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WRIT005

27 January 2016

Is It Actually “Free”?

In today’s modern and digitized world, music has taken the form of online streaming while physical forms of music like CDs and tapes are quickly becoming obsolete. Inevitably, streaming services such as Spotify and Pandora have been the center of a lot of controversy regarding their effect upon the music industry and artists. Despite the massive growth of streaming services in the past few years, the music industry has not actually lost or gained revenue from the introduction of streaming services. However, artists have taken a hit in revenue, largely due to the low amounts of royalty they receive per stream, particularly from the music streaming giant Spotify, as expressed by Kate Swanson in her case study “A Case Study on Spotify: Exploring Perceptions of the Music Streaming Service”. This leads to the discussion of whether or not streaming services almost discredit artists of their valuable work by offering the general public free listenership. On the other hand, streaming services do offer positive benefits according to Spotify and other independent sources such as the reporting agency TorrentFreak. Firstly, artists getting their music listened to through streaming is a much better alternative to getting their music pirated, as they receive a small royalty through streaming. Secondly, internet radios like Pandora help artists get discovered by people whom otherwise would not listen to their music. This in turn can help boost album and streaming revenue for artists, and overall their career.

The rise of streaming services such as Spotify have had a massive impact on the music industry, and particularly where artists receive their money. In an analysis of the impact Spotify has had on the music industry, Andrew Flowers, a quantitative editor of the news reporting website FiveThirtyEight, presents in his article “Maybe Spotify Isn’t Killing The Music Industry After All,” that Spotify has grown into a massive service, with its active users quadrupling in numbers since 2010. In fact, according to the Recording Industry Association of America, total streaming revenue has grown $1.4 billion since 2010, and now accounts for more than a quarter of the music industry (Flowers). With these numbers in mind, it is no surprise that streaming giant Spotify has had an enormous impact upon the music industry. Flowers focused on the research of two economists from the University of Minnesota, Joel Waldfogel and Luis Aguiar, whose goal was to determine “not only whether streaming displaces sales but, if so, at what rate” (qtd. in Flowers). To summarize Waldfogel and Aguiar’s findings, Waldfogel and Aguiar discovered that there was in fact a correlation between paid album sales and the rise of streaming services; to be precise, for every 137 streams, there was one less album sale. While on a small scale this may seem insignificant, on a grander scale, this can cause significant losses for artists, especially larger artists. However, Waldfogel and Aguiar are sure to point out that although Spotify strongly affects the money earned by artists, it does not actually affect the music industry as a whole. In other words, the revenue earned from streaming cancels out with the loss in sales, so ultimately, the net gain/loss is zero. It is important to remember, however, that while the music industry may not be losing or gaining any money, Spotify affects the way the revenue is distributed. Artists themselves make more money from album sales than streams, and thus, overall make less money. Record labels, on the other hand, make more money from streams than album sales, and thus make more money.

In order to further understand how and why artists suffer in terms of revenue from music streaming services, one must first carefully examine the consumer aspect of music streaming services. To keep things consistent, Spotify will be used as the primary example. Spotify, at its very core, is a free service. Users are able to download Spotify and listen to most music for free, and are granted a “freemium” membership. As stated on Spotify’s website, users are urged to upgrade to the premium level, which allows for ad-free playing of music. Premium members pay $9.99 a month to maintain their premium status (“Spotify Explained”). Spotify’s revenue consists of these subscription fees and ad-generated revenue. It is from this money that Spotify must pay right holders, which consists mainly of record labels, and royalties to artists. To be more specific, how much an artist receives in royalty varies depending on Spotify’s revenue from subscribers, number of streams, and several other factors (“Spotify Explained”). This equation that Spotify has developed for the distribution of wealth has major fallacies in the long run.

As Spotify’s place in the music industry drastically grows and continues to do so, its distribution of revenue also drastically changes. Jeff Price, founder of TuneCore and Audium, both organizations dedicated to making sure artists are paid their fair share, published his findings regarding the future impact of Spotify in his report “The More Money Spotify Makes, The Less Artists Get Paid…” Earlier in 2015, Spotify posted a blog stating that they have “now paid more than $3 billion USD in royalties… [which is] good for music makers” (“20 Million Reasons”). Price, however, argues that Spotify is not reporting the whole story. In data collected by Audium, the correlation between Spotify’s gross revenue and the amount artists and labels were receiving is a negative one (Price). At the beginning of January 2014, an artist, who was controlling their own music rights, with 100,000 streams per month on Spotify Premium, earned $90.64 (Price). In December 2014, the same artist for the same number of streams only earned $74.72 (Price). As Price points out, this drop in earnings is largely due to Spotify’s lackluster and poor system of distributing wealth to artists. Because Spotify’s equation for calculating royalties depends upon the number of streams and the amount of revenue Spotify receives (“Spotify Explained”), the fact that the number of streams per month is growing at a much faster rate than revenue is explains the main reason behind the drop in artist earnings (Price). As a result, artists need increased stream rates in order “to just stay even with what they were financially the previous month” (Price). Moreover, even in the current state of Spotify, artists are suffering greatly because of royalties.

Artists, large and small, have expressed dissent with streaming services, largely because of the miniscule and subjectively unfair royalty that the artists receive. Kate Swanson, a recent graduate of Indiana University, published “A Case Study on Spotify: Exploring Perceptions of the Music Streaming Service” in the Journal of the Music & Entertainment Industry Educators Association. Swanson in her study delves into the complicated and mostly hidden relationship between artists and Spotify. Artists earn various amounts from Spotify, largely depending on their record deals, but as expressed by Swanson, “this amounts to $0.004, or just under half a cent per stream.” This is remarkably low sum of money; it would take 250 plays to just earn a dollar. Swanson spoke with artists of varying sizes, to understand their perspectives upon the matter. Bob Nana, the lead vocalist of a small band called Braid, claims that he has made less than $5.00 since Spotify added his band’s 100-plus catalog (Swanson). Even for larger artists, revenue from Spotify is minimal and certainly is not enough to make profit from. Swanson’s study included Jamie Levinson, the drummer of the White Rabbits, a much larger band than Braid, who explained that it was not their interest to “[use] Spotify to make money [right now]” (Swanson). This was also exemplified through several actions Taylor Swift took against Spotify, and more recently Apple Music. Swift, a global music icon, made a monumental decision to pull her newest and extremely popular album “1989” from Spotify. Despite the fact that Swift would likely be pulling in over $300,000 in royalties from Spotify, Swift stood up for smaller artists and protested the immoral streaming of artist’s hard work for free. Swift claimed, “Music is … valuable. Valuable things should be paid for” (Qtd. in Linshi). Granted that Swift’s point of view is largely supported by research, for example Waldfogel and Aguiar’s, this is still a hotly debated subject, as there is no definitive measure of Spotify’s impact.

Music streaming services, such as Pandora and Spotify, are legal companies that operate within the limits of the law. As a result, they are much better alternatives to the practice of pirating music for free; after all, the ­­­artists do get paid something for streaming. In research conducted by Spotify itself, it is clear that pirating rates lowered significantly since Spotify’s founding. Spotify claims that “across the territories where Spotify is established”, people across all ages were proved to pirate less when offered a free, legal alternative. Spotify especially noted that they were able to drastically lower pirating rates of the generation between ages 18 and 29, which also is the generation most likely to pirate music (“Spotify Explained”). Granted that Spotify is certainly biased in this research, independent studies conducted by TorrentFreak, a reporting agency dedicated to file sharing, have also revealed the same conclusions that Spotify has arrived at. In Sweden, the number of people who pirated music dropped by 25% (TorrentFreak). This is notable since Sweden is notorious for its piracy. Stephen Heyman of the New York Times cited the Sweden’s Film and TV Industry Cooperation Committee stating that Sweden has had over 280 million films and movies pirated in the past year. This is largely since Sweden is the home to one of the largest pirating websites in existence: Pirate Bay. Interestingly, Spotify was founded in Sweden, and has had a profound impact upon the piracy according to the research. In Denmark, the Digital Music Report, also known as the KFPI, stated that 48% of music streamer users had previously been illegal downloaders. Now, eight out of ten of those users have stopped their illegal activities (TorrentFreak). These are very positive statistics towards Spotify’s fight against pirating; however, this remains insignificant if artists continue to receive minimal payment.

Another positive aspect of streaming services that works to counteract the low royalties is that they help artists get discovered. Levinson from Swanson’s study expressed that Spotify is a “crucial value add to the music discovery process simply because the catalog is so vast and access is so unrestricted” (Qtd. in Swanson). David McMillin, the lead singer of Fort France and an artist who has had experience with Spotify, explains this concept particularly well in his article “Why It’s Time to Stop Hating Spotify.” McMillin describes that while artists do not necessarily receive full monetary value, “Spotify delivers the intangible value of social currency.” In essence, a critical aspect of Spotify, as argued by McMillin, is its social media integration. Notably, Spotify’s partnership with the social media giant Facebook allows friends to share music within Spotify and thus, Spotify becomes much more than just a streaming service; Spotify becomes a community that fosters the spread of music, which is a “huge help for bands in our shoes” (McMillin). This especially holds true with streaming services that essentially are radios, like Pandora, in which users discover new artists and potentially become fans. However, this is also largely controversial, as not everyone is convinced that the discovery tools in these services are optimized, or that artists getting discovered pays off the loss in album sales. A consumer interviewed by Swanson described Spotify’s discovery features as poor, and that they think that Spotify is catered for people who are “very focused and know what they’re looking for” (Qtd. in Swanson). Not to mention, even with radio-oriented services like Pandora, streaming stations offer the ability to skip songs, and most of the times the songs that do come on are hits and already popular songs.

In sum, music streaming services are surrounded by controversy, as they have their positives and negatives. While streaming services are a better alternative to artists than getting their music pirated, and research supports this, they still offer very little returns for artists; in fact, arguably less in certain cases because streaming services do indeed take a toll on album sales. There is still much research to be done in this area of the music industry, as music streaming only recently blew up; until then, it is yet to be seen whether or not streaming services are definitively beneficial or detrimental towards the music industry and artists.

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