

# WHAT NOW

## THE IMPACT OF DIGITIZATION ON THE NORWEGIAN MUSIC INDUSTRY ENGLISH SUMMARY

Centre for Creative Industries

**BI**



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HVA NÅ – DIGITALISERINGENS INNVIRKNING PÅ NORSK MUSIKKBRANSJE

# Foreword

On behalf of the Norwegian Ministry of Culture, the Center for Creative Industries at BI Norwegian Business School (BI:CCI) together with Menon Economics has conducted a study of the impacts of digitization on the players within the ecosystem of the music sector. The main purpose of the study was to gather more knowledge about the economic development in the Norwegian music industry in recent decades, in the light of continuous technological and digital development. The study aims to chart the music sector and how digitization has affected its value system, market structures and the competitive situation, as well as to examine how economic values are created and distributed between the various players. This is the first study that provides a detailed analysis of cash flows in the Norwegian music industry, of how economic values are created and distributed between the various parts of the value chain, and how this has developed over time.

The study was led by associate professor Irina Eidsvold-Tøien (BI:CCI), in collaboration with senior economist Marcus Gjems Theie (Menon Economics), researcher Øyvind Torp (BI:CCI), senior lecturer Audun Molde (Kristiania University College and BI Norwegian Business School), associate professor Terje Gaustad (BI:CCI), musician and lawyer Harald Sommerstad (Minor Majority), partner Anne Espelien (Menon Economics) and professor and head of BI:CCI Anne-Britt Gran.

The present document is a brief excerpt of key parts of the original Norwegian-language report "HVA NÅ – Digitaliseringens innvirkning på norsk musikkbransje", which was prepared as a result of the study. A translation of key findings from the report into English will make it possible to share knowledge about the impact of digitization on the music industry with environments outside Norway. This could be of importance for their understanding and handling of challenges and opportunities similar to those the phenomenon has brought about in the Norwegian music sector.

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May 2019,

Irina Eidsvold-Tøien,

Project manager BI Norwegian Business School (BI:CCI)

# Main empirical findings

## CONSUMPTION AND DIGITAL PLATFORMS

- Four out of ten Norwegians say that streaming services are their first preference when it comes to listening to music. YouTube and Spotify are the most popular streaming services. 4 percent state that their primary source of music are physical formats. Almost 30 percent of Spotify-users say that they always or often use Spotify's recommendations and/or playlists (Source: IFPI, Survey 2017). Streaming services thus exert great influence over consumers' listening patterns.
- The sales share for Norwegian recorded music went down in 2009, i.e. right after Spotify was launched in 2008 (Source: Hjelmbrekke 2017 and IFPI).
- The YouTube case in the study shows how data processing and administration of payments work in practice. Data processing works more efficiently for recording rights than for songwriter and lyricists' rights. Payment for the use of content which cannot be identified on YouTube, is distributed according to the market share of the content that can be identified (Source: Google and Tono, the Norwegian performing rights organisation).
- YouTube produces reports of use (and pays for use) to Tono only when video clips trigger advertisements to the viewer (Source: Tono).
- The case on the YouTuber PelleK shows that the platform also creates new markets for niche music, markets that are large enough for artists to build own careers on these.

## SALES REVENUE AND STRUCTURAL CHANGES IN THE MUSIC INDUSTRY AS A WHOLE

- In the period from 2011 to 2017, the share of rights owners (creators, performers and record companies) of the total sales in the music industry has fallen from 39 to 33 percentage points. At the same time, streaming services have increased their share of total sales in the industry from 5 to 14 percent in the period, while the share of creators and performers is reduced from 29 to 24 percent (Source: Menon's proprietary database on accounting data for Norwegian companies and data from Statistics Norway on sole proprietorships).
- With regards to agreements between artists and record companies, the artists have stated that they receive approximately the same royalty rates from streaming as from the sale of physical and digital copies (Source: The study's survey of creators and performers, hereafter referred to as "Survey 2018").
- Traditional record deals where the record company owns the master are used less in 2017 than in 2007, while releasing music on your own label and striking distribution deals (and partially also license agreements) have become more common (Source: Survey 2018).
- The case Kirkelig kulturverksted (KKV) shows how lower market revenues from digital, force record companies to reduce costs and thus their own investments in new recordings.

- The companies have come to depend on project financing for recordings and releases, and public funding has become an important source of financing with considerable influence on terms and conditions.

## FINANCIAL CONDITIONS OF CREATORS AND PERFORMERS

- The majority of musicians in our survey say they earned less than NOK 300,000 in music-related income in 2017 (Source: Survey 2018).
- There are fewer creators and performers with a high income (more than NOK 600,000) in 2017 than in 2007, despite the fact that we are measuring the income of the same musicians over this period (Source: Survey 2018).
- Freelancers and self-employed persons dominate the low-income groups in music-related activities, while permanent employees and part-time employees have a higher income level. The development from 2007 to 2017 also shows a more positive development for those musicians that are employed (Source: Survey 2018).
- For creators and performers, concert and festival activity is the decidedly biggest source of income from music-related activity; on average, this accounted for 40 percent of total music-related income in 2017 (Source: Survey 2018).
- In the ten-year period from 2007 to 2017, musicians' income share from concert and festival (live) has been reduced by 6 percent on average, while the income share from pedagogical activities, public funding and events has grown (Source: Survey 2018). Rambøll's annual report *Kunst i tall* from 2017 however shows that revenue from concerts in Norway has increased by 10 percent since 2012. This means that the revenue growth in the live sector does not benefit the majority of Norwegian musicians.
- The share of total music-related income from sales and streaming of recorded music and sales of musical works has stagnated at an average of 8 percent in the period 2007-2017 (Source: Survey 2018).
- Multiple findings indicate a growth in the number of creators and performers in the industry since 2000 (Source: Statistics Norway on the number of sole proprietorships in Norway, and a study of Norwegian artists' activity and income by Telemarksforsking from 2013). This growth helps to intensify competition among the actors.
- For performers whose music is played on the radio, payments have become less concentrated on the most frequently played recordings in the period from 2006 to 2015 (Source: Gramo, the joint collecting society in Norway for musicians, performing artists, and phonogram producers).
- The share of income from payments for recorded music (physical and digital) has fallen in the period 2010-2017. In 2010 and 2011, these stood for approximately a quarter of the creators' income. In 2016 and 2017, this has been reduced to approximately one fifth (Source: Tono's database).
- Amongst those Tono-members who had income from streaming services, the ten percent with the highest income stand for close to 80 percent of all revenues. In 2016, they accounted for approximately 60 percent of revenues. Those who have revenues from digital channels make up an increasingly smaller group that accounts for an increasing proportion of revenues; in other words, concentration in the income distribution has increased (Source: Tono's database).
- The case study on the «carve-out»-issue shows that the performing rights organization Tono is losing creators to competitors abroad, since these companies wish to license directly with

streaming services and other business partners. As it is the most commercially attractive creators that go over to foreign competitors, this has negative consequences for the remaining rightsholders in Tono, as the same administrative costs must be shared by fewer members.

## DIVERSITY IN THE MUSIC INDUSTRY

- Gender differences are increased rather than reduced by digitization. More women are making it into the middle-income category (NOK 300,000-600,000), but there are considerably fewer in the income group NOK 600,000+ (Source: Survey 2018). Also in Tono, the income differences between the genders are large, and among those who earn the most (the top 1 percent), the proportion of women is only 10 percent (Source: Tono's database).
- Women and men also have somewhat different income structures. More men than women have music-related income from royalties, recorded music and sales of musical works, while among the women all other income categories dominate, such as for example pedagogical activities or lecturing (Source: Survey 2018).