

Fairness and Attractiveness of Contract between Artists and Music Streaming Platforms¹

Cassandra Picasse

ABSTRACT

The music industry is undergoing profound changes thanks to the emergence of digital music services and music streaming. Companies such as Spotify and Apple Music have been accused of failing to compensate artists fairly and more and more artists consider the royalties model as inaccurate. In this paper, we compare the different models of Spotify, Apple Music, and Tidal to know which one is fairer with artists, or rather, which one is the least unfair with artists, using the Multi-Attribute Decision making. We analyzed each platform with the non-dimensional scaling technique and compensatory method to ultimately, select the preferred alternative and we finally discovered that Tidal is the more appropriate service from the artists' perspective. Finally, we assumed that online music streaming platforms could find numerous ways to be fairer with artists and to develop a model which could allow taking into account their own needs and expectations and that of each other party, for instance by using the block-chain technology or questioning the monthly subscription model.

Key words: Payment, Pricing, Music, Streaming, Service, Artist, Quality, Fairness, Trial period

INTRODUCTION

After suffering losses in revenue due to the decline of physical recordings such as CD-ROM's and tapes and to piracy on the Internet during the nineties, the music industry is getting better. In 2016, the music sales in the United States represented \$7.7 billion revenue and achieved the industry's highest sales figure since 2009. These figures resulted of the activities of online music streaming platforms such as Apple Music, Spotify, Tidal, and others. In 2016, it represented 51% of the business in the Unites-States.

Online music streaming platforms propose either to benefit from a free access but by accepting to receive advertisements or by agreeing to pay a subscription for a Premium service (ad-free) and thus to have unlimited access to music, across different devices including smartphones, tablets, and televisions. Subscriptions are offered at varying rates, one for students (around

¹ *Editor's note: Student papers are authored by graduate or undergraduate students based on coursework at accredited universities or training programs. This paper was prepared as a deliverable for the course "International Contract Management" facilitated by Dr Paul D. Giammalvo of PT Mitratata Citragraha, Jakarta, Indonesia as an Adjunct Professor under contract to SKEMA Business School for the program Master of Science in Project and Programme Management and Business Development. <http://www.skema.edu/programmes/masters-of-science>. For more information on this global program (Lille and Paris in France; Belo Horizonte in Brazil), contact Dr Paul Gardiner, Global Programme Director, at paul.gardiner@skema.edu.*

\$5), for a single user (around \$10) and family (around 15\$). Today, the industry tries to wring as much money as possible from digital music services.

Problem Statement

Despite the apparent new revenue stream that it offers from the Internet to music industry and the apparent higher efficiency to fight online piracy, the music streaming platforms have been accused of depreciating the value of music in the eyes of listeners through their free tier and accused of failing to compensate artists fairly. Indeed, more and more artists and right-holders consider that the royalties model is not entirely fair and accurate. However, the companies still aren't making any profit, despite their flourishing revenues, because most of them are plowed into royalties' payment. For instance, in 2016, despite its increasing revenues, Spotify revealed a net loss of \$194 million. In order to face this criticism, how the economic model of music streaming platforms should be adapted to be fairer with artists?

Considering the evolution of the music industry and the growing presence of these digital music services, it's critical to find a model that could meet the expectations of the three interested parties; the music streaming platforms, the customers, and the artists. Should the music streaming platforms keep proposing a free ad-based offering to access to music? Should the music streaming platforms increase their fees? Should the music streaming platforms be more transparent regarding the percentage they plowed back to labels and music publishers?

This paper has been designed to research, analyze and answer the following questions:

- Which music streaming platforms between Spotify, Apple Music, and Tidal is the more attractive and fairer with artists?
- How could music streaming platforms be fairer with artists?

METHODOLOGY

2. Identification of the alternatives

To answer the main questions of this paper, we identify three different Online Music Streaming platforms as alternatives. Each of these platforms has very particular offers and models;

- **Spotify - The free ad-based model:** Spotify is a Swedish platform created in 2009, which offers free access to millions of sounds. The company is the pioneer in the music streaming services and was the first to fight against music piracy vigorously. However, Spotify was heavily criticized by artists because of its « free ad-based » offer. According to its Chief Executive, Daniel Ek, free tier is crucial to persuading people to buy a subscription. Indeed, 80% of Spotify subscribers started as free users.
- **Apple Music - The subscription-only model:** the platform created in 2015, that provides the opportunity for the music fans to benefit from a free trial period of 90 days. Today, Apple music has around 27 millions of users, and all are paying users. The pricing of Apple Music

is similar to that of Spotify, excepting the free trier that Apple Music doesn't propose. (see figure 1 below). Indeed, Apple's executives encourage an anti-free feeling within the music industry.

- **Tidal - The high quality-oriented model:** the platform owned by artists which promise to give shares to other musicians. Tidal's owners want to restore the value of music in the eyes of music fans. The platforms provide access to high-quality audio and high-definition music videos through the «Tidal Hifi» offer which is a premium quality offer. In parallel, Tidal also provide a standard quality offer similar to Spotify and Apple Music's offers. Tidal claims to pay one of the highest percentages of royalties to artists and right-holders.

		Spotify	Apple music	Tidal	
				Standard quality	Hifi quality
Offer Prices	Free access (with Ads)	\$0.00			
	Individual per month	\$9.99	\$9.99	\$9.99	\$19.99
	Student per month	\$4.99	\$4.99	\$4.99	\$9.99
	Family per month	\$14.99	\$14.99	\$14.99	\$29.99
	Individual per year	\$119.99	\$99.00		
	Free Trial	30 days	90 days	30 days	30 days
Users	Number of users (in millions)	140	27	4	
	% free users	57%	0%	0%	

Figure 1: presentation of Spotify, Apple Music and Tidal offers and users.

3. Development of the outcomes for each alternative

The matrix below (see figure 2) illustrates the balance between the two most important outcomes from the artist's point of view; the artist revenue and the artist visibility through the platform.

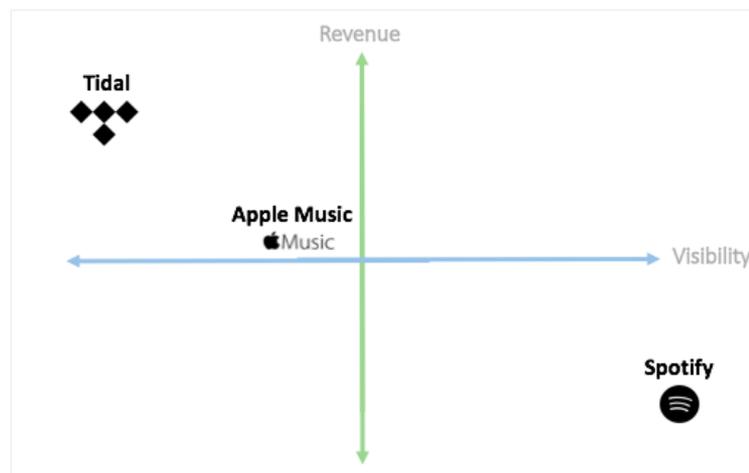


Figure 2: Matrix Artist revenue/ Artist visibility

- The first alternative is the free ad-based model of Spotify. Thanks to the free tier, the number of users is really high, thus the visibility of the artist is significant. However, despite the revenues generated from advertising, it's complicated for companies such as Spotify to pay artists fairly. With this model, the artist revenue per play is about \$0.0038, which is pretty low, and the number of plays needed to earn the minimum wage of \$1,472 is equal to 380 000.
- The second alternative is the Apple Music model. As said before, the model of Apple Music doesn't offer a free tier to listeners, and all users are paying subscribers. To entice them, Apple music proposes a free trial period of 90 days (generally, the trial period is from 30 days), thus the number of subscribers is increasing quickly and the visibility of artists through this platform too. With Apple Music platform, the artist revenue per play is equal to \$0.0064, and the number of plays needed to earn the minimum wage of \$1,472 is equal to 230 000.
- The last alternative is the model of Tidal. This model allows artists to earn more money from music streaming than the others models. With Tidal, the artist revenue per play is more or less equal to \$0.0110. However, today Tidal has only 4 millions of users; therefore the visibility of the artist isn't as high as the visibility offered on Spotify. Given the small proportion of users, the number of plays needed to earn a minimum wage of \$1,472 is equal to 130 000.

4. Selection of criteria

In order to decide which online music streaming platform model between that of Spotify, Apple Music, and Tidal is the more attractive and fair for artists, we chose the following criteria:

First, **the artist revenue** (per play). To be more precise, if data weren't confidential, we could have analyzed the final percentage (of the platform's revenues) received by the artist. This allows comparing the financial attractiveness of each platform from the artist's point of view.

Second, **the artist visibility** by being broadcast on each music streaming platform. If the music streaming platform is used by a lot of music fans, the visibility of the artist is higher than if the platform doesn't have a lot of subscribers.

And third, **the quality of sounds**. Depending on the music streaming platform where the sound is broadcasted, the quality of the audio differs. For instance, Tidal through its offer «Tidal Hifi» allows the music fans to listen to the song with higher quality than on the Apple Music platform. The audio quality is essential for the artist, cause a high quality encourages the users to listen to the sound again and again.

Attribute	Spotify	Apple Music	Tidal Hifi
Artist Revenue (per play)	\$0.0038	\$0.0064	\$0.011
Visibility (Number of users)	High	Medium	Low
Quality of sounds	Fair	Fair	Excellent

Figure 3: Comparison of Spotify, Apple Music, and Tidal Hifi model

Tidal Hifi > Spotify > Apple Music

Undesirable – (Worst case – Attribute Value)/(Worst Case – Best)			
Desirable - (Attribute Value – Worst Case)/(Best Case – Worst Case)			
Attribute	Value	Formula	Dimensionless Value
Artist Revenue per stream	\$0.0038	$=(0.0038-0.0038)/(0.011-0.0038)$	0
	\$0.0064	$=(0.0064-0.0038)/(0.011-0.0038)$	0.361111111
	\$0.011	$=(0.011-0.0038)/(0.011-0.0038)$	1
Visibility = Number of users	Low	relative rank (3-1)/3	0.67
	Medium	relative rank (2-1)/3	0.33
	High	relative rank (1-1)/3	0
Quality of sounds	Poor	relative rank (3-1)/3	0.67
	Fair	relative rank (2-1)/3	0.33
	Excellent	relative rank (1-1)/3	0

Figure 4: Non-Dimensional Scaling Technique – Turning each option into a scoring model

FINDINGS

In the fourth step, we had used the non-dimensional scaling technique and compensatory method in order to ultimately select the preferred alternative. The fifth and sixth steps will consist in the realization of a quantitative analysis of the feasible options to confirm that the third alternative which is the “Tidal Model” is the best one.

5. Analysis and comparison of the alternatives

High > Medium > Low

Excellent > Good > Poor

Quality of sounds	
Poor	0
Fair	1
Excellent	2

Visibility	
Low	0
Medium	1
High	2

Attribute	Spotify	Apple music	Tidal Hifi
Artist Revenue (per play)	0	0.3611111111	1
Visibility (Nber of users)	0.67	0.33	0
Quality of sounds	0.33	0.33	0.67
Totals	1.5	1.02	1.67

Figure 5: Non-Dimensional Scaling Technique – Relative weighting

Applying this technique, we can see that the Tidal model with a total score of 1.67 is more appropriate than the Apple Music model (with a total score of 1.02) and than the Spotify model (with a total score of 1.5).

	Relative Rank	Normalized Weight (A)	Tidal		Apple Music		Spotify	
			(B)	(A) x (B)	(C)	(A) x (C)	(D)	(A) x (D)
Artist Revenue	1	1/6 = 0.17	1	0.17	0.36	0.0612	0	0
Visibility (nb of users)	2	2/6 = 0.33	0	0	0.33	0.1089	0.67	0.2211
Quality of sounds	3	3/6 = 0.5	0.67	0.335	0.33	0.165	0.33	0.165
SUM	6	SUM 1	SUM	0.505	SUM	0.3351	SUM	0.3861

Figure 6: Additive Weighting Technique

Alternative 1 – Spotify: One of the main weakness of this model is the artist revenue per play. A lot of factors must be taken into account to explain the artist revenue, like for example the number of plays, the number of users, the attractiveness of the platforms from a user 'point of view. Knowing the number of Spotify's users is important, we can suppose that such a low income is due to a lack of revenue for the company. The free ad-based model may be limited, indeed, even if 43% of Spotify's users are paying subscribers, the rate is not high enough. Moreover, the revenues from advertising can't fill the gap. The main strength of Spotify is its number of users. If an artist is broadcasted on Spotify, he can be sure his visibility will be very high.

Alternative 2 – Apple Music: According to the Additive Weighting Technique, Apple music is the less attractive and fair model from the artist perspective. Its number of users are not really high and the quality of sounds isn't excellent. The most important criteria "the artist revenue" is quite fair. We can suppose that in the long run, thanks to its free trial of 90 days, Apple Music could see its number of user rise significantly and to this extent could be as attractive as Spotify from an artist's point of view.

6. Selection of the preferred alternative

According to selected criteria and complete analysis below, the best alternative is the Tidal model. Indeed, the Tidal model is a better choice by 163%. ($=1,67 / 1,02 \times 10$). Here are the reasons that make the platform more attractive and fair;

- First, the artist's revenue is one of the highest in the online music streaming business. The pricing of Tidal offers (with standard and premium quality) is smart and allow attracting different kinds of users.
- Second, through the "Hifi Tidal" offer, the talent of the artist is highlighted, and his work and merit are valued. Thus, the high quality first brings to light the artist and second, encourage the fans to listen the sound again and again.
- Finally, the platform is owned by artists who share the same passion, the same values, and the same goals. Because they share the same passion, values, and goals, we can suppose that the transparency level and the degree of trust between both parties is better.

7. Performance monitoring and post evaluation

Spotify, Apple Music, and also Tidal, even if we ranked it first can improve their model and find other ways to be fairer with artists.

The Spotify model could rethink its advertising-supported tier and reduce the possibilities and advantages of this tier, in this way, its revenue could be more important, and the value of the music in the eyes of users will be improved. Apple Music could also rethink its model, beginning with reducing its trial period from 90 days to 45 days for instance.

To go further, we could even go so far as to question the model of the monthly subscription. Indeed, we could think this model as unprofitable for online music streaming platforms and therefore unfair for artists because until today Spotify and Tidal - we don't know for Apple Music – has accumulated important losses. In 2016, the total annual loss of Spotify was equal to \$194 million, and that of Tidal was equal to \$28 million. For some time now, a new listening model called “Stream to own” is emerging. It consists of the users in only paying for what they play. See below a more detailed explanation of the stream to own model.

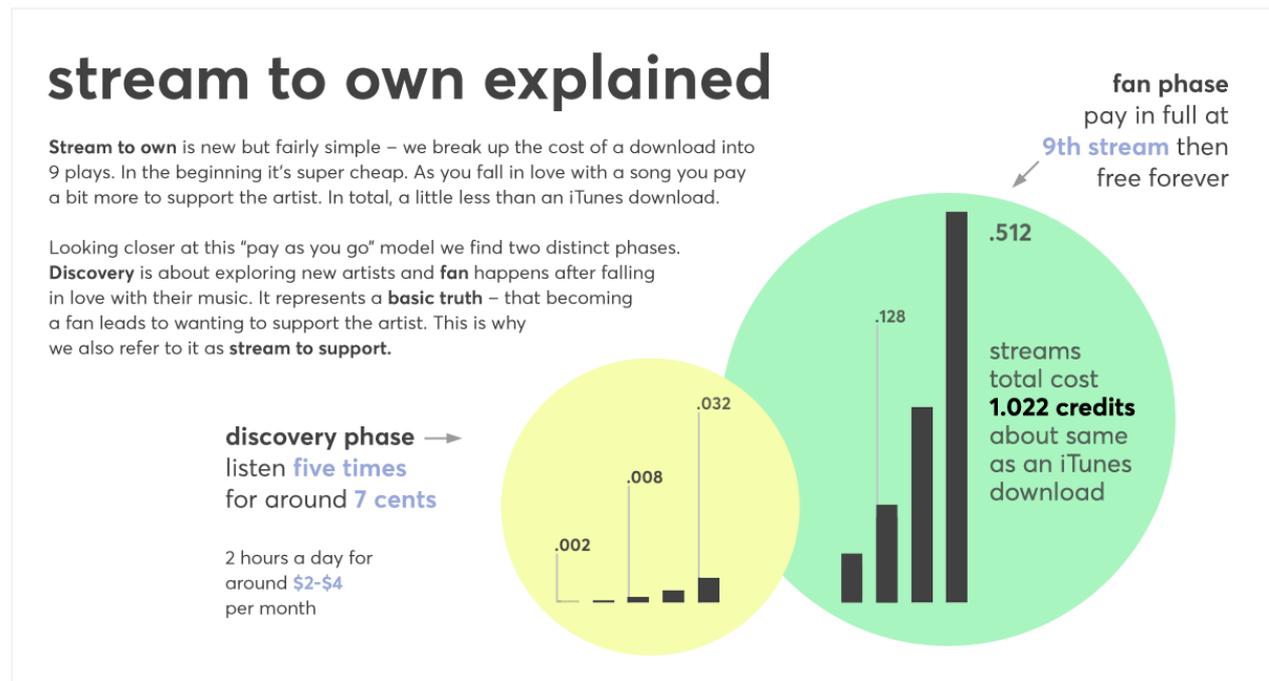


Figure 7: “Stream to own”² explained

Online music streaming platforms such as Apple Music, and Tidal should think about using and take advantage of the Block-chain technology. Indeed, the block-chain technology is more and more used in different industries. Spotify acquired in April 2017 the start-up *Mediachain Labs*, in order to streamline the royalties’ distribution process. How? By developing a database and platform to record all information regarding licensing terms, royalty pay-out rules, sounds or who made a sound, without having to trust a third party organization. Sometimes, it can be difficult for online music streaming platform to determine who owns the rights to a particular track. Thanks to this platform and the block-chain technology, people who have worked on the recording will be able to agree in advance on a fair distribution of generated revenues.

² Stream to own explained. Retrieved from <http://www.resonate.is>

CONCLUSIONS

Initially, this paper was designed to research and answer the following questions:

- Which music streaming platforms between Spotify, Apple Music, and Tidal is the more attractive and fairer with artists and why?

Answer based on the research and analysis:

We chose the model of Tidal as the more attractive and fair model with artists. This one is characterized by both a high-quality offer and a standard offer with different fees, which allow making more money and therefore to reward the work of the artist with higher revenues. Nevertheless, we have seen that this model can be adapted and rethink to be fairer with right-holders.

- How could music streaming platforms be fairer with artists?

By using block-chain technology, the online music streaming platforms could enhance and hone their relations with artists, and the degree of transparency could also be improved. In addition, a real reflection should be launched regarding the emerging listening model "Stream to own."

BIBLIOGRAPHY

- Dredge, S. (2017, February 21). *Tidal: 10 things you need to know*. Retrieved from <https://www.theguardian.com/music/2015/apr/05/tidal-10-things-you-need-to-know-jay-z-madonna-music-streaming>
- John Paul Titlow. (2016, December 30). *7 Ways Streaming Music Will Change in 2017, After Another Crazy Year*. Retrieved from <https://www.fastcompany.com/3066532/7-ways-streaming-music-will-change-in-2017-after-another-crazy-year>
- McCandless, D. (2017, April 12). *How Much Do Music Artists Earn Online – 2015 Remix – Information is Beautiful*. Retrieved from <http://www.informationisbeautiful.net/visualizations/how-much-do-music-artists-earn-online-2015-remix/>
- McIntyre, H. (2017, July 27). *What Do The Major Streaming Services Pay Per Stream?* Retrieved from <https://www.forbes.com/sites/hughmcintyre/2017/07/27/what-do-the-major-streaming-services-pay-per-stream/#1589bea0448c>
- Parker, H. (2017, June 22). *Spotify is the best streaming music service, but its competitors aren't far behind*. Retrieved from <https://www.digitaltrends.com/music/best-music-streaming-services/>
- Sanchez, D. (2017, July 24). *What Streaming Music Services Pay* (Updated for 2017). Retrieved from <https://www.digitalmusicnews.com/2017/07/24/what-streaming-music-services-pay-updated-for-2017/>
- Woods, B. (2014, January 17). *15 of the best online music players. Which music streaming platforms is best for you?* Retrieved from <https://thenextweb.com/apps/2014/01/17/15-best-music-streaming-services-which-is-the-best/>

- McAlone, N. (2017, May 17). *Apple is leaning away from a music strategy that's disliked by labels and Kanye West*. Retrieved from <http://www.businessinsider.fr/us/apple-music-leaning-away-from-exclusives-angering-labels-kanye-west-2017-5/>
- Sisario, B. (2017, March 30). Streaming Drives U.S. Music Sales Up 11% in 2016. Retrieved from <https://www.nytimes.com/2017/03/30/business/media/digital-music-spotify-apple-record-labels.html>
- Reiff, N. (2017, May 3). Spotify Acquires Mediachain to Advance Services with Blockchain. Retrieved from <https://www.investopedia.com/news/spotify-acquires-mediachain-advance-services-blockchain/>
- Sharma, R. (2017, October 14). How Blockchain Could Revolutionize Music Streaming. Retrieved from <https://www.investopedia.com/news/how-blockchain-could-revolutionize-music-streaming/>
- Adam Hayes, CFA. (2014, December 3). How Does Spotify Make Money? Retrieved from <https://www.investopedia.com/articles/investing/120314/spotify-makes-internet-music-make-money.asp>
- Adam L. (2017, November 19). Spotify se frotte à la blockchain, pour quoi faire ? Retrieved from <http://www.zdnet.fr/actualites/spotify-se-frotte-a-la-blockchain-pour-quoi-faire-39851770.htm>
- BigchainDB. (2017, April 28). Own the Music You Stream with Resonate ? The BigchainDB Blog. Retrieved from <https://blog.bigchaindb.com/own-the-music-you-stream-with-resonate-e84d3a0fb34d>
- Rasonate. (2015, May 4). Deep dive on the #stream2own model. Retrieved from <https://resonate.is/stream2own/>

About the Author



Cassandra Picasse

Paris, France



Cassandra Picasse is a Master of Science student in SKEMA Business School, pursuing the specialization « Project and Program Management and Business Development » (PPMBD). She integrated the « Programme Grande École » of SKEMA Business School in 2015 after graduating from the University Institute of Technology of Troyes. Last year, she studied for six months at Fundação Dom Cabral in Belo Horizonte in Brazil. She has worked for Atos, a European IT services corporation during four months as PMO Assistant. Cassandra can be contacted at cassandra.picasse@skema.edu or www.linkedin.com/in/cpicasse