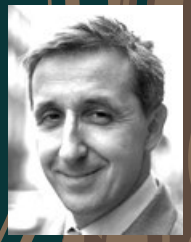
The music industry smiles again

It's impossible to overstate the impact of digital disruption on the music industry. Between 1999, the year Napster launched, and 2014, the recording industry lost 40 percent of its income, says the Global Music Report (GMR 2017).

The physical market (CDs and vinyl) is still worth a third of industry revenue, but it's in terminal decline and will all but disappear. Last year global revenue from downloads fell a further 21 percent. Yet the industry is celebrating because it is finally growing again, thanks to streaming. Last year global revenue from recorded music grew by 5.9 percent. Revenue from ownership increases and fixed and mobile broadband improve.

Streaming revenues are expected to double by 2020 and the industry thinks it may double its overall revenues to $ 104 billion by 2030 (Goldman Sachs, 2016). This will depend on a symbiotic but somewhat nervous relationship between the big streaming platforms and the big labels (Warner, Universal and Sony) which control 80 percent of recorded which goes to the artist. Hartwig Masuch, head of BMG, presents his firm as the Robin Hood of the industry, campaigning to give artists and songwriters a better deal. Rivals find his claims disingenuous: BMG gives 75 percent to its established catalogue artists, and they make up almost all of BMG's business. But established artists require less investment, so BMG (and its rivals) can afford to be more generous to them. On the other hand,



JAMIE PRIESTLEY, correspondent London.

streaming grew 60 percent (GMR 2017). In the first half of last year Americans listened to 114 billion audio streams, up 97 percent year on year (Nielsen). And the number of people who pay for a streaming service went past the 100 million mark. This has symbolic value because it's a big, round number, and it confirms the decline of piracy: in 2000 Napster had 80 million users.

The reasons for this growth give cause for optimism. Streaming offers a magnificent choice compared to physical: 30 million songs vs 20,000 CDs in a large store. Digital natives are driving the growth: nearly 80 percent of those who listen to streamed music are millennials, reports Spotify. Meanwhile streaming services are proliferating: IFPI (International Federation of Phonographic Industries) reckons there are now 400 platforms globally. And access is growing worldwide as smartphone music. Streaming platforms provide distribution for the music groups and do not currently make money. The music groups welcome their growing income from streaming, but must plan carefully now so that they have sustainable margins when almost 100 percent of their revenue comes from Spotify, Apple Music, Amazon and the others. In April, after long negotiations, Universal signed a deal with Spotify. It's reported that Spotify will pay lower royalty fees to the world's biggest record label. In return it will stream new albums only to its paying customers for a period after launch. This exclusivity (or 'windowing') is valuable to Universal which wants to encourage more consumers to upgrade from free streaming-with-ads. Subscription (paid) streaming brings it more money.

And there is stiff competition between the record labels. One battlefield is the percentage of revenue getting new talent to the top of the charts requires bigger margins because it costs much more to develop and promote a rising artist.

The game is changing

For now, streaming services need the labels because they provide new music. In the future, perhaps artists will decide that Spotify and others offer more fame and fortune. For their part, Sony, Universal, Warner and others will hope to retain their historical advantage: the creative skills to find and launch great new talent. What is certain is a long struggle between technology firms, artists and, in the middle, record companies. They will compete, yet they're interdependent. So each will pursue its own interests and hope not to damage the overall opportunity. The game is changing, but it's no less brutal, and there is much to play for. **by Jamie Priestley**

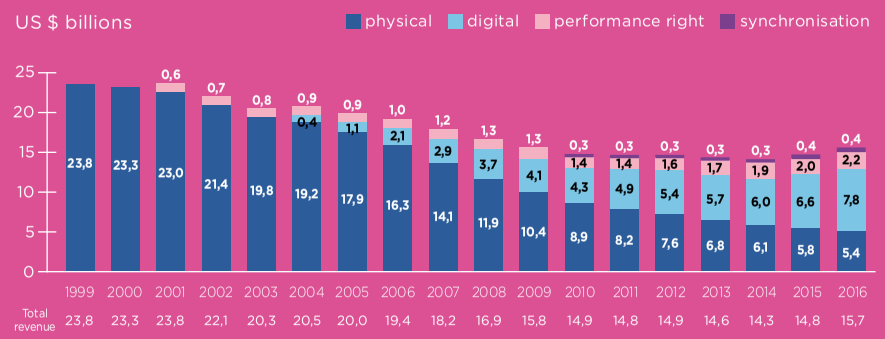
High resolution streaming: a new market?

In 2007 LP sales were just 200,000. Last year UK vinyl sales rose by 53 percent (British Phonographic Industry report on 2016). That's 3.2 million records: the most LPs sold since 1991! This is minuscule compared with streaming (1500 streams per UK household in 2016), but it suggests the start of a valuable niche. Sales are not just driven by middle-aged nostalgia for the vinyl they threw out in the '90s. Millennials are buying records too. They like the novelty of music they can hold in their hands, but the pleasure is not just tactile. This new-old segment can also hear the quality, a factor that was marginalised around 2000 by the promise of convenience and personalisation. (Remember Apple's "1,000 songs in your pocket" with the first iPod.) Today the quality of most streaming is lower than that of a CD. The best definition you can get from Apple Music and Spotify is 320 kbit/s - still a big compromise compared to 'lossless' CD quality or analogue. However, smaller streaming services like Tidal and Qobuz offer CD quality or better. So there is a niche consumer prepared to pay extra to have both quantity and quality: access to millions of tunes AND sound that moves the listener like no mass-market streaming service can.

Hardware and software

Every computer streams but the sound quality is mediocre. Dedicated streamers start at £300 and there is a growing high-end market served by brands like Computer Audio Design and Linn. One complication is that there is no software standard for streaming. Apple is unusual in controlling both its hardware and software, but it will be some time before streaming has a single standard in the same way as vinyl, tapes and CDs.

Global recorded music indutry revenues (1999–2016)



Source: IFPI