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### Effects of Music Streaming on Piracy and the Music Industry

The Internet is a medium for sharing ideas and connecting with others. With that comes illicit sharing of files, including digital music files. Piracy, or the illegal copying and sharing of copyrighted materials, has hurt the music industry economically; however, with the birth of streaming services such as Spotify and Pandora, the industry may be able to make a comeback. Streaming offers a way for Internet and music lovers to enjoy listening to their favorite artists while avoiding harming the music industry. While music piracy still exists, and will inevitably continue to exist, these new streaming services have begun to reverse the negative effects of piracy. As of now, the effects of streaming on the music industry are neutral, but further actions regarding artist compensation may be taken to ensure a positive impact on the music industry in the future. 

In order to understand the current impacts of both piracy and legal streaming, one must investigate the history of both of these services. Napster, created in 1999, was the first large-scale music piracy site. At its peak, it claimed over fifty-seven million users. The service was shut down in 2001 because of copyright infringements, but the legacy of Napster continues. Other sites, such as LimeWire and The Pirate Bay, have played a part in illegal sharing of music. The Recording Industry Association of America (RIAA) estimated that since the age of Napster, music sales have dropped forty-seven percent in the United States. In addition, a study by Stephen Siwek at the Institute for Policy Innovation indicates that music piracy reduces the

annual U.S. GDP by over twelve billion dollars a year (Swanson). Music piracy is a problem that affects not just the American economy but also the global economy. According to the International Federation of the Phonographic Industry (IFPI), “global music industry revenues decreased by thirty-one percent between 2004 and 2010” (Benlian). The IFPI also estimates that about a fifth of Internet users around the world continue to use illegal downloading sites. This includes an estimated twenty million Americans, according to a study done by MusicWatch (Faughnder). 

Several legal measures have been taken to stop music pirates. Many popular sites, including LimeWire and Megaupload, have been taken down and forced to pay massive fines. However, piracy sites still thrive around the world. For example, the operators of The Pirate Bay were convicted of copyright theft in 2009, but they continue to operate. The site has been shut down several times only to rise up again (Faughnder). 

While pirating sites are still in existence, streaming sites provide a legal and convenient way for Internet users to enjoy music and support their favorite ts. Rhapsody was the first streaming site, created in 2002, while Pandora followed in 2005. Perhaps the most popular site today is Spotify, founded in Sweden in 2008. Americans gained access to Spotify in 2011. It is the fastest growing music streaming website, claiming over forty million active users worldwide and nearly ten million paying subscribers. The company gains about eight thousand subscriptions per day and is currently valued at three billion dollars (Swanson). Newer streaming services include Apple Music, which claims six-and-a-half million paying subscribers after only six months of operation, as well as Tidal, a subscription-only service co-owned by several popular artists, including Jay-Z, Beyonce, and Madonna (Sparshott). All of these sites and more have

allowed music streaming to increase over seven hundred percent in the last year (Swanson). Streaming services offer a variety of features at different prices. For example, Spotify offers users the ability to create their own playlists, while Pandora asks the user for an artist or song and creates a playlist with similar music. In this way, users can support their favorite artists but also discover new ones. Most streaming sites offer both free, ad-supported streaming, as well as a flat-rate monthly subscription option which includes offline streaming and a wider selection of songs.

Several experts have an optimistic view on streaming and what it is doing, and could eventually do, for the music industry. A study done on music piracy in Norway by Music Business Worldwide showed that piracy rates in Norway “have fallen to just four percent for people under thirty” (Hruska). Ryan Faughnder, a writer for the LA Times, went as far as saying that “The rise of convenient, licensed streaming has helped cut U.S. file-sharing rates in half in the last decade” (Faughnder). However, since piracy sites are illegal and so far-reaching, it is often hard to collect hard facts and the numbers may be unreliable.



A study done by Alexander Benlian, Jonathan Dörr, Thomas Hess, and Thomas Wagner shows that the majority of music pirates have a positive view of streaming and are likely to make the transition from illegal to legal listening. The researchers surveyed one hundred and thirty-two music pirates who were students at a Germany university with an average age of twenty-four. They found that streaming services, which they collectively call “Music as a Service,” or “MaaS,” offer several benefits that piracy does not, and the pirates’ responses to the survey indicate that they would enjoy these benefits. First, they found that pirates who consume a lot of music may enjoy streaming services more because of the increased sound quality of the legal streaming sites. Poor sound quality is often associated with illegally downloaded music files.

Also, people who download music illegally may have to search several sites in order to find the song they want, and they also run the risk of downloading a virus in the process. Streaming sites offer a quicker, safer way to obtain songs. Also, peer preferences for streaming may influence music pirates to switch to streaming. Finally, for those who said they would be willing to pay for a monthly subscription, the flat rate would allow freedom to sample songs and artists without paying for them individually. Although the free, ad-supported consumption model of music streaming received higher approval, the researchers concluded that “MaaS is a viable alternative to illegal music consumption” (Benlian).





Although streaming offers an alternative to piracy, it is debated whether or not it makes a significant difference in the number of people that illegally download music. A study conducted at the University of South Florida by Karla Borja, Jesse Daw, and Suzanne Dieringer showed that “college students who are frequent users of music streaming are also more likely to download music illegally” (Borja). In the study, one hundred ninety-seven college students were asked about the frequency at which they bought, streamed, and pirated music online. The researchers hypothesized that “those engaged in music streaming are also heavy users of computer technology, software downloading, and digital sharing...” therefore making them more comfortable with pirating music (Borja). Another study involved two hundred thirty-seven subjects, sixty-one percent of whom were between the ages of eighteen and twenty-four. Of these people, fifty-five percent used Spotify “on a weekly basis,” while forty-four percent used Pandora. The remaining percent used other various sites. The subjects who claimed to use Spotify were then asked, “If you use Spotify, do you think it has altered your music-buying habits?” Seventy-two percent of this group said streaming altered their habits “minimally or somewhat” (Swanson). Based on these two studies, one may conclude that streaming does not





change consumer preferences drastically, and has a relatively neutral effect on the industry.

However, the artists themselves have a wide range of viewpoints on streaming services.

Despite the positive effects  streaming, some artists are upset by the effects streaming has on album sales and publicity. According to a study done on Spotify by Midia Research, “One percent of all stars swallow a total seventy-seven percent of the revenue.” Artists who are not “mainstream” have a hard time making more money through streaming, especially through sites like Spotify that provide music by the user’s search (Hruska). Alternatively, Pandora chooses playlists for the listener based on a song or artist, which gives the listener more opportunity to hear new artists. This gives lesser-known artists a better chance of gaining fans. Another setback of music streaming is the allocation of money to the artists. Pandora and other sites use a “pay per play” model, but Spotify uses a specific formula based on the artist’s popularity, the proportion of their plays to the total Spotify plays, and other factors. Artists can earn as little as half a cent per stream, and usually no more than three quarters of a cent (Swanson). In addition, some artists argue that their album sales are decreasing because of streaming. Again, these numbers can be hard to confirm, but it does deserve some exploration. Jeff Beck, financial director of Saddle Creek Records, noted that “none of the label’s artists has observed any noticeable downturn in sales from digital services like Spotify” (Swanson). Also, according to Tim Thomes, Spotify is the second largest source of revenue for major record labels, falling slightly short to iTunes sales. Thomes also suggests that an increase in the use of streaming sites leads to increase in the sale of “complementary goods,” such as merchandise and concert tickets, because artists experience an increase in publicity due to these sites (Thomes). In contrast, a  study by the National Bureau of Economic Research found that “streaming services displace permanent downloads... But they also get people who would otherwise steal songs to pay a little

or at least listen to ads on Spotify and similar services” (Sparshott). The conclusion is that many people who are now legally streaming music probably weren’t legally downloading it before, so streaming is ultimately seen as a positive in this case. Another study shows that the average downloader spends sixty dollars a year, while the average streamer spends one hundred and twenty dollars a year. Since consumers are spending more on music, one might assume that artists are also making more money. However, that is not always the case. For example, Bob Nanna, the lead singer of Braid, says that his band has received “less than five dollars” from streams on Spotify. Braid is a lesser-known band with about thirteen thousand Facebook fans. It is impossible for artists like these to maintain a livelihood solely on Spotify streams (Swanson).

 Several “mainstream” artists, old and new, have shown resistance to streaming. Neil Young has pulled his most popular albums from Spotify, and Taylor Swift removed her entire catalog. Before she did this, one of her top singles, “Shake It Off,” had over forty-six million streams, making it the most frequently streamed song on Spotify in October 2014. She made an estimated three hundred ninety thousand dollars in one month just for one song. It seemed to many of her fans as though she made an illogical decision to remove her music from Spotify. When asked why she took away her music, Swift stated that “Music is an art, and art is important and rare.... It’s my opinion that music should not be free....” (Linshi). Regardless, one may argue that streaming is always better than illegal downloading. Jeffrey Sparshott of the Wall Street Journal argues that “services like Spotify are getting fans to listen to music legally even if they aren’t boosting sales” (Sparshott).

I believe  that the increasing use of streaming services is a step in the right direction for the music industry. There has certainly been a decline in music piracy, although that decline is hard to quantify, and the data suggests that this number will continue to shrink. This change is in

the hands of young adults ages eighteen to twenty-four, because they grew up pirating music and are now going to decide how drastic the shift from piracy to legal streaming will be. That being said, within the shift to streaming there also needs to be a shift towards streaming sites that are more centered around the artists, sites that offer them more pay for their music and more publicity, especially for newer artists. Music is an art, and we need to protect it by fairly compensating the artists themselves, not just the record labels and sites that stream their music. After all, the artists are the reason that people visit these sites.

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