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GRAMMYS 2017

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Recording Industry 2015: More Music Consumption and Less Money, That's Digital Deflation

1/7/2016 by Glenn Peoples

Getty Images

People are consuming more and more music yet less money finds its way to record labels and artists.

The U.S. record industry was the same, but different, in 2015. You may or may not have noticed great change, as old ways of doing business continued to change -- but if you saw industry revenues at the mid-year point, you might have also noticed revenue fell about 5 percent (though a boost from Adele might improve the final year-end tally).

In 2015, overall music consumption tracked by Nielsen Music grew 15.2 percent to 549.4 million track equivalent albums and streaming equivalent albums. These are metrics that convert digital purchases and streaming activity into albums for purposes of comparing consumer activity over time.

Why doesn't the record business feel more successful? A similar question was asked here in May. Presentations at the 2015 Music Biz Association conference by the RIAA Josh Friedlander

and Nielsen Music's David Bakula showed a strong increase in U.S. streaming activity corresponding with flat recorded music revenues. A partial explanation came from MusicWatch's Russ Crupnick -- about 50 million of the 120 million people using music audio and video streaming sites won't pay to stream. The remainder will be difficult to reach. So that's one explanation.

U.S. Recording Industry 2015: Streams Double, Adele Dominates

Another explanation is digital deflation, a term that explains how content loses value when consumption switches from physical to digital formats. (In economics the term refers to the idea that digital technologies lead to greater productivity and cheaper prices.) In advertising, digital deflation explains a loss in advertising revenue because digital advertising is less expensive than traditional advertising on a cost-per-thousand impressions basis.

The newspaper business is a good example of digital deflation. According to the Newspaper Association of America, newspaper ad revenue has shrunk roughly 60 percent to $19.9 billion in 2014 from $49.5 billion in 2006 as advertising dollars have chased readers migrating to digital outlets. The same effect could also be happening to television advertising in the United States.

The music industry has also suffered from digital deflation. Money spent on physical purchases were only partially replaced by money spent on downloads. Consumers were able to spend less when previously bundled tracks became unbundled and a la carte shopping was made possible. Many people opted to buy a few tracks (or obtain illegally, although piracy is a separate issue) rather than the entire digital album. Physical formats didn't offer that choice.

Streaming presents different challenges. It's too early to say if streaming will further the digital deflation in music, but it doesn't appear to be reversing the effect. But streaming revenue is more complicated than download revenue. Royalties paid to rights holders can depend on a number of factors: streaming activity, label market share, advertising rates, the number of subscribers to premium services and the amounts paid to those services.

U.K. Recording Industry Totals $1.6 Billion in 2015

In addition to how people are listening, what people are listening to could also impact how the record business perceives itself. To generalize, consumers tend to buy newer music and stream older music. Catalog accounted for nearly 70 percent of streaming volume, according to Nielsen Music. Since that percentage hasn't change over the last year or two, it can assumed catalog enjoyed 70 percent of streaming gains in 2015. At the same time, sales of current albums, which have historically accounted for roughly half of all music sales, fell by 9 percent. Current digital tracks, which are also split almost evenly between current and catalog, fell 10 percent.

The upshot should be clear. What was roughly a 50/50 split between current and catalog music is now a 30/70 split. Put another way, as purchases fall and streaming activity increases, current music is losing market share to catalog music. Using Nielsen's numbers, it's clear catalog music is getting twice the streaming gains as current music.

These trends could have real world consequences. Breaking a new artist or recouping on a new album isn't easy. With streaming playing a larger role, and with catalog now so dominant in streaming, new music will get shoved aside in favor of older, more familiar music. It can be seen in the playlists created by subscription services. While many playlists feature either entirely or mostly new music, many other playlists are dominated by catalog tracks.

Things were about the same, perhaps a bit better, in the United Kingdom. The world's fourth-largest music market experienced a 4 percent increase in revenue, to £1.1 billion (US $1.61 billion). Audio streams grew 82 percent to 26.8 billion while total consumption, measured as a combination of purchases and streaming, rose 3.8 percent. What would have otherwise been either more modest or flat growth was moderated by a 3.9 percent decline in CD sales, which accounted for 66 percent of all albums purchased in the U.K. (In the U.S. CD purchases declined 10.9 percent decline and accounted for 52.3 percent of all album purchases.)

The Canadian market went in a similar direction. Total purchases, including tracks, fell 4 percent. But total consumption, when streaming is included, almost certain increased. It's not possible to know the consumption gain because Nielsen didn't start tracking audio streaming in Canada until the second half of 2015. But it's safe to say Canada also had an uptick in consumption. It would take only a 50.2 percent increase in streaming for consumption to have risen in 2015. A streaming gain equal to the United States, 98.2 percent, would mean music consumption in Canada rose 1.7 percent. Of course, these numbers don't say whether or not recorded music revenue grew in 2015.

The takeaway is gains seen in Nielsen's metrics don't necessarily reflect what's going on in the record business. It's not that gains in metrics don't matter. In fact, it's easy to find a person in the music with optimism who feels the industry is turning a corner. And it's easy to find people in areas separate but tangential to the record business, like live events or sponsorships, positive about their corner of the market. But it can be difficult to find somebody who feels the record industry, as a whole, is growing.

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