% and 12%.

Competition in the market is a driving factor of the strong growth: Spotify remains the global leader, but other services like Apple Music, Amazon Music Unlimited and Deezer have made important progress.

*Figure 4.2 – Revenues of 2019 from Subscription Services and Ad-supported Streaming in million \$*

<b>CATEGORY</b>	<b>2019</b>	<b>%</b>
<b>SUBSCRIPTION SERVICES</b>	8,706.8	74.4%
<b>AD-SUPPORTED STREAMING</b>	2,993.4	25.6%
<b>TOTAL</b>	11,700.2	100%

*Source: MarketLine*

The subscription service segment has been the most lucrative in 2019: in this year the engagement with on-demand streaming has been high across both paid and free services and all age groups.

By the end of 2018, there were 255 million paying subscribers globally: consumers in recent years were willing to pay for content advertise-free. This helped so much for the market growth.

Figure 4.3 – Forecasted global streaming revenues and growth (2019-2024)

YEAR	\$ MILLION	€ MILLION	%GROWTH
2019	11,700.1	13,103.8	34%
2020	13,411.8	15,020.8	14.6%
2021	15,398.3	17,245.6	14.8%
2022	17,594.6	19,705.4	14.3%
2023	20,522.8	22,985	16.6%
2024	23,939	26,811	16.6%
CAGR			15.4%

Source: MarketLine

Deceleration of growth rate in the future could result from saturation of markets which already have large number of streaming users.

In 2024 streaming market is forecast to have a value of \$23,939 million, with an increase of 104.6% since 2019.

Figure 4.4 – Streaming market leading countries and market share (2019)

GEOGRAPHY	2019	%SHARE MKT
USA	6,956.5	59.5
GERMANY	1,180.6	10.1
JAPAN	410.4	3.5
FRANCE	312.6	2.7
REST OF THE WORLD	2,840	24.3
TOTAL	11,700.1	100.1%

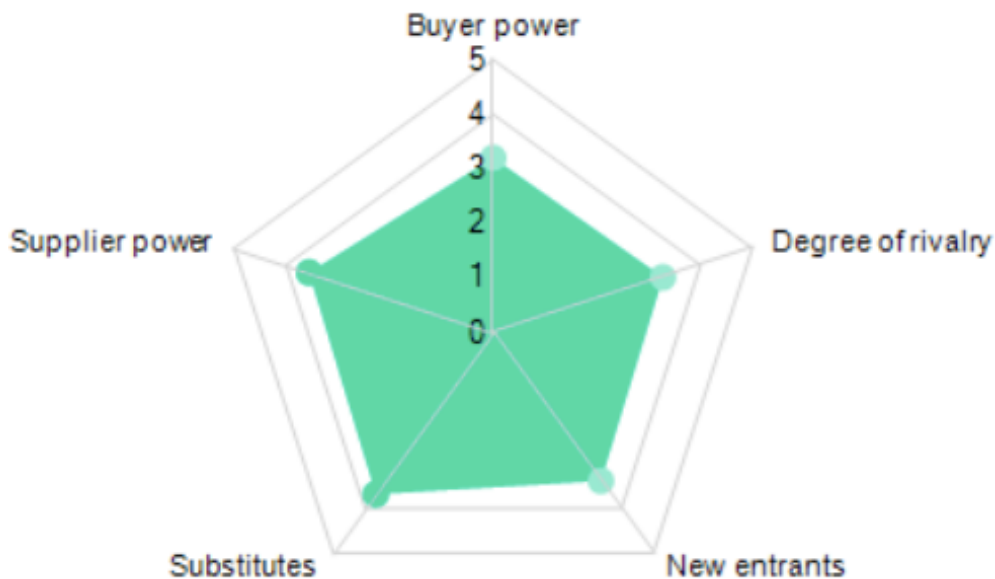
Source: MarketLine

USA leads the market with the first position in the market geography segmentation -it accounts alone for more than double of the Rest Of The World- followed by Germany, Japan and France.

### 4.2.1 Five-Forces Analysis

The analysis considers music streaming companies as players. The key buyers will be taken ad consumers, while technologies companies, real estate, record labels and music companies as the key suppliers.

*Figure 4.5 – Five Force Analysis of global streaming market*



*Source: MarketLine*

→DEGREE OF RIVALRY: the market is strong, fueled by the dominance of a small group of large, multinational companies. Leading players have a low level of differentiation; changing streaming platforms is easy and cost free: this creates an intensely competitive market environment. The strong growth of market has relieved rivalry: nevertheless, as the market continues to mature with a slowing growth, the competition could intensify.

→BUYER POWER: they can easily switch between retailers on the basis of price, recommendations, availability, loyalty schemes and brand image due to the low level of differentiation of the streaming services. Buyers are small and numerous.

The availability of different alternative music channels maintains the buyer power but demand for streaming continues to stay high.

→SUPPLIER POWER: the record companies are large and powerful, increasing supplier power. However, streaming has become in recent years the main essential source of revenue for artists and companies, weakening the supplier power.

→NEW ENTRANTS: it is possible to entry in this market, but only as a small company with niche offering or if an existing company would invest in this kind of business (Apple). This is due to the domination of the leading players: entering the market could be a challenge for new entrants, especially if they don't have huge financial power and plan on catering to the mass market. Elements like *competitive pricing* and *brand loyalty* of the consumers to the existing streaming services deter new entrants.

→SUBSTITUTES: these are numerous and easy to access. If a consumer want to listen music can legally or illegally download a track or buy a physical copy. However, the service given by streaming companies offer unlimited audio content on-demand as well as offline options to download that make them much more desirable than other music channels.

### **4.3 Spotify: Birth of a new Colossus**

In 2006 in Sweden Daniel Ek and Martin Lorentzon founded Spotify, the current world market leader in streaming music catalogue subscriptions. Unlike iTunes - which until then sold songs and albums digitally - the stated goal was to create an ad-supported legal service that could be free or paid for customers and at the same time generate revenue to copyright holders. The company was able to establish important agreements with the labels for the licensed use of the catalogues. In 2010, Sean Parker (Napster founder) joined the Spotify board and helped the

company to close important partnerships, most notably with Facebook, which gave a decisive boost to the growth of the service.

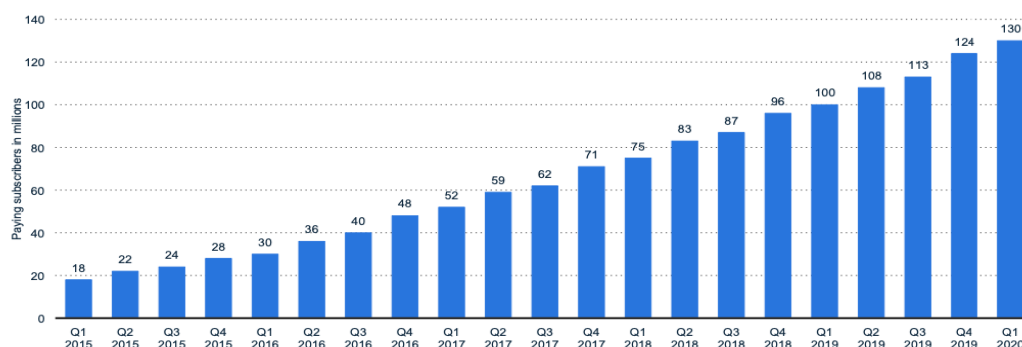
Spotify is an *access-based* service, as it doesn't charge a price for tracks, but provides direct access to a huge catalogue for a fixed monthly fee. This new model becomes the most successful, making the phenomenon of paid digital downloads - in the iTunes mode - in fact a "parable" that lasted a few years, despite the huge success of Apple's platform. The web-experiment of the English band Radiohead is worth mentioning: in 2009, the rock band, fed up with the record deal with EMI, decided to get out of it. In October 2007 they published on their website the first album in the history of a major artist with the *pay-what-you-want* formula.

Today, access-based is the main reference model of the online streaming market. Before Spotify there had been numerous attempts to do so, but all failed for various reasons. Finally, in 2008 the agreement between the company and the main music rights holders of the industry for the distribution of their catalogues worldwide via streaming was made official. For its part Spotify had to ensure a new business model implemented. Year after year the popularity grew: on June 20, 2015 the users - paying and non-paying- were 75 million<sup>80</sup>, in September 2016 only those paying were about 40 million and in 2018 they became 75 million<sup>81</sup>.

Figure 4.6 – Spotify premium subscribers worldwide in millions (1<sup>st</sup> quarter 2015-1<sup>st</sup> quarter 2020)

Number of Spotify premium subscribers worldwide from 1st quarter 2015 to 1st quarter 2020 (in millions)

Spotify's premium subscribers 2015-2020



Source: Statista

<sup>80</sup> <https://web.archive.org/web/20150611020802/https://news.spotify.com/no/2015/06/10/20-million-reasons-to-say-thanks/#>

<sup>81</sup> <https://www.theverge.com/2018/1/4/16850742/spotify-subscriber-count-70-million-users>

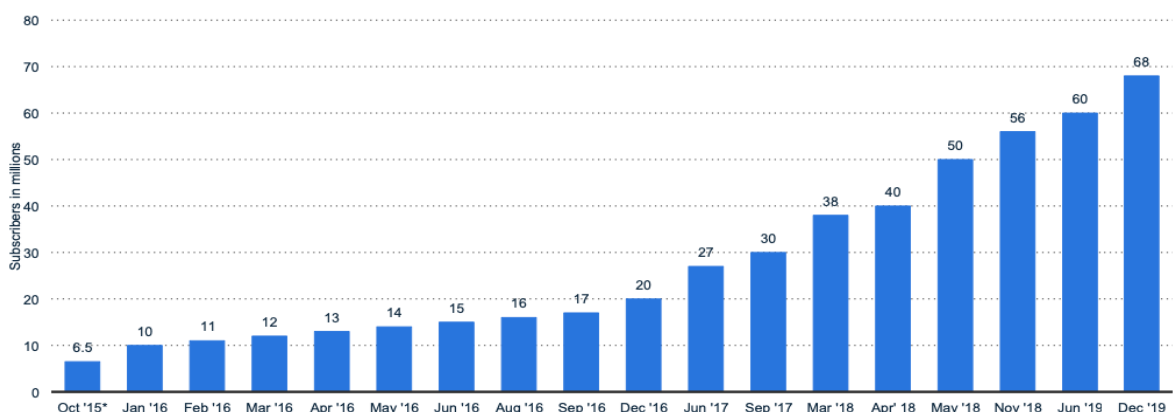
The music catalogue has been constantly updated and integrated over time, as the company has had to find satisfactory commercial agreements especially for the most famous and important artists -the Beatles for example have been added since 2016 due to a previous exclusive agreement with iTunes-.

### 4.3.1 Data and Statistics

At the end of 2017, monthly active users spent about 25 hours of average time listening to music on the platform and premium customers - about 130 million in 2020 as shown in the chart above - were just under half of total users -about 286 million in 2020<sup>82</sup>-. In Europe, North America and Latin America Spotify is the leading player, while it is struggling to carve out a significant share in Asia and the Middle East where QQ Music dominates. The main competitor is Apple Music: although is a service offered by the huge Cupertino company - always at the forefront in the union between music and technology - its market shares are smaller and the number of users is much lower than that of Spotify. The other competitors are YouTube Music, Pandora, Amazon Music, Tidal, Deezer.

*Figure 4.7 – Apple Music subscribers worldwide in millions (oct. 2015-Dec. 2019)*

**Number of Apple Music subscribers worldwide from October 2015 to December 2019 (in millions)**  
Number of Apple Music subscribers worldwide 2015-2019



*Source: Statista*

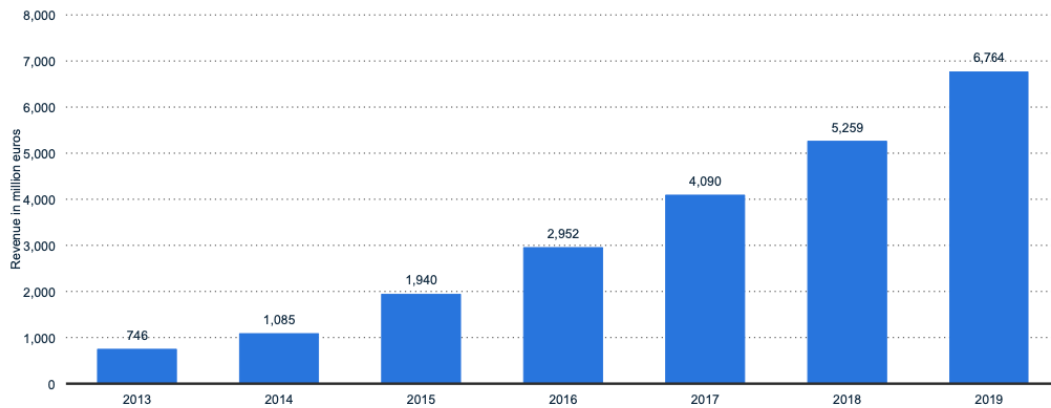
<sup>82</sup> Statista.com

Since its inception, the Swedish company has had to wait years before ending the year with real profits. Since 2013 it has had a steady increase in revenues until 2019, with a variation of 806% since the beginning:

Figure 4.8 – Spotify's revenue worldwide in million € (2013-2019)

### Spotify's revenue worldwide from 2013 to 2019 (in million euros)

Spotify revenue 2013-2019



Source: Statista

The increase in revenues over the years has been accompanied by an increase in costs (especially COGS and R&D) that have impacted the income statement: the cost of music licensing is the real «economic ballast» for Spotify. The company has been very active in investing in R&D. The huge amount of costs has never allowed a positive net income.

Figure 4.9 – Spotify's income statement

	2019	2018	2017	2016	2015
Year ended December 31, (in € millions, except share and per share data)					
<b>Consolidated Statement of Operations Data<sup>(2)</sup>:</b>					
Revenue	6,764	5,259	4,090	2,952	1,940
Cost of revenue	5,042	3,906	3,241	2,551	1,714
Gross profit	1,722	1,353	849	401	226
Research and development	615	493	396	207	136
Sales and marketing	826	620	567	368	219
General and administrative	354	283	264	175	106
	1,795	1,396	1,227	750	461
Operating loss	(73)	(43)	(378)	(349)	(235)
Finance income	275	455	118	152	36
Finance costs	(333)	(584)	(974)	(336)	(26)
Share in (losses)/earnings of associate	—	(1)	1	(2)	—
Finance income/(costs) - net	(58)	(130)	(855)	(186)	10
Loss before tax	(131)	(173)	(1,233)	(535)	(225)
Income tax expense/(benefit)	55	(95)	2	4	5
Net loss attributable to owners of the parent	(186)	(78)	(1,235)	(539)	(230)

Source: Spotify's annual report 2019

Figure 4.10 – Spotify's EBITDA

	Year ended December 31,				
	2019	2018	2017	2016	2015
	(in € millions)				
Net loss attributable to owners of the parent	(186)	(78)	(1,235)	(539)	(230)
Finance (income)/costs—net	58	130	855	186	(10)
Income tax expense/(benefit)	55	(95)	2	4	5
Depreciation and amortization	87	32	54	38	30
EBITDA	14	(11)	(324)	(311)	(205)

Source: Spotify's annual report 2019

The presence of competitors of the caliber of Apple and Google (YouTube), which hold power and large sums of money to be able to devote to the improvement of their services, forces Spotify on the one hand to invest in R&D so as not to be exceeded and at the same time to a necessary cost cutting, as a continuous and perpetual negative net income can be a problem for members in the long run.

If the efforts to attract new customers and maintain existing ones were unsuccessful, growth prospects and revenues would be adversely affected<sup>83</sup>:

*«Our ability to attract new users, retain existing users, and convert users of our Ad-Supported Service ("Ad-Supported Users") to subscribers to our Premium Service ("Premium Subscribers") depends in large part on our ability to continue to offer leading technologies and products, compelling content, superior functionality, and an engaging user experience.»*

To increase the number of users, the company has set itself the goals of:

1. improve Ad-Supported Service;
2. ensure a consistent high-quality and user-friendly experience;
3. to maintain and implement the catalogue;
4. to innovate and keep pace with technological evolution;

<sup>83</sup> Annual Report Spotify, 2019, pg. 10,

[https://s22.q4cdn.com/540910603/files/doc\\_financials/2019/ar/Spotify-2020-AGM-Annual-Report-on-Form-20-F.pdf](https://s22.q4cdn.com/540910603/files/doc_financials/2019/ar/Spotify-2020-AGM-Annual-Report-on-Form-20-F.pdf)



5. maintaining and building relationships with the makers of consumer products such as mobile devices.

#### 4.3.2 Spotify's Offer

One of the particular features is the possibility to offer a free service, which can be used by every consumer according to the reproduction device.

For example, Spotify from the PC allows the reproduction of any track interspersed from time to time with audio-visual advertising; from the smartphone the free service is more limited, as it does not allow you to choose directly the track to listen. This type of approach aims to let the consumer test the program and gradually bring it to the premium version, which provides a monthly payment of five euros for students, ten euros for all other users - in Italy - and a family subscription plan for several people, with the possibility to listen to streaming at higher quality and unlimited, as well as downloading songs that can be played offline.

Spotify's big strengths are two:

- a) *the playlists*: the software contains an algorithm able to generate, for each user, playlists based on numerous parameters such as: songs most listened to in a given period of time, songs by artists similar to your favourites, new proposals of genre related to the user etc. . In this way the customer always has new music to discover and compilations of music that he already knows and loves. There are also those created not depending on the user's listenings, i.e. collections of songs by genre - such as rock, pop, rap etc.-, by period or artist: therefore for those who want to listen to songs representative of certain years or for a certain genre.

Moreover, many playlists, edited by the publishers of the company, have become huge promotional tools for artists and their growth in terms of

streaming numbers: it can almost be said that being included within them is a fundamental step in this sense - on this last topic we will come back later in the course of the elaboration-.

- b) *social connectivity*: Spotify allows you to create friendships between accounts and connect your social accounts to share your listening with friends on major platforms and let them know what you are listening to.

These two points converge in a focal point of the business model: customer engagement, i.e. the creation of a truly customized customer experience that connects the user to the service. In fact, the same daily creation of personalized playlists puts the consumer at the center of a constant flow of input, which avoids moments of «emptiness» in the offer: the consumer therefore always knows that with each use of the service there will be a new content to discover, together with the security of always having what he already knows.

#### **4.3.3 How Spotify Has Changed the Industry**

Spotify represents the symbol of a revolution much bigger than we think: for the first time in the history of modern music - which has become an actual commercial product - the fruition is now essentially based on a type of digital listening. Music is no longer "trapped" within a physical support, but is now free to travel with us. If up to 15 years ago to listen to a song you had to have a physical format that contained it - for example a disc - and a large instrument to play that format, now you just need a mobile device that can simply have an internet connection. The upheaval is all in the ease of use and speed in the availability of music: the music industry, like many others, has had a physiological adaptation to the rhythms of an

increasingly capitalist and globalized society, which makes the speed of communication its focal point.

Spotify is therefore the very essence of this change, its most obvious demonstration. But if on the one hand we now have the incredible possibility of being able to draw on such boundless cauldrons of music, on the other hand we are witnessing the most concrete and dangerous form of commercialization of this form of art.

Clearly music exist as a product since many years and hasn't become this due to Spotify's «guilt», nevertheless the penchant to meet fashions and trends seems to be intensified: the excess of content has led to a considerable drop in quality and a tendency to find flat artistic solutions that fall within the range of popular tastes. Shorter songs, anticipated choruses, little attention to musical discourse in the technical sense of the term: pop songs are one minute and 13 seconds shorter on average than they were 20 years ago<sup>84</sup>.

*«This facility has also led to a consequent decrease in artistic quality: the excess of information eliminates the message.*

*The albums are released 50 times more than in the past, with an eloquent paradox: in one year, 300 employees released 70 albums, while today 30 release 300. The life cycle of the product is immediate, as is its consumption.*

*In this case we refer to the "Kleenex effect": listening to a record is like blowing your nose, you finish listening to it and another one has already come out.»<sup>85</sup>*

(Carlo Martelli)

On July 30, 2020, the CEO of Spotify, Daniel Ek, gave an interview to the Music Ally portal that caused a stir among musicians and beyond.

---

<sup>84</sup> Bekki Bemrose, 2019, *Song length: the Spotify effect*, available at <https://www.prsformusic.com/m-magazine/features/song-length-the-spotify-effect/>

<sup>85</sup> See note 3

Speaking about the artists and their complaints about their earnings from streamings, Ek said that<sup>86</sup>:

*«Some artists that used to do well in the past may not do well in this future landscape, where you can't record music once every three to four years and think that's going to be enough. [...] I feel, really, that the ones that aren't doing well in streaming are predominantly people who want to release music the way it used to be released».*

What the Ceo wants to say is that basically today you can no longer think of approaching music in terms of work as you did in the past: the rhythms are much faster and basically whoever stops risks getting lost. Who can afford to approach music as in the past are very few, i.e. internationally renowned historical artists who don't need to keep up with the times.

*«The fruition is now changed: if a song enters an important playlist or if it becomes a TikTok phenomenon it can make more numbers of bigger artists.*

*However, I don't think that this aspect is unique for everyone, I don't think that every artist is now destined to music of fast fruition: there are artists who can create long-term careers, because these (Spotify's numbers, ed.) are not instruments of concrete measurement; for example, just think that Sfera Ebbasta<sup>87</sup> has 'virtual' numbers bigger than Gazzelle<sup>88</sup>, but makes less paying audience to live performances.[...]*

*Regarding what Daniel Ek said, it is clear that there are artists of international fame and history who can easily afford to go out after years without affecting their position (for example Daft Punk), but artists such as Strokes, always of enormous*

---

<sup>86</sup> <https://musically.com/2020/07/30/spotify-ceo-talks-covid-19-artist-incomes-and-podcasting-interview/>

<sup>87</sup> Italian famous trapper

<sup>88</sup> Italian famous pop singer

*fame, but perhaps more difficult to relate to today's instruments such as Spotify, may be more affected.»*

(Nicola Cani)<sup>89</sup>

*« I think Daniel Ek should just find a way to make his company's accounts return and at the same time get the right compensation to musicians, publishers, record companies and publishers.*

*Telling artists what they should and should not do in the future is very presumptuous of him. However, I'm sure that Artists with capital A will not listen to his advice (as in the centuries-old history of music Pop they have never listened to the advice of various managers and record companies).»*

(Roberto Trinci)<sup>90</sup>

*« As authoritative as it may be, Ek's vision remains necessarily a partisan one: it's true that in the digital environment times have become faster, but it's also (and above all) true that everything depends on the project or projects you want to analyse. There are very different projects, with different production and use times. Much depends on the vision of the individual artist and his team.»*

(Riccardo Cresseri)<sup>91</sup>

#### **4.3.4 The Importance of Being on a Playlist**

Playlists are one (if not the most important) of the music provider's key success factors. They are created daily, both customized for users - depending on

---

<sup>89</sup> Interview made by me to Nicola Cani, co-founder of Foolica Publishing Srl, manager of Thegiornalisti earlier and now of Tommaso Paradiso

<sup>90</sup> Interview made by me to Roberto Trinci, head of A&R in BMG Music Publishing since 1997, in 2005 he became Artistic Director of EMI Publishing Italia. Since 2013 he is Artistic Director of SonyATV Publishing.

<sup>91</sup> Interview made by me to Riccardo Cresseri, co-responsible A&R for Artist First

parameters such as songs most listened to, favorite genres, new proposals related to the most frequent listenings etc.- and in the public domain.

They are not only an element in favour of users, but also and above all in support of artists: in today's world of promotion, being present in a large Spotify playlist is fundamental for the growth of music projects.

As the Swedish platform has become a benchmark for the popularity of the artists - it is the only provider that makes the *monthly listeners* and the *number of songs played* known - having relevant numbers is of primary importance.

Who is a monthly listener?

«Monthly listeners are unique listeners who play your music during a 28-day period. This stat updates every day, and appears on both your artist profile on Spotify and right above the timeline graph in the Audience section of Spotify for Artists.

2 important things to clarify about your monthly listeners:

1. They've listened within a rolling window of 28 days. We use a rolling window of 28 days because the number of days in a calendar month can vary, and because people listen to music differently depending on the day of the week. This means an equal number of days of the week are included- so, the same number of Mondays, Tuesdays, Wednesdays, etc.
2. They are unique listeners. If someone plays your music multiple times in a 28-day period, they only get counted once. »<sup>92</sup>

How is the number of reproductions counted?

«Streams are counted in Spotify for Artists when a song is streamed for over 30 seconds. Your total streams include all songs where you are credited as a main artist or remixer.

---

<sup>92</sup> <https://artists.spotify.com/faq/stats#who-are-monthly-listeners>

*Streams for offline music are counted on the day the listener goes online again (which must happen at least once every 30 days).»<sup>93</sup>*

Being on one of Spotify's popular playlists is therefore the best way to implement these two elements that greatly influence the artist's perception by users. Just think that there are websites to illegally buy streaming reproductions and implement the profile in terms of numbers.

There are three types of playlists:

1) *Personalized Playlists* created by an algorithm for each user and based on the type of songs most listened to. The most famous of this type are:

- a) *Discover Weekly* which directs listeners to new musical discoveries;
- b) *Release Radar* which includes new releases by favorite artists;
- c) *On Repeat* which brings together the most recently listened to music by the user;
- d) *Repeat Rewind* which brings together the most played music in the past;
- e) *Daily Mix* which every day brings together tracks already listened to or similar to them.

2) *Listener Playlists* created by users with their favorite music. Rarely happens that these grow in terms of listeners: they are often made among friends for parties or other uses.

3) *Editorial Playlists* are the most important, they have millions of listeners. They are edited and managed by the platform's publishers who arbitrarily decide who to include: the only way to be included and propose your music and hope that it will be taken into consideration.

---

<sup>93</sup> <https://artists.spotify.com/faq/stats#who-are-monthly-listeners>

This kind of approach to promotion has created a vicious circle in which you do - sometimes - everything to be included in the publishers' good graces. It is often perceived that there are fixed slots in the playlists given to majors, which are now competing to make room for the usual artists and proposals: it is not clear on which side the balance of bargaining power between the big labels and the Swedish platform hangs, there seems to be a mutual dependence, although with time Spotify is gaining more and more power and importance for all musical realities.

It can be provocatively stated that today, in promotional terms, it is more relevant to be on a Spotify editorial playlist than to have an article on Rolling Stone <sup>94</sup>?

*«Yes, the size has grown considerably and today a place in an editorial playlist alone is worth more than an article. But it is also true that on the whole everything is necessary: the article is important for the music lover who probably goes to concerts and expects to read written information about the music project.*

*So, the goal is the maximum possible coverage: the playlist has more coverage, but maybe the article on Rolling Stone gives those 30 more paying spectators to the concert.*

*For my part, I prefer those 30 more people to hundreds of reproductions of disinterested people who hear the music passively. So, we need to permeate every aspect. Playlists therefore certainly help, but providing an adequate imagery, certain songs, growing and becoming as something recognizable in a broad sense for the audience is fundamental, rather than releasing one song a month without giving an identity of its own (with the risk that the audience will be disoriented).»<sup>95</sup>*

(Nicola Cani)

---

<sup>94</sup> Rolling Stone is an important U.S. magazine of music, politics and mass culture.

<sup>95</sup> See note 74



*« Many things have changed and among these the most important is undoubtedly the role of Spotify and its playlists, that are now as important as a radio rotation and more important than press reviews and web previews.*

*The whole world of streaming and various social networks has almost replaced the classic print/radio/tv triad that dominated the promotion in the past.*

*That said, a strong radio presence and well targeted TV passages maintain their importance, perhaps more to consolidate than to launch».*

(Roberto Trinci)

*«I would say yes: being included in playlists today is certainly fundamental, both from the point of view of perception and from that of mere numbers. Being in a playlist means having more streams and a big exposure. Then of course, an article/interview in a magazine of a certain kind remains always important in the path of an artist, and can also guarantee a greater push precisely in terms of playlists. »*

(Riccardo Cresseri)

*«All the old recording circuit is dead, just as everything related to that world . By now releases don't have primary need to have an article as a way to be communicated: information has become vertical, the discovery of a release can be easily done on social networks. The old promotional system is a mindset that doesn't hurt, but which is basically useless nowadays. »*

(Riccardo De Stefano)<sup>96</sup>

The large quantity of numbers that an editorial playlist provides to the artist's profile has triggered a dangerous trend in recent years. In fact, as said, to increase the monthly listeners and streams it is sufficient that the user listens to the song passively, just because maybe he played the playlist in random mode: in other

---

<sup>96</sup> Interview made by me to Riccardo De Stefano, editorial director for ExitWell and responsible of communication for MEI (Meeting Etichette Italiane)

words, the user does not need to like what he hears to increase the numbers of the artist, it is enough that he hears at least thirty seconds of the track. This has led to the proliferation of bands and singers with numbers inflated by these mechanisms, but without having a real and adequate audience response at their concerts (or even without them ever performing live). I call this phenomenon as "*Virtual Artists*".

*«I agree with this definition. Sometimes it is difficult to understand all the numbers. The fan base tends to be created with a concert activity. The things to analyze are social networks, so the number of comments, if there is a sort of critical mass and if within it there is a figure like an influencer, i.e. someone comes first on successful projects and that move a lot of numbers. In general, however, it is difficult to distinguish. I took for example Sfera as part of a movement, like the trap, characterized by a type of user very present on streaming platforms but that tends not to go to concerts. But I repeat, there is not a 100% sure way to discern at best.»*  
(Nicola Cani)

*«More than a threat is a fact, in my opinion. It is one of the risks of a predominantly digital environment. But the promoter is also a scout: he has to invest where he thinks he can do well. A precise method is certainly difficult to define, but the weight of an artist in 'reality' can be seen from his interactions, from his physical presence on the territory, from the relationship he has with his fanbase. »*  
(Riccardo Cresseri)

In addition, more and more sites have appeared that allow you to buy streams and monthly listeners: at that point the only way to understand the real numbers is to investigate via social - where you can buy followers and likes at the same time -. Spotify therefore has weaknesses that risk destabilizing even more a market already difficult to discern.

The world of promotion has changed considerably, Spotify has become the first point of reference for the manager of today.

What are the qualities that a manager must have today?

*« The 'modern' manager must have theoretical skills (e.g., know how to read contracts), know the market players, build and cultivate contacts, have passion, understand market trends, assist his artists humanly, artistically and professionally.*

*The question is difficult because, regardless of the digital era, the manager has always played the same kind of role, only the scenario changes: once you had to be very good at aspects such as television participation, today the whole digital world has been added (Spotify, editorial playlists, etc.).»*

(Nicola Cani)

*«There are always many factors to take care of. But let's say that in today's panorama, where traditional labels are no longer so fundamental, finding the right team and above all the most suitable for the project is certainly the first step to take. For an emerging project, then, it is very important to focus on the editorial playlists of the various platforms.*

*The first thing to respect, and we'll never get tired of saying this, are the timing: let's not forget that streaming platforms (and especially Spotify) receive hundreds of tracks and albums every week. This is where it comes from: to move in advance to present and make the project heard by the editors of the various platforms. The important thing, considering of course the quality of the proposal, is to know how best to tell the project, touching the right chords. If after the release the single/track is not included in the playlist (the reasons may be different), we go back to pushing and telling everything that has happened around the project in the meantime: articles, interviews, reviews, concerts, special campaigns...»*

(Riccardo Cresseri)

#### 4.3.5 Spotify Data in Italy

Spotify in Italy is now an existing reality since 2013 and now widely established and widespread. Let's see some significant data of the spread of this service in the Italian peninsula<sup>97</sup>:

##### → Digital Music

- a) Spotify is the most used digital music provider;
- b) 64% of Spotify customers pay for digital music to listen to what they want, when they want;
- c) 22% of users are frequent listeners;
- d) Users tend to have high affinity with Pop Music.

##### → Consumer lifestyle

- a) 78% of users say they want to access music on each of their devices;
- b) The most common interest among platform users is music;
- c) Spotify customers in Italy tend to stay up to date with new technology.

##### → Demographic profile

- a) 44% of users are between 18 and 29 years of age;
- b) Users tend to have a high household income;
- c) Small families employ 34% of total users.

##### → Marketing Touchpoints

- a) 97% of users regularly access the internet via their smartphones;
- b) Spotify customers use social media more than the average consumer.

---

<sup>97</sup> Statista.com, *Digital music: Spotify brand report in Italy 2020*, April 2020

## CASE STUDY C: *Indie* Music Explodes in Italy

### C.1 The *Indie* phenomenon

In the last decade, in Italy there has been a remarkable phenomenon of revolution in the music market: the so-called *indie* music -an underground proposal relegated to a niche of listeners who opposed the mainstream- through a combination of various factors exploded to the point of becoming, in a few years, a reference point of the Italian music scene.

This case shows how an intelligent «mixing» of marketing elements - such as imagery, sound and promotional communication - brought a reality to a level of popularity unimaginable even for the actors who were part of it.

The beginning of this revolution took place through a tool -Internet- that was conveying an even bigger revolution: in a market now saturated with the usual names for years, the Web became a fertile ground for the diffusion and knowledge of new forms of music, not necessarily relegated to radio-friendly pop canons. Digital technologies were also allowing the reduction of costs for anyone who wanted to make music privately «at home», allowing anyone to try to propose their own productions. Moreover, the generation that grew up in the '90s and '00 experimented and consolidated their «addiction» to digital downloads and social sharing: a new type of audience was born, which considered music necessarily free, sharable and identifiable<sup>98</sup>.

In this case, the Internet becomes an instigator of a real social change, which implies an enormous possibility of spreading its contents and becomes the "forge" of an audience that identifies its essence in those same contents.

The importance of the indie boom was such that on Spotify has been created the editorial playlist 'Indie Italia', which is one of the most followed and listened to (and consequently one of the most requested by artists).

---

<sup>98</sup> Riccardo De Stefano, 2019, *Era Indie: la rivoluzione mancata del nuovo pop italiano*, Arcana Edizioni

## C.2 ‘Il sorprendente album d’esordio dei Cani’

In June 2010 two tracks were uploaded on SoundCloud<sup>99</sup>, *I pariolini di diciott’anni* (this also on YouTube) and *Wes Anderson*, under the name *i Cani*. Nobody knows the identity of the author, but in the web the two tracks slowly start to circulate more and more by word of mouth, initially in the city of Rome and then going beyond the regional borders. The Internet becomes the mean used to make the public curious about a project that has three key elements:

1. The ability of songs to reflect an entire generation through a language that conveys clear and recognizable images of well-defined social categories;
2. The anonymity of the project which makes it a marketing winning card (at concerts the band members would perform with cardboard envelopes on their faces);
3. The totally free usability.

The hype<sup>100</sup> for the project was born spontaneously and grew out of all proportion: on June 3, 2011, *Il Sorprendente Album D'esordio Dei Cani* was released -under the label 42Records - a real watershed for the beginning of the Italian indie phenomenon. The rupture it represents involves the enlargement of that new social and "Internet-confident" audience, laying the foundations for the definitive explosion that would take place in a few years. Niccolò Contessa -the one who hid behind the anonymity of the project- intercepts the right language of the new generation, becoming its hinge.

---

<sup>99</sup> SoundCloud is a music service and music sharing website that allows musicians to collaborate, promote and distribute their music.

<sup>100</sup> A term used to indicate the marketing strategy to create a strong public expectation around a given event or product.

*«When that record came out, it really broke a pattern, that of music played and poetic lyrics. The record changed the rules of the game. It also changed the rules of the game because of that naive spirit that it carried with it. It's a record where there's no computation whatsoever»<sup>101</sup>*

At practically zero cost, the project of i Cani experiments with a widespread diffusion - not capillary in absolute terms, but certainly compared to the forecasts - which brings the band on 4 and 5 December 2013 to a double sold-out in the famous Roman venue - recently closed - of the Circolo degli Artisti and to dates throughout Italy without having almost never previously performed in public, thanks to the only free diffusion on the web: a real unicum in the history of Italian music until then. This has been considered the beginning of the modern Italian indie movement.

After the second album *Glamour* (2013) and their masterpiece *Aurora* (2016), Contessa in 2017 decides to close the band Facebook page, starting his career of producer.

### **C.3 Calcutta and Thegiornalisti: Paving the Way to Mainstream**

The watershed at the end of 2015 was created, that started the transition from indie to mainstream: irony and fate (?) wanted this to happen through a record that marks the generation of the last 5 years, whose title was *Mainstream*, by Calcutta - singer-songwriter of Latin - produced by the same artist together with Marta Venturini, under the supervision of Niccolò Contessa.

Anticipated by the release of the single *Cosa mi manchi a fare*, the project obtained a huge hype for the video of the song, whose protagonist is Alim Hemanto, a chubby Singhalese child who wanders around singing sad and aimlessly in the

---

<sup>101</sup> E. Colasanti, A&R di 42Records, interview from *Era Indie* (see note 115)

Roman neighborhood of Torpignattara<sup>102</sup>: the video totals in a month a million views, despite the singer enjoyed a fair, but still small, fame in the Roman circuit. The power of diffusion on the web (and of being able to spread it through the right marketing strategies) makes the track a drop of oil that starts to expand progressively.

The single is the driving force behind the release of a record that is popular throughout Italy, characterized by a simple and direct vocabulary, a very personal writing style and a huge songwriting, a key element of the boom. This represented the exploit of the Indie phenomenon. But the question is: would the indie be born regardless? Or there was a fertile ground that was preparing its explosion?

*« I think it was a combination of factors: there were many activities like Foolica that were producing alternative music and slowly creating interest among the public. Certain artists intercepted the willingness of the public to sing, so a return to the old Italian songwriting. The research of these 'sing-alongs' transformed the concerts of the artists of the first wave of this phenomenon (such as Cani, TheGiornalisti and Calcutta) almost into karaoke, until Indie music -which for me was never such, if not for some sound choice different from the mainstream, a little more 'plastic' - became the new phenomenon of Italian pop.»<sup>103</sup>*

(Nicola Cani)

*« I think there was a process started at the beginning of the decade that revolved around a specific, new language. This language had the ability to speak to people who at that time were 18-20, creating a generational shift: the advent of the Internet and Napster had already changed the conception of music. These artists instinctively placed themselves in a new market that saw the Internet not as a*

---

<sup>102</sup> <https://zon.it/cosa-mi-manca-a-fare-calcutta-e-il-vuoto-dell'assenza/>

<sup>103</sup> See note 74



*threat, but as an opportunity, combining a strongly social, fast and an everyday-communication strategy»*

(Riccardo De Stefano)

*« I strongly believe that there was a crucial moment when audiences became aware of the power they had over their listening. We lived for years with MTV and the talent, people looking for different music (in an era when the web was still in the stone age) had to buy magazines or rely on their music pusher. The 00's thanks to the spread of the web and word of mouth have facilitated the emergence of what until then was banally labeled as underground or alternative: from here comes the need for a real experiential listening of those musical realities. The indie (I would define it more 'unaligned music') has had its fortune intercepting an audience that was hungry having now matured its "appetite"».*

(Gianmarco Dottori)<sup>104</sup>

Calcutta enters in the following two years in a disruptive way in the national pop circuit, with the release in 2018 of another album much appreciated by public and critics, 'Evergreen', with consequent summer tour: two dates at the Latina stadium and the Arena Di Verona.

Following Calcutta, there was the affirmation of the other musical project driving this revolution in Italian pop: *Thegiornalisti*.

This band was already active since the beginning of the 10's with a fair popularity especially in the city of Rome. Their explosion took place first in 2014 with the album 'Fuoricampo' and then definitively in 2016, with the album 'Completamente Sold Out'. I asked Nicola Cani what the key factors of the promotion were:

---

<sup>104</sup> co-founder of live format Spaghetti Unplugged, 2015 winner of Musicultura, artistic collaborator of Tommaso Paradiso.

*« The growth has always been constant and fast. I started to follow the project in 2013, after about a year since the release of the second album ('Vecchio', ed.) which had not been particularly successful compared to the previous 'Vol. 1' that had generated interest among the public and the press. In May 2014 we release the first track, 'Promiscuità', followed by two other singles in September and the release of the album 'Fuoricampo' in October. Until this album and its tour, I have always managed all aspects of the project internally (discography, publishing, management and promotion), as until then I, like other colleagues, was without funds and resources to be able to afford a more distributed management.*

*When the phenomenon became more interesting, the first partners appeared. Initially Universal Publishing for the editions, which was decisive because Tommaso - besides writing the songs for Thegiornalisti - has always written for others: in this specific case, 'Luca lo stesso' (song written for Luca Carboni<sup>105</sup>) was a keystone because he started to introduce Tommaso to the radio stations, which started to spend 'La fine dell'estate'.*

*Later Carosello Records came forward, after the release with Foolica of the first single 'Tra la strada e le stelle' of the following album 'Completamente Sold Out': in July we find the agreement with the label and in September the single 'Completamente' is released followed by the record.*

*The promotion changed considerably: in Carosello<sup>106</sup> we had people who did press promo and radio promo, plus an external press office 'Parole & Dintorni', so starting from a band managed entirely by myself, I found myself managing a much larger team with all the relative benefits.»*

*(Nicola Cani)*

---

<sup>105</sup> Italian pop singer

<sup>106</sup> Italian historical label

A band that has put a lot of emphasis on a retro and revival fantasy of the 80s, with catchy lyrics and an imagery that ranges from romantic to danceable pop. Tommaso Paradiso has managed to talk intelligently to a generation of young people who have recognized and shared the images he has aroused.

A huge work that brought the band to the peak of their career on September 7, 2019 with the final stage - of a profitable tour in the palaces - held at the Circus Maximus in Rome. On September 17, Tommaso Paradiso announced the break-up of the band and his consequent solo career, always assisted by the managerial supervision of Nicola Cani.

#### **4.4 Royalties Computation**

Royalties represent the income - for the rights holders - deriving from the enjoyment and exploitation of music. They are due to artists - and anyone else who holds the rights - when their works are purchased, reproduced or used for television, cinema, entertainment, etc..

Their negotiation takes place on a case-by-case basis, as it depends differently on the will and the contractual power of the parties involved. The resulting agreement is defined as a *license agreement*<sup>107</sup>, which establishes the licensing - by the *licensor* - of the use and economic exploitation of the works in favour of the *licensee* and which defines contractual terms and conditions such as:

- a) geographical extension of validity;
- b) duration of the contract;
- c) type of product;
- d) royalty rate, i.e. percentage of sales or payment per unit.

---

<sup>107</sup> <https://www.investopedia.com/terms/r/royalty.asp>

Royalties are therefore an essential element in the music industry, as an additional source of income. If on the one hand, until the beginning of the digital era, royalties constituted a large - but not decisive - slice of the sector's revenue (see 2.2), in recent years, after the crisis in the physical sector, they have taken an increasingly decisive position, despite the paradox that artists receive a paltry percentage from the streams of their works: this has led in recent years to heated controversy.

In the *streaming* world, regardless of the provider, the basic process of royalty recognition tends to be as follows <sup>108</sup>:

- a) Every month providers count the total streams. For the sake of numerical simplicity, let's assume that Spotify had one million total streams in the last month.
- b) We then define how many of these streams are owned by the catalogues of the single labels. So, if a label had 300,000 streams for that month, this would mean that it would own 30% of the reproductions.
- c) Spotify quantifies the monthly revenues, which we assume to be one million euros. Since the label holds 30% of streaming, it is entitled to 30% of a million, or 300,000 euros.
- d) At that point the record company quantifies the percentage of streams of its artists on this 30%.
- e) If, for example, an artist holds 20% of the 30%, 60,000 euros are allocated to him.
- f) Then the record company applies the royalty rate of the license agreement: if it corresponds to 10%, the artist receives 6,000 euros.

In addition to this type of royalty distribution formula, most agreements between providers and record labels also include a *per-subscriber minimum (PSM)*.<sup>109</sup>

---

<sup>108</sup> D. S. Passman

<sup>109</sup> *ibidem*

This means that companies receive a fixed and fixed percentage amount - therefore not modifiable afterwards - for each subscriber of the provider, applied to the percentage of streams of the masters of the respective RCs.

Let's use an example to make it easier to understand:

- a) Let's assume a PSM of 10 euros (round number for easy mathematics) and a company's record percentage of 50%. This implies that the total payment must be 5 euros per subscriber.
- b) This payout is to all the labels licensing content: if a company had reached 30% of the total streams in a month, it would be entitled to 30% of the 5 euro PSM, or 1.50 euro for each subscriber.
- c) 1,50 euro is then pro-rated among the artists of the label based on the number of relative streams. So if the total streams of the label were 1,000,000 and those of a particular artist were 200,000, they would constitute 20%.
- d) Consequently, 20% of 1.50 euros would be allocated to the artist's masters, i.e. 30 cents. For the artist's earnings, the royalty rate is applied: if it is 10%, the artist's final earnings per subscriber will be 3 cents.

For downloads and CDs, the royalty consists of a percentage of the sale price, also called *published price to dealers (PPD)* or *base price to dealers (BPD)*.

#### **4.4.1 Revenues from Digital Service Providers (DSP)**

Each of the major DPS recognises a monetary amount for reproductions from their platforms. The amounts are often variable as they depend on numerous factors such as<sup>110 111</sup>:

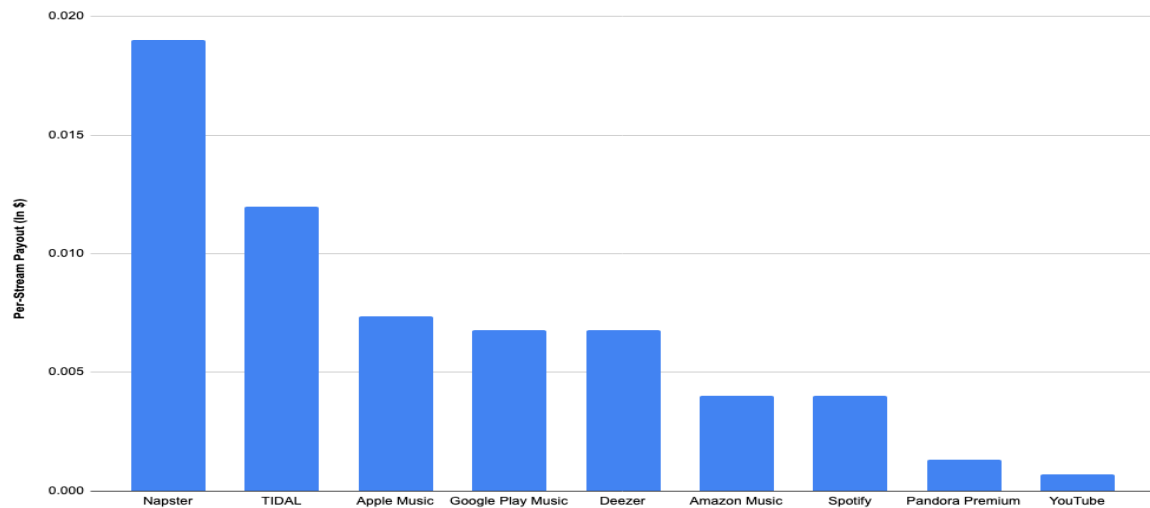
---

<sup>110</sup> <https://www.dittomusic.com/blog/how-much-do-music-streaming-services-pay-musicians>

<sup>111</sup> Dmitry Pastukhov, 2019, *What Music Streaming Services Pay Per Stream (And Why It Actually Doesn't Matter)*, available at <https://soundcharts.com/blog/music-streaming-rates-payouts#what-do-major-streaming-services-pay-the-artists>

- The listener's country and location;
- Whether the listener has a paid subscription or free account;
- The specific artist's royalty rate;
- The relative pricing & currency in different regions.

Figure 4.11 – Per-stream payout of digital music providers



source: <https://www.digitalmusicnews.com/wp-content/uploads/2018/12/streaming-music-per-stream-payout-2020.png>

The providers that tend to pay less, are also those that have larger catchment areas and therefore offer more visibility.

Figure 4.12 – Payout per-stream, n° of streams to earn min. USA wage, Loss per user

	Napster	Tidal	Apple Music	Google Play M.	Deezer	Amazon Music	Spotify	Pandora Premium	YouT ube
<b>Payout per Stream</b>	\$0.01682	\$0.01284	\$0.00735	\$0.00676	\$0.0064	\$0.00402	\$0.0037	\$0.00133	\$0.00069
<b>Number of streams to earn min. USA wage (1472\$)<sup>112</sup></b>	77.474	117.760	200.272	217.752	230.000	366.169	397.838	1.106.767	2.133.333
<b>Loss per user</b>	\$7,00	\$6,67	-	-	\$1,69	-	-	-	\$0,17

Source: see note 110

<sup>112</sup> Daniel Sanchez, 2018, *What Streaming Music Services Pay (Updated for 2020)*, available at <https://www.digitalmusicnews.com/2018/12/25/streaming-music-services-pay-2019/>

YouTube proves to be the least grateful to artists: this may be due to the huge user base it guarantees and the total and free accessibility it offers to its content. Spotify has been harshly criticized over the years for its royalty amount: Taylor Swift, for example, despite 46.3 million streams of her single "Shake It Off", earned between \$280,000 and \$390,000 in 2014, which led her to harshly criticize the platform and remove her catalog (and then reinsert it in 2017).

#### 4.5 The 'Value Gap Question'

The *Value Gap* represents the disparity between the value that music-streaming platforms extract from musical content and the revenue generated by those who create and invest in the creation of such content<sup>113</sup>. The growth of streaming has obviously widened the scope of the problem, which affects the main audio and video platforms. YouTube in particular is at the center of the controversy due to the poor percentages that it recognizes to the rights holders, despite the huge revenue - generated thanks to the content it offers for free - derived from data sales and advertising. In the RIIA<sup>114</sup>'s 2017 midyear report former Chairman and CEO Cary Sherman pointed out that *«not all streaming services are equal. [...] [t]o the fan, there is often little difference between the multitudes of services available, yet the payouts to creators are very different and vastly impacted by outdated or abused laws and regulations.»*. Just think that Spotify paid record companies an estimated \$20 per user, while YouTube paid less than \$1 per user in 2017<sup>115</sup>, and that a person -according to an RIIA study- would have to watch fifty-eight hours of music videos on YouTube to make the artist earn a single dollar of revenue<sup>116</sup>.

---

<sup>113</sup> Daniel L. Lawrence, 2019, *Addressing the Value Gap in the Age of Digital Music Streaming*

<sup>114</sup> Recording Industry Association of America

<sup>115</sup> Ifpi, *Global Music Report 2018*

<sup>116</sup> Cary Sherman, 2017, *The State of Music Mid-Way Through 2017*, MEDIUM (Sept. 20, 2017), available at <https://medium.com/@RIAA/the-state-of-music-mid-way-through-2017-7e90cad298f9> [<https://perma.cc/7DKE-DT8J>] (archived Jan. 20, 2019).

35% of listeners admit that they do not subscribe to premium audio streaming services because they can easily find the content they are looking for on Youtube<sup>117</sup>.

In 2016, the 900 million users who listened to music on YouTube & co. that year generated \$553 million in revenue, while the 212 million audio streaming listeners contributed \$3.9 billion in revenue; the estimated revenue per user from Spotify, for example, is 20 times greater than the video platform.

*«YouTube pays little because a regulatory bug allows Google to have no responsibility for the content published on the portal. The site is considered a simple intermediary of products uploaded by users and gets away with the promise of deleting copyrighted tracks.»*<sup>118</sup>

This kind of problem has never been concretely hindered by real legislative interventions, because there were old-fashioned laws like the Digital Millennium Copyright Act (DMCA, 1998) in the United States and other similar statutes around the globe that contained safe harbor provisions that shielded certain music-streaming services from copyright-infringement liability.

In 2016 a significant group of over 170 artists -including music stars like Paul McCartney, Taylor Swift, U2 and Eagles- signed a petition against DMCA, asking a new legislative intervention because *«law was written and passed in an era that is technologically out-of-date compared to the era in which we live. [...] The tech companies who benefit from the DMCA today were not the intended protectorate when it was signed into law nearly two decades ago.»*<sup>119</sup>

---

<sup>117</sup> Music Consumer Insight Report 2018

<sup>118</sup> Enzo Mazza – FIMI Ceo (Federazione Industria Musicale Italiana)

<sup>119</sup> Alex Young, 2016, *180 musicians sign petition asking congress to end YouTube's copyright loopholes*, CONSEQUENCE OF SOUND (June 20, 2016, 2:34 PM), available at <https://consequenceofsound.net/2016/06/180-musicians-sign-petition-asking-congress-to-end-youtubes-copyright-loopholes/> [<https://perma.cc/3NYE-ZDBY>] (archived Jan. 19, 2019).



The 2017 Global Music Report considers the value gap to be «*the biggest threat to the future sustainability of the music industry*»<sup>120</sup>, because artists are less willing to invest in their art and record labels are dissuaded from investing in the development of new artists.

In Europe, the controversy has been -apparently- solved in 2019 thanks to the *Directive on Copyright in the Digital Single Market*<sup>121</sup>, which has the objectives of:

- the recognition, for the benefit of newspaper publishers, of copyright for the reuse of their publications by online platforms, such as news aggregators or media monitoring services;
- the obligation for websites that mainly host content published by users to adopt adequate and effective tools to prevent the unauthorized publication of content protected by copyright;
- the assumption of responsibility for the actions of users<sup>122</sup>.

The ideal is to create greater cross-border access to content available online, a better functioning copyright market, a financial balance between creators of original works and publishers of websites that use content, and more effective collaboration between content creators, copyright holders, and online platform providers that offer content uploaded by users<sup>123</sup>.

*«Let's start by saying one thing: streaming platforms pay little, badly and often pose themselves in a poorly dialoguing way. This concerns all platforms, even video ones: it's an oligopolistic overpower and it's a very serious problem. I must say that they are very diligent in providing accurate data. However, their attitude makes everything else difficult.*

---

<sup>120</sup> Ifpi, Global Music Report 2017

<sup>121</sup> See par 3.3

<sup>122</sup> <https://eur-lex.europa.eu/legal-content/IT/TXT/HTML/?uri=CELEX:32019L0790&from=IT>

<sup>123</sup> <https://www.consilium.europa.eu/en/press/press-releases/2018/05/25/copyright-rules-for-the-digital-environment-council-agrees-its-position/>

*The topic is complicated, and some things have been misrepresented: Spotify for example pays 70% of its income in royalties, but these are managed within a system of Majors that actually penalizes artists.*

*Certainly, the concrete fact is that they pay little and have an interaction that does not conform to the respect of the preciousness of the musical work.*

*The directive goes in the right direction: platforms like Youtube can no longer 'raise their hands' on illegal content uploaded, you have to apply a series of attentions. But the real problem of the directive is that the issue of payments to artists is not touched on.».*

(Davide d'Atri)

The dispute is still on.

#### **4.6 Insights on the Impact of Covid-19 on Music Consumption**

The beginning of 2020 brought a new difficult challenge for humanity: the Coronavirus has permeated global society, pushing individuals and governments to take drastic measures to limit contagion. The measures have led to lockdowns in various countries around the world, 'forcing' people to stay at home. This has led to a change in customer behaviour compared to usual consumption. In particular, consumers have tightened their connection with multimedia content and its use. In July 2020, the first study was published on the impact of the virus on online music consumption.<sup>124</sup>.

The industry in its entirety has been affected, especially the live music sector due to the cancellation or postponement of events: considering the importance of this type of revenue (also as a means of promoting new releases of artists), the damage

---

<sup>124</sup> Sim, Jaeung and Cho, Daegon and Hwang, Youngdeok and Telang, Rahul, 2020, *Virus Shook the Streaming Star: Estimating the COVID-19 Impact on Music Consumption*, Available at SSRN: <https://ssrn.com/abstract=3649085> or <http://dx.doi.org/10.2139/ssrn.3649085>

has been considerable. A survey has shown that, without a vaccine, less than half of American consumers will return to live concerts, films or sporting events.<sup>125</sup>.

*«As far as Covid's consequences are concerned, it has been almost exclusively the part of live music that has to reinvent itself but, in the meantime, has had to suffer a real collapse. Said that it was an enormously important part of the income for musicians, it must also be said that other activities related to the music industry (such as advertising synchronization, radio passages, sponsors and TV, streaming) have not suffered from Covid more than any other sector of trade and industry, so they could recover once the emergency is over».*

(Roberto Trinci)

*« On the one hand with inventiveness: you definitely need to find something new, new forms of meeting with the fans. On the other hand, and I say this with a thread of optimism, music is too important in everyday life to be able to give it up: the sector, maybe with some small internal revolution, will find a way to go on.»*

(Riccardo Cresseri)

The total cessation of concerts has led some artists to experience live exhibitions made in streaming, which many have hypothesized as a future alternative in this uncertain scenario. But is it really a viable option? Can the live experience be rendered digitally?

*« The format is certainly interesting and mature: it can lead to certain scenarios, even positive ones. There is a problem of related rights, those who do live streaming have extreme complexity in the payment of rights. I don't see it as a real replacement for live music, but as an alternative: the two experiences are completely incomparable.*

---

<sup>125</sup> V. Staff, Just 40% of Americans Will Return to Movies or Concerts Before Vaccine, Reuters Poll Says

*It can also be implementable, something you can use in certain situations, but never a substitute. »*

(Davide d'Atri)

*« I think and I hope that the streaming dimension can become a sad memory of these times. It had a great strength during the quarantine days, but I don't see how the web experience can replace the emotional exchange of a real live. With Spaghetti Unplugged<sup>126</sup> we have obviously ridden the streaming wave in those days even with good results but at the moment I think we will wait for better days to leave this 2020 and embrace us again under the stage».*

(Gianmarco Dottori)

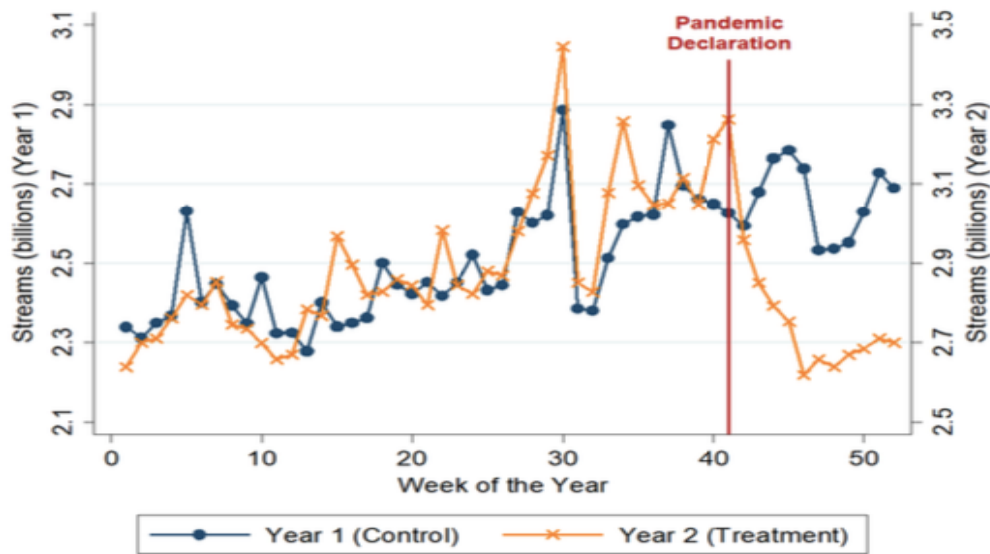
The other business affected has been the streaming one, as today's music listening is largely based on commuting, travel, and mobility. The study showed that the virus reduced consumption by 12.5% on average in 2/3 of the countries that have enforced lockdown, underlining how this decline was driven by the time and country-varying number of COVID-19 cases and highlighting a close correlation - in the countries examined - between reduced mobility/time spent away from home and the negative impact on streaming consumption<sup>127</sup>.

---

<sup>126</sup> Important brand and format of live music. Born in 2013 and very active in Rome and Italy, it allows all emerging musicians to perform during open-mic evenings with huge audience response. It often hosts important Italian artists by surprise.

<sup>127</sup> The study combines weekly streaming consumption data of 60 countries for two years from Top 200 songs on Spotify, which consists of 1,248,000 data points and 34,911 unique songs, and COVID-19 cases, deaths, lockdown policies, and detailed daily mobility information of the countries.

Figure 4.13 – Streams comparison trends between two periods, in billions



Source: see note 97. The first year spans 52 weeks between June 1, 2018 and May 30, 2019. The second year covers the following 52 weeks between May 31, 2019 and May 28, 2020

Initially, many people thought that digital streaming service providers would benefit from more time spent at home.<sup>128 129</sup>

On the one hand, time at home has decreased consumers' physical activity and pushed them to enjoy more multimedia content. On the other hand, today's music listening is based - as noted earlier - mainly on commutes and travels: according to the IFPI's survey of global music consumers (IFPI 2018), 75% of consumers use smartphones for music listening, and 54% of consumers listened to music while they were commuting.

In addition, the pandemic period has significantly reduced new releases and their promotion. Reproductions from providers also occurred in public places and businesses, the closure of which caused an obvious decrease.

<sup>128</sup> Forbes, 2020a, *COVID-19 Pushes Up Internet Use 70% And Streaming More Than 12%, First Figures Reveal*. (March 25) Accessed June 30, 2020, available at <https://www.forbes.com/sites/markbeech/2020/03/25/covid-19-pushes-up-internet-use-70-streaming-more-than-12-first-figures-reveal/#623baadf3104>.

<sup>129</sup> Nielsen, 2020, *Streaming consumption rises in U.S. markets with early stay-at-home orders during COVID-19*. (April 22) Accessed June 30, 2020, available at <https://www.nielsen.com/us/en/insights/article/2020/streaming-consumption-rises-in-u-s-markets-with-early-stay-at-home-orders-during-covid-19/>.

A six-month stop has been estimated to cost the industry as a whole about \$10 billion in sponsorships.<sup>130</sup>

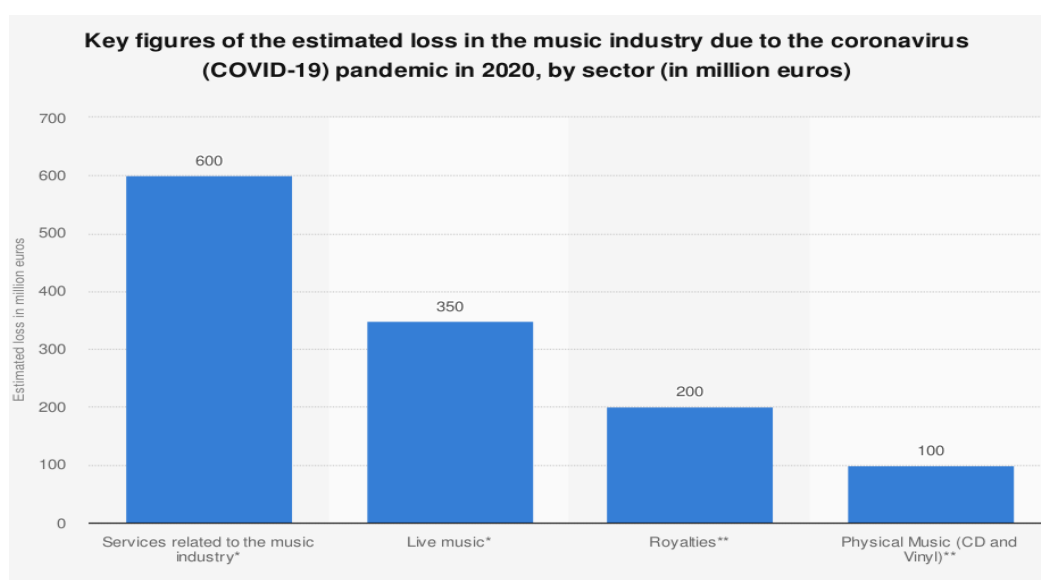
In the U.S., in the wake of pandemic physical revenue fell by 27.6%, digital album sales by 12.4%, and digital song sales plummeted by 10.7%.<sup>131</sup>

Spotify himself pointed out a change in the "musical" habits of consumers, saying that daily habits are now reflective of weekend consumption, as well as relaxing genres rising in popularity<sup>132</sup>.

In Italy, from the first few weeks, there have been evident drops in the physical segment (CDs and vinyl) of more than 60%, in the related rights of more than 70% (due to the closure of businesses and the absence of events) and in synchronizations in serious trouble.<sup>133</sup>

Assomusica<sup>134</sup> in April provided a future estimate of the Italian music industry's huge losses in 2020:

Figure 4.14 – estimated loss in music industry due to Covid-19 by sector, in million €



Source: Assomusica

<sup>130</sup> S. Hall, 2020, *This is how COVID-19 is affecting the music industry*, available at <https://www.weforum.org/agenda/2020/05/this-is-how-covid-19-is-affecting-the-music-industry/>

<sup>131</sup> Alpha Data

<sup>132</sup> A. Steele, 2020, *Spotify Adds Subscribers, Lowers Revenue Guidance Amid Ad Pullback*, available at <https://www.wsj.com/articles/spotify-adds-subscribers-lowers-revenue-guidance-amid-ad-pullback-11588154575>

<sup>133</sup> <https://www.fimi.it/mercato-musicale/dati-di-mercato/mercato-discografico-in-italia-covid-19-fermera-la-crescita-nel-2020.kl>

<sup>134</sup> Associazione Italiana Organizzatori e Produttori Spettacolo di Musica dal vivo

Following multiple requests for help from a sector on its knees, on August 11, 2020 the Italian government, through a decree signed by the Minister of Culture Dario Franceschini, allocated a fund of 12 million euros to support the losses caused to operators by the cancellation of concerts. After the 10 million allocated to the record industry, a new allocation for the show business, massacred by the Covid emergency, comes from a new decree signed today by the Minister of Culture Franceschini, . An intervention "to partially restore the losses suffered in these difficult months by the concert organizers, who are still experiencing a particularly critical moment", points out the minister, aware of how difficult the situation is.<sup>135</sup>

---

<sup>135</sup> [https://www.assomusica.org/it/news-assomusica/item/3806-concerti,-arrivano-12-milioni-per-i-mancati-incassi-assomusica-soddisfatta.html#.X0z\\_A9MzZQI](https://www.assomusica.org/it/news-assomusica/item/3806-concerti,-arrivano-12-milioni-per-i-mancati-incassi-assomusica-soddisfatta.html#.X0z_A9MzZQI)





## CONCLUSIONS

The digitisation of music has been an inevitable and almost physiological process. The speed of progress has not 'spared' anyone, even though the transformation has actually favoured only one category: consumers.

In a few years they have gone from paying 20 euros for a single record to 10 euros for a monthly subscription to an endless catalogue and easily accessible. Paradoxically, artists have become the least protected, despite the growing numbers of new subscribers to streaming services (341 million in 2019).

And that is not all.

The current capitalist and consumerist logics are 'squeezing' their creativity to keep up with a very fast market, permeated by an enormous multiplicity of artistic projects. Factors such as technological progress and Internet have made it possible for anyone to make music, even without special preparation: this has created a 'bombardment' of content for the listener that has lowered the threshold of attention and perception.

*Quantity* has overwhelmed *quality*, imposing a logic of continuous production within a perpetual competition for the best product and in line with fashions and trends.

Daniel Ek, CEO of Spotify, recently stated that:

*«[...]some artists that used to do well in the past may not do well in this future landscape, where you can't record music once every three to four years and think that's going to be enough. »*

Thereupon, is this the future of the industry? A race for the fastest and most functional product? I asked many of the interviewees, but they do not fully share Ek's opinion. What is certain is that the world today is moving at an exponential speed: all sectors of the economy are adapting to it, including the music industry. The risk of further distorting the concept of music, adapting it to today's extremely consumerist rhythms, is a concrete reality.

The general trend seems to be that of a return to the 50s, a period strongly dominated by singles and still lacking a true album concept.

The analysis of the sector's performance data draws a convex trend, which descends from 1999 and only begins to rise back from 2015 onwards, with decidedly encouraging prospects in terms of overall future revenues.

While Spotify - assumed in this paper as the largest representative of multimedia providers - has provided us all with enormous convenience and emerging artists with a means of spreading their music, it is also keeping a sector that has become dependent on it. The phenomenon of editorial playlists is almost comparable to a 'closed circle' in which the competition for the best seats takes place. The ways they 'inflate' the numbers of monthly listeners and streams often make them indispensable, spreading like wildfire *virtual artists* (as defined by me in the paper) who have large numbers on the platforms and almost no real audience-response at concerts. The threat of this phenomenon makes increasingly difficult to discern the virtual data being shown. The interviewees confirm these perplexities, pointing out that the world of promotion has also changed by modelling itself on this new reference.

Are there alternatives to this system? Of course.

There are platforms with totally different logics, such as Bandcamp, a start-up that allows artists to upload their musical material and sell it at the price they want, first of all protecting the economic value of their art without being necessarily satisfied by the small percentages provided by YouTube and Spotify itself.

Furthermore, the *Value Gap* controversy has yet to be resolved: artists are struggling against media giants such as Google, Spotify and Apple to receive remuneration commensurate with the traffic their creative content generates - traffic which becomes a source of data and information about consumers sold by providers for commercial purposes. The recent European Parliament Directive 2019/790 appeared as a step towards fairer economic recognition, and yet it

translated only in an increased attention -imposed to media providers- for illegal contents not authorised on the platforms: the dispute is still ongoing.

By 2020, the music industry was in full recovery and overall revenues were gradually returning to the numbers of the late 1990s, despite the various issues of fair distribution still unresolved.

The Coronavirus crisis has undoubtedly undermined this process, representing a real stress test for the industry. While almost all sectors of the economy have suffered from the current crisis, the music industry has lost almost all of its live income for at least a year, a lifeblood that will weigh heavily on artists. The idea of streaming concerts is perhaps more of a temporary suggestion - and necessary in some ways - than a concrete economic possibility in perspective. In this sense it is interesting to mention the experiment of Fornite, a well-known video game 'shooter' owned by Epic Games, which during the quarantine, from 23 to 25 April, hosted a virtual concert of the famous trapper Travis Scott in the middle of the games, with about 12 million spectators (Epic Games itself had already broadcast virtually on 2 February the Giga DJ Set by Marshmello).

Making a forecast of the industry's future is quite complex I admit. While the issue of live concerts is still an unknown complex projection, the analysis of streaming consumption during the lockdown has shown a drop due to delayed releases, closure of public places and user's greater propensity to listen to music outside the home. However, the drop seems to be more likely to make up for it.

In general, it is fairly presumable to expect years of total dependence on streaming and synchronization revenues, with artists and media providers constantly fighting for greater economic recognition. Technological progress will allow more and more 'amateur' music production while quality risks falling further and further: the hope is that the sector will not be 'inflated' until a bubble burst.



## BIBLIOGRAPHY

- Alex Young, 2016, *180 musicians sign petition asking congress to end YouTube's copyright loopholes*, CONSEQUENCE OF SOUND (June 20, 2016, 2:34 PM), available at <https://consequenceofsound.net/2016/06/180-musicians-sign-petition-asking-congress-to-end-youtubes-copyright-loopholes/> [<https://perma.cc/3NYE-ZDBY>] (archived Jan. 19, 2019).
- Annual Report Spotify, 2019, available at [https://s22.q4cdn.com/540910603/files/doc\\_financials/2019/ar/Spotify-2020-AGM-Annual-Report-on-Form-20-F.pdf](https://s22.q4cdn.com/540910603/files/doc_financials/2019/ar/Spotify-2020-AGM-Annual-Report-on-Form-20-F.pdf)
- Barnier Directive, available at <https://eur-lex.europa.eu/legal-content/IT/TXT/?uri=CELEX%3A32014L0026>
- Bernal P, 2016, *Data gathering, surveillance and human rights: recasting the debate*. Journal of Cyber Policy 1(2): 243–264.
- Billboard Staff, 2015, *The resurgence of vinyl in seven graphics: A breakdown*. Billboard. Available at: <https://www.billboard.com/articles/business/6495044/the-resurgence-of-vinyl-in-seven-graphics-a-breakdown> (accessed 19 December 2018).
- Cary Sherman, 2017, *The State of Music Mid-Way Through 2017*, MEDIUM (Sept. 20, 2017), available at <https://medium.com/@RIAA/the-state-of-music-mid-way-through-2017-7e90cad298f9> [<https://perma.cc/7DKE-DT8J>] (archived Jan. 20, 2019).
- Chiara Iovino, 2018, *La Direttiva Barnier: analisi comparatistica del recepimento in Inghilterra ed in Italia*, Nuova Editrice Universitaria
- Christie Eliezer, 2017, *New report puts Aussie indie labels at 30% revenue share, in Top 10 of global indie markets*, available at <https://themusicnetwork.com/new-report-puts-aussie-indie-labels-at-30-revenue-share-in-top-10-of-global-indie-markets/>
- Codice Civile Italiano, available at <https://www.altalex.com/documents/codici-altalex/2015/01/02/codice-civile>
- Daniel L. Lawrence, 2019, *Addressing the Value Gap in the Age of Digital Music Streaming*

- Daniel Sanchez, 2018, *What Streaming Music Services Pay (Updated for 2020)*, available at <https://www.digitalmusicnews.com/2018/12/25/streaming-music-services-pay-2019/>
- De Stefano Riccardo, 2019, *Era Indie: la mancata rivoluzione del pop italiano*, Italia, Arcana Edizioni.
- Dirittodellinformazione editorial staff, 2020, *La nuova direttiva sul diritto d'autore: un lungo e controverso iter normativo*, available at <https://dirittodellinformazione.it/la-nuova-direttiva-sul-diritto-dautore-un-lungo-e-controverso-iter-normativo/>
- Dmitry Pastukhov, 2019, *What Music Streaming Services Pay Per Stream (And Why It Actually Doesn't Matter)*, available at <https://soundcharts.com/blog/music-streaming-rates-payouts#what-do-major-streaming-services-pay-the-artists>
- Dolata U, 2011, *The music industry and the internet: a decade of disruptive and uncontrolled sectoral change*. SOI discussion paper 2011–02. Stuttgart: Department of Organizational Sociology and Innovation Studies, Institute for Social Sciences, University of Stuttgart.
- Donald S. Passman, *All you need to know about music business*, USA, 10<sup>th</sup> edition, 2019, Simon & Schuster
- Elberse A, 2013, *Blockbusters: Why Big Hits – and Big Risks – Are the Future of the Entertainment Business*. London: Faber & Faber
- Forbes, 2020a, *COVID-19 Pushes Up Internet Use 70% And Streaming More Than 12%, First Figures Reveal*. (March 25) Accessed June 30, 2020, available at <https://www.forbes.com/sites/markbeech/2020/03/25/covid-19-pushes-up-internet-use-70-streaming-more-than-12-first-figures-reveal/#623baadf3104>
- Fortune, 2017, *Why Google and Facebook prove the digital ad market is a duopoly*. Fortune, 28 July. Available at: <http://fortune.com/2017/07/28/google-facebook-digital-advertising/> (accessed 11 January 2018)
- Frommer D, 2016, *Google's first alphabet earnings in charts*. Quartz, 1 February. Available at: <https://qz.com/607378/were-live-charting-googles-first-alphabet-earnings/> (accessed 8 January 2018).

- IFPI, Global Music Report 2013
- IFPI, Global Music Report 2017
- IFPI, Global Music Report 2019
- Joško Lozić, 2019, *DIGITALIZATION CREATES A NEW PARADIGM OF<sup>[L]</sup>THE GLOBAL MUSIC INDUSTRY:<sup>[L]</sup>THE TRADITIONAL MUSIC INDUSTRY IS UNDER PRESSURE OF THE STREAMING PLATFORMS*, PhD University North, Croatia 46th International Scientific Conference on Economic and Social Development – "Sustainable Tourist Destinations" – Varazdin
- Lanchester J, 2014, *How to Speak Money*. London: Faber & Faber.
- Law 633/1941, available at [http://www.interlex.it/testi/141\\_633.htm](http://www.interlex.it/testi/141_633.htm)
- Lewis A. Erenberg (1984), *Steppin' Out: New York Nightlife and the Transformation of American Culture, 1890–1930*, University of Chicago Press, p. 73, ISBN 0-226-21515-6
- MarketLine industry profile, 2020, *Global Online Music Streaming*
- Mobile Economy Report, GSMA
- Mosco V, 2014, *To the Cloud: Big Data in a Turbulent World*. Boulder, CO: Paradigm Publishers.
- Mosco V, 2017, *Becoming Digital: Towards a Post-Internet Society*. Bingley: Emerald Publishing
- Music Consumer Insight Report 2018, available at [https://www.ifpi.org/wp-content/uploads/2020/07/091018\\_Music-Consumer-Insight-Report-2018.pdf](https://www.ifpi.org/wp-content/uploads/2020/07/091018_Music-Consumer-Insight-Report-2018.pdf)
- Negus K., 2019, *From creator to data: the post-record music industry and the digital conglomerates*. University of London, UK
- Nielsen, 2020, *Streaming consumption rises in U.S. markets with early stay-at-home orders during COVID-19*. (April 22) Accessed June 30, 2020, available at <https://www.nielsen.com/us/en/insights/article/2020/streaming-consumption-rises-in-u-s-markets-with-early-stay-at-home-orders-during-covid-19/>.

- Prey R, 2016, *Musica analytica: the datafication of listening*. In: Nowak R and Whelan A (eds) *Networked Music Cultures: Contemporary Approaches, Emerging Issues*. London: Palgrave, pp. 31–48.
- S. Hall, 2020, *This is how COVID-19 is affecting the music industry*, available at <https://www.weforum.org/agenda/2020/05/this-is-how-covid-19-is-affecting-the-music-industry/>
- Seabrook J, 2014, *Revenue streams: is Spotify the music industry's friend or its foe?*, *The New Yorker*, 24 November. Available at: <https://www.newyorker.com/magazine/2014/11/24/revenue-streams> (accessed 5 January 2015).
- Sim, Jaeung and Cho, Daegon and Hwang, Youngdeok and Telang, Rahul, 2020, *Virus Shook the Streaming Star: Estimating the COVID-19 Impact on Music Consumption*, Available at SSRN: <https://ssrn.com/abstract=3649085> or <http://dx.doi.org/10.2139/ssrn.3649085>
- Statista.com, April 2020, *Digital music: Spotify brand report in Italy 2020*
- Statute of *Società Italiana degli Autori ed Editori*, available at <https://www.siae.it/sites/default/files/Statuto.pdf>
- Steele, 2020, *Spotify Adds Subscribers, Lowers Revenue Guidance Amid Ad Pullback*, available at <https://www.wsj.com/articles/spotify-adds-subscribers-lowers-revenue-guidance-amid-ad-pullback-11588154575>
- Vinyl Records Market in Europe by Product, Distribution Channel, and Geography - Forecast and Analysis 2020-2024, available at <https://www.technavio.com/report/vinyl-records-market-in-europe-industry-analysis>
- Wikström, Patrik, 2013, *The Music Industry in an Age of Digital Distribution. In Ch@nge: 19 Key Essays on How the Internet Is Changing Our Lives*. Madrid: BBVA
- *Year-end 2019 RIAA Music Revenues Report*, available at <https://www.riaa.com/wp-content/uploads/2020/02/RIAA-2019-Year-End-Music-Industry-Revenue-Report.pdf>



## SITOGRAHY

- <http://www.musicindie.com/independent-music-now-growing-force-global-market/>
- <https://artists.spotify.com/faq/stats#who-are-monthly-listeners>
- <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019L0790>
- <https://investors.spotify.com/financials/default.aspx>
- <https://musically.com/2020/07/30/spotify-ceo-talks-covid-19-artist-incomes-and-podcasting-interview/>
- [https://s22.q4cdn.com/540910603/files/doc\\_financials/2019/ar/Spotify-2020-AGM-Annual-Report-on-Form-20-F.pdf](https://s22.q4cdn.com/540910603/files/doc_financials/2019/ar/Spotify-2020-AGM-Annual-Report-on-Form-20-F.pdf)
- <https://soundcharts.com/blog/how-to-get-on-spotify-playlists>
- <https://soundreef.app.box.com/s/mk417uu7f5jz5g3m4awtwfdy5niam4ay/file/620669002506>
- <https://web.archive.org/web/20150611020802/https://news.spotify.com/no/2015/06/10/20-million-reasons-to-say-thanks/#>
- [https://www.assomusica.org/it/news-assomusica/item/3806-concerti,-arrivano-12-milioni-per-i-mancati-incassi-assomusica-soddisfatta.html#.X0z\\_A9MzZQI](https://www.assomusica.org/it/news-assomusica/item/3806-concerti,-arrivano-12-milioni-per-i-mancati-incassi-assomusica-soddisfatta.html#.X0z_A9MzZQI)
- <https://www.fimi.it/mercato-musicale/dati-di-mercato/mercato-discografico-in-italia-covid-19-fermera-la-crescita-nel-2020.kl>
- <https://www.fimi.it/mercato-musicale/dati-di-mercato/nei-primi-sei-mesi-del-2019-il-mercato-italiano-cresce-del-5.kl>
- <https://www.history.com/topics/inventions/thomas-edison>
- <https://www.ibs.it/classifica/vinili/1year/sold?defaultPage=1>
- <https://www.investopedia.com/terms/r/royalty.asp>
- <https://www.soundreef.com/blog/licenze-musicali/>

- <https://www.soundreef.com/blog/regole-operative-accordo-soundreef-siae>
- <https://www.theverge.com/2018/1/4/16850742/spotify-subscriber-count-70-million-users>
- <https://www.vox.com/2017/3/28/15079992/spotify-playlist-awal-michael-brun-gourdan-banks>
- <https://zon.it/cosa-mi-manchi-a-fare-calcutta-e-il-vuoto-dellassenza/>

## APPENDIX

Interviews to:

*.Carlo Martelli:* made by voice.

Ex record producer since 1990 at BMG, then manager of the ExtraLabels division of EMI from 1999 to 2004 and now manager freelance collaborating with iCompany. He worked with illustrious Italian and international artists (such as Caparezza, Frankie hi-nrg, Depeche Mode, Nick Cave, Moby etc).

*.Nicola Cani:* made by voice recording.

Co-founder of Foolica Publishing Srl, manager of Thegiornalisti earlier and now of Tommaso Paradiso.

*.Davide d'Atri:* made by phone call.

CEO of Soundreef.

*.Roberto Trinci:* made by e-mail.

Head of A&R in BMG Music Publishing since 1997, in 2005 he became Artistic Director of EMI Publishing Italia. Since 2013 he is Artistic Director of SonyATV Publishing. He has been manager in Italy of Baustelle and Subsonica.

*.Gianmarco Dottori:* made by e-mail.

Co-founder of live format Spaghetti Unplugged, 2015 winner of Musicultura, artistic collaborator of Tommaso Paradiso.

*.Marco Sannino:* made by e-mail.

Founder and owner of Radiation Records, important Italian shop of new and used vinyl, CDs, DVDs, books, magazines, t-shirts and any kind of music-related items.

*.Riccardo Cresseri:* made by e-mail.

Co-responsible A&R for Artist First.

*.Riccardo De Stefano: made by voice.*

Editorial director for ExitWell and respartistic director for MEI (Meeting Etichette Italiane).

## SUMMARY

Music industry is the set of companies and individuals who profit from the production, distribution and sale of music produced and from the organization of live concerts, exploiting the editorial rights of the recordings in their possession.

The paper aims at analyzing how the digital age and technological progress have changed musical fruition and the dynamics of the sector as a whole, distorting sources of income and redefining the hierarchies of the actors acting within it.

Music industry has three core industries:

- the *recorded music industry* (RM), which focuses on songs recording and distribution;
- the *music licensing industry* (ML), primarily licensing compositions and arrangements to businesses;
- the *live music industry* (LM), for the production and promotion of live entertainment.

Up until the 1950s, the industry was in very good health and the recording music (RI) sector in 1999 had a total turnover of about \$25.2 billion, almost entirely from the sale of CDs, vinyl and cassettes.

The birth in 1999 of Napster, the first illegal file-sharing and music download software, was the beginning of the war between Internet and the industry, which underestimated the web's potential and saw it as a threat rather than an opportunity. The resulting collapse is summarised by data provided by Carlo Martelli, former record manager for BMG and EMI, one of the professionals interviewed for the thesis:

*«Some companies were completely wiped out by the streaming phenomenon: EMI (the one that had been the Beatles' label) failed.*

*There was a reduction of 80% of the main market players: from at least a dozen, they became three.*

*In Italy, at the beginning of the '90s there were about 40,000 employees working in the industry and production chain. Today no more than 2000. [...] The albums are released 50 times more than in the past, with an eloquent paradox: in one year, 300 employees released 70 albums, while today 30 release 300. The life cycle of the product is immediate, as is its consumption. »*

RI's revenues fell inexorably in favour of downloads -which had found a legal form of business in iTunes-: after ten years, in 2009, the revenues from *physicals* more than halved (8.9 billion), while *downloads* reached 3.7 billion. Nevertheless, the latter did not last long: in the last decade, factors such as the popular use of smartphones and high-speed internet connections have given life to streaming, which quickly became RI's main source of income -11.4 billion in 2019-.

In Italy, the market value of streaming increased from 18.12 million euros in 2013 to 121 million euros in 2019. The gradual recovery of the sector has led to increasing expenditures and investments in recent years: in 2014 the value of expenditures was 669 million, which broadened to 854 million in 2018.

Last year, market revenues were around 248 million -an increase of 8.2% compared to 2018- and streaming accounts for 49% of the market share.

These figures reflect the performance of the world's largest music market, the US, which had a total retail value of \$11.1 billion at the end of 2019 -12.9% more than 2018- and streaming accounts for 79.9% of total revenues: the revenue achieved this year has been greater than the sector's entire revenue in 2017.

In the inevitable race towards total digitisation of music, there is a part of the physical that has been a real 'anomaly' in recent years: vinyl.

The dedicated case study shows data in contrast to CDs. The vintage flavour that exudes and the sense of nostalgia it provokes for those who have experienced its diffusion, have led vinyl to be a product that is once again marketed.

I asked Marco Sannino, founder and owner of Radiation Records -historical vinyl and record shop in Rome- which reasons could explain this phenomenon: *«It is probably connected to the need for an instinctive response to all this. Nothing better than a vinyl record (big, beautiful, uncomfortable, heavy, representative of a way of enjoying music that we can hardly afford anymore) could symbolize in that particular historical moment the common need to oppose the dissolution of music. [...]»*

In 2019, at a global level, the increase in sales has been 5.3% and it represents 16 % of revenues from the physical revenues. The vinyl records market size in Europe has the potential to grow by USD 91.94 million during 2020-2024, at a CAGR of almost 6%. In Italy, despite a 26% decline in the physical sector, vinyl accounts for +4.8% and represents 31% of the physical market; in America there is a growth of 19%, with an overall gain in the last year of \$504 million generated by 18.8 million units sold: is the largest revenue recorded since 1988 and the 14th year in a row of increased sales. In future, this business could represent the unique alternative source of income of physicals.

The legal protection of copyright is regulated in Italy by the Fifth Book of the Italian Civil Code and by Law 633/1941 and the economic acknowledgements deriving from the use of the works and live performances of artists are managed by the Società Italiana Autori ed Editori (SIAE) which acts as a public body based on associations, responsible for the protection and the exercise of copyright intermediation in Italy, in the form of a non-profit collecting society, being guarantor of licences and authorizations and ensuring the collection and distribution of royalties (Art. 171-ter, Codice Civile).

SIAE has always exercised a *de facto* monopoly as a collecting society. Nevertheless, in 2014 Europe enacted Directive 2014/26/EU (also known as the

*Barnier Directive*) about the collective management of copyright and multi-territorial licensing for the use of musical works online: in 2017 it was adopted in Italy with the entry into force of Legislative Decree no. 35/2017, definitively ‘harmonizing’ all those aspects that the old legislation could not collide with the digital enjoyment of music. The objectives of the directive were manifold:

1. to meet the need to amend and harmonise the legislation on collecting societies;
2. to make the exploitation of copyright and other intellectual property rights efficient, as well as the related rights in protected works online in the European Union;
3. the freedom to choose a collecting body to which entrust all or part of the rights, regardless of EU Member State and regardless of nationality or residence, in order to overcome nationalistic constraints and inefficiencies no longer acceptable from the point of view of a Digital Single Market and the creation of a legalized digital fruition against piracy;
4. to ban the forms of state monopolies of collecting societies.

This has ensured greater transparency by collecting societies in the gathering and distribution of remuneration for copyright and related rights, redefining governance and imposing information and financial management obligations.

In 2011 Soundreef was founded. I dedicated the second case study to this important society: it is a collecting society of Italian excellence that has become in a few years a reality operating in more than 90 countries around the world. Interviewing Davide d'Atri, founder and CEO, I asked how the need to create this company came about: *«We also had the legal conviction that with EU laws we could enforce, regardless of Barnier, the fact that if a right is mine -hence a private right which I manage on behalf of a person-, I can sell it wherever I want. [...] So, if I want to sell it in France instead of Italy, what is the legal principle that prevents me? [...] The monopoly on works licensed from abroad could not exist: it existed, if at all, in Italy, but never cross- border. [...]»*



Digitisation has made music an effective data container: the recorded music is used as a means of production, analysis, packaging and sale of data to third parties who manage them (labels, publishers, etc.).

The information obtained from these processes is part of a ‘cauldron’ of big data that conglomerates use to study and anticipate consumer behavior through forms of *digital positivism*. There are three types of data:

1. Data about characteristics of listeners as concern geographic location, time of accessing music, how many repeats of the same track or artist are made, adjustment of volume, musical preferences and general information about hardware use, software use and internet activity.
2. Data about «semantic analysis of online conversations about music». These are based on words and description used by users about artists, reviews, blogs and social media platforms.
3. Data about the sonic content of digital music: tracks can be analysed and compared for features such as melody, harmony, rhythm, pitch, instruments used, vocalist characteristics, danceability etc.

Sonic analytics are means used to algorithmically manipulate user listening behavior, providing constant targeted suggestions.

All these kinds of data are combined and cross-referenced to be sold to advertisers.

The industry profile of the global streaming market shows that it has experienced a very prolific growth in last years, but the trend has slowly begun to decelerate: it is expected to remain strong, but at slower rate than that prior to 2019. Deceleration of growth rate in the future could result from saturation of markets which already have large number of streaming users.

Surely the growth has been driven by proliferation of high-speed internet device and cloud technologies: 60% of the global population has adopted smartphones by 2018, with over 5 billion subscribers and 3.6 billion internet users . The number of internet users is expected to raise to 5 billion in 2025 with 70% of population having mobile subscriptions. The streaming market made total revenues of \$11.7

billion in 2019, with a compound annual growth rate (CAGR) of 40.6% between 2015 and 2019. Competition in the market is a driving factor of the strong growth: Spotify remains the global leader, but other Digital Service Providers like Apple Music, Amazon Music Unlimited and Deezer have made important progress. USA leads with the first position in the market geography segmentation -it accounts alone for more than double of the Rest of The World- followed by Germany, Japan and France.

Spotify was born in 2006. Unlike iTunes - which sold songs and albums digitally - the stated goal was to create an ad-supported legal service that could be free or paid for customers and at the same time generate revenue to copyright holders. Spotify is an *access-based* service, as it does not charge a price for tracks, but provides direct access to a huge catalogue for a fixed monthly fee. This new model becomes the most successful, making the phenomenon of paid digital downloads - in the iTunes mode - a 'parable' that lasted a few years, despite the huge success of Apple's platform.

Year after year the popularity grew: on June 20, 2015 the users - paying and non-paying - were 75 million, in September 2016 only those paying were about 40 million and in 2018 they became 75 million. At the beginning of 2020 paying users were 130 million, almost half of the total users (286 mln). Analyzing the Spotify's income statement, the increase in revenues over the years has been accompanied by an increase in costs -especially COGS and R&D- that have impacted it in a significant way: the cost of music licensing is the real 'economic ballast' for the platform. The company has been very active in investing in R&D, even if huge amount of costs has never allowed a positive net income.

Spotify represents the symbol of a revolution much bigger than we think: music is no longer 'trapped' within a physical support but is now free to travel with us. The music industry, like many others, has had a physiological adaptation to the rhythms of an increasingly capitalist and globalized society, which makes the speed of communication and availability its focal point.

One of the particular features of the Swedish platform is the possibility to offer a free service, which can be used by every consumer according to the reproduction device.

For example, Spotify from the PC allows the reproduction of any track interspersed from time to time with audio-visual advertising; from the smartphone the free service is more limited, as it does not allow you to choose directly the track to listen. This type of approach aims to let the consumer test the program and gradually bring it to the premium version.

The two platform's strengths are:

- social connectivity*, which connect your social accounts to share your listening with friends on major platforms and let them know what you are listening to;

- playlists*: the software contains an algorithm able to generate, for each user, playlists based on numerous parameters such as: songs most listened to in a given period of time, songs by artists similar to your favourites, new proposals of genre related to the user etc. . In this way the customer has always new music to discover and compilations of music that he already knows and loves. There are also those created not depending on the user's listenings, i.e. collections of songs by genre - such as rock, pop, rap etc.-, by period or artist: therefore, for those who want to listen to songs representative of certain years or for a certain genre.

Moreover, many playlists, the so-called *editorial playlists* edited by the publishers of the company and followed by many users, have become huge promotional tools for artists and for their growth in terms of streaming numbers (that are showed on the platform for every artist profile). According to the opinion of Cani, Cresseri and Trinci (see introduction to know who they are), in the field of promotion today is more remunerative to be on an important editorial playlist than appear on an important music magazine: this is the image of how artistic promotion has changed as well.

While Spotify - and in general any global streaming platform - has helped to spread a lot of music belonging to artists who in other times would have struggled more to make a name for themselves, at the same time it has created a vortex that favours quantity over quality.

Moreover, many projects are entirely based on virtual artistic imagery (especially on social networks) supported by inflated numbers on the streaming profiles of the platforms, thanks to editorial playlists with huge following: the difficulty in discerning the real numbers often leads these artists to have a more digital than real audience. This phenomenon, which I defined '*Virtual Artists*' in the paper, is a threat to the future of an industry whose relationship with the digital dimension risks getting out of hand. As pointed out by Cresseri, «*More than a threat is a fact, in my opinion. It is one of the risks of a predominantly digital environment [...]*».

Starting from the awareness that new means of technological and multimedia diffusion have allowed music to break down the 'wall' of contents imposed by TV and radio, enabling listeners through the Internet to discover different proposals and genres, I wanted to dedicate the last case study to the so-called '*Indie Italiano*'. It has been a phenomenon exploded in the last ten years that brought music labelled as *indie* (i.e. independent music that moved between niche underground proposals and 'revamped' singer-songwriter pop) to such an explosion that made it a new point of reference for the Italian music market, at that moment saturated and dominated by the usual protagonists.

Gianmarco Dottori specifies in this regard that: «*[...]the 00's thanks to the spread of the web and word of mouth have facilitated the emergence of what until then was banally labeled as underground or alternative: from here comes the need for a real experiential listening of those musical realities. The indie (I would define it more 'unaligned music') has had its fortune intercepting an audience that was hungry having now matured its "appetite". [...]*»

If the beginning of the phenomenon is due to the project *i Cani*, born anonymously by uploading on SoundCloud and YouTube two tracks available for free to every

user who depopulated thanks to the word of mouth of the web, in 2015 an artist named *Calcutta* exploits an intelligent mix of web promotion, imagery, direct vocabulary and a very personal writing style and he becomes a real musical phenomenon that leads the 'movement' to explode. Together with Calcutta, another Roman band already active for some years, *Thegiornalisti*, rides the positive wave and break into the market putting a lot of emphasis on a retro and revival fantasy of the 80s, with catchy lyrics and an imagery that ranges from romantic to danceable pop.

Their success is also due to the skillful management of Nicola Cani, who in the interview in this work recalls the fundamental passages that led the band to perform at the Circo Massimo in Rome on 17 September 2020.

The fundamental change in the industry has been the shift from physical to digital revenue as the main source of income. This shift has involved a redefinition of the matter on revenue percentages, i.e. royalties.

Royalties represent the income - for the rights holders - deriving from the enjoyment and exploitation of music. These are due to artists - and anyone else who holds the rights - when their works are purchased, reproduced or used for television, cinema, entertainment, etc. Their negotiation takes place on a case-by-case basis, as it depends differently on the will and the contractual power of the parties involved. The resulting agreement is defined as a *license agreement*, which establishes the licensing -by the licensor- of the use and economic exploitation of the works in favour of the licensee. In recent years, after the crisis in the physical sector, they have taken an increasingly decisive position, despite the paradox that artists receive a paltry percentage from the streams of their works: this has led in recent years to heated controversy.

In particular, the question of the so-called Value Gap is under the magnifying glass. It represents the disparity between the value that music-streaming platforms extract from musical contents and the revenue generated by those who create and invest in the creation of such content. To give an idea, pay-outs per stream from

providers such as Spotify, Apple Music and YouTube are \$0.0037, \$0.00735 and \$0.00069, respectively: amounts far away from platform's revenues from users' data.

In 2016 a significant group of over 170 artists -including music stars like Paul McCartney, Taylor Swift, U2 and Eagles- signed a petition asking a new legislative intervention. The '2017 Global Music Report' considers the value gap to be «the biggest threat to the future sustainability of the music industry», because artists are less willing to invest in their art and record labels are dissuaded from investing in the development of new artists.

In Europe, the controversy has been -apparently- solved in 2019 thanks to the *Directive on Copyright in the Digital Single Market*.

The ideal is to create greater cross-border access to contents available online, a better functioning copyright market, a financial balance between creators of original works and publishers of websites that use content, and more effective collaboration between content creators, copyright holders and online platform providers that offer content uploaded by users.

The war between artists and providers is still going on, because as Davide d'Atri pointed out: «[...] *The directive goes in the right direction: platforms like YouTube can no longer raise their hands on illegal content uploaded, you have to apply a series of attentions. But the real problem of the directive is that the issue of payments to artists is not touched on.* ».

The recent Covid-19 pandemic that has hit the world has damaged many sectors, including the music one. The six-month lag has been estimated to cost the industry as a whole about \$10 billion in sponsorships.

The forced stop at concerts has sunk the income from such an essential source of income as live performances. In addition, government measures have led to millions of people being forced to stay at home. This has led to a change in customer behaviour compared to usual consumption. In particular, consumers have tightened their connection with multimedia content and its use. In July 2020, the

first study was published on the impact of the virus on online music consumption: the study showed that the virus reduced consumption by 12.5% on average in 2/3 of the countries that have enforced lockdown, underlining how this decline was driven by the time and country-varying number of COVID-19 cases and highlighting a close correlation - in the countries examined - between reduced mobility/time spent away from home and the negative impact on streaming consumption.

In Italy since the first few weeks, there have been evident drops in the physical segment (CDs and vinyl) of more than 60%, in the related rights of more than 70% (due to the closure of businesses and the absence of events) and in synchronizations. According to Assomusica, the Coronavirus will result in losses of €600 million for services related to the music industry, €350 million for live music, €200 million for royalties, and €100 million for the physicist's income.

