The Death of the Long Tail
The Superstar Music Economy

Mark Mulligan
March 2014

This is the first of two MIDiA Consulting reports on the Superstar Artist Economy, the second of which will additionally assess all other key artist revenue streams such as live, merchandise and publishing. The data presented in these reports is based upon confidential conversations with key industry stakeholders.
About MIDiA Consulting

MIDiA stands for Media Insights & Decisions in Action. Our mission is to help media and technology companies develop purposeful strategies quickly through market understanding, clarity of vision, and workable innovation.

We help media and technology companies make sense of the changes that digital market forces are bringing about. And we help them make profits from digital content. We also work with early stage start ups.

We are a boutique, media industry focused consultancy that delivers practical, results-driven outcomes.

For more details visit our website:

www.midiaconsulting.com

Or email us at
info@midiaconsulting.com
The 20,000 Foot View

The 21st century decline in recorded music revenues continues to send shockwaves throughout the music industry and although there are encouraging signs of digital-driven growth, the impact on artists is less clear.

The concentration of the majority of recorded music revenue around a small share of musical works has led to the emergence a Superstar artist economy. The promise of the long tail proved to be illusory and the resulting picture is one of contrasting fortunes of the super successful and the rest.

Key Findings

• Total global artist income from recorded music in 2013 was $2.8 billion, down from $3.8 billion in 2000 but up slightly on 2012.

• Artists' share of total income grew from 14% in 2000 to 17% in 2013, driven by factors such as higher revenue shares on some digital deals for artists

• Of an average $0.99 single less than half goes to the label and artist combined, with sales tax, retailers and publishers accounting for the remainder

• The recorded music market is a 'Superstar artist' economy with the top 1% of musical works accounting for 77% of all artist revenues

• The concentration is a reflection of the natural bias of music towards hits but digital stores and services have an even strong bias towards the top 1%

• Digital concentration is driven by a) smaller amount of 'front end' display for digital services – especially on mobile devices – and b) by consumers being overwhelmed by a Tyranny of Choice in which excessive choice actual hinders discovery

• The democratization of access to music distribution has delivered great benefits for artists but has contributed to even greater confusion for fans, ironically culminating in an intensification of the superstar effect, with the successful artists relative share of the total pot of musical works getting progressively smaller

• Superstar artists does not mean an absolute domination of major label artists, indeed many independent artists have broken through into the top 1% and independent repertoire can often over index on digital services

• The catalogue arms race has become entirely detrimental to consumers’ digital music experiences, and action needs taking urgently to make sense of 25 million songs, not just through discovery and editorial, but also by taking the brave decision to keep certain types of content, such as sound-alikes, outside of music services' main functionality.
Artist Recorded Music Income
The Death of the Long Tail: The Superstar Music Economy

Between 2000 and 2013 global recorded music income declined by 39.7% from $27.4 billion to $16.6 billion, falling at a CAGR of 3.8%. A modest 1% growth in 2013 points to the beginning of a change in fortunes but the impact of the previous 12 years has been catastrophic for the music industry with artists and labels alike feeling the pinch of plummeting recorded music income. Things could however be much worse, with the shift to digital bringing better margins for labels - due to lower fixed costs – and better rates for many artists, such as a growing body of independent labels offering their artists 50/50 net receipt deals for streaming.

Figure One

Between 2000 and 2013 the artist share of recorded music revenue grew modestly from 14% to 17% (see figure one). Since 2010 the growth in streaming and subscription revenue has helped ensure that artist income actually year on year, resulting in a cumulative increase of 3.2% while the total market contracted by 0.4% over the period. Global artist revenues are still a whole $1.1 billion lower than they were in 2000 but there are the signs of a turning of the tide for artists at a macro market level.
Though 17% may sound like a poor deal for the artist there are many revenue stakeholders in the music sales value chain. To illustrate the point, looking at the revenue distribution of a $0.99 single for a recouped artist – i.e. one that no longer owes the label money - would take home approximately 12 cents, representing approximately a quarter of the label's share of the total income (see figure two). This figure is an average and as such there are plenty of artists on much less favourable deals, with revenue for some pegged at a quarter of the label's income. Others are significantly higher including many independent artist on 50/50 net receipt deals.

The labels' markedly larger share is explained in part by the fact that record labels, majors in particular, have large rosters of artists, many of whom do not deliver a profit for the label. Though the actual rate of non-profitable artists reported by some bigger labels can sometimes be overstated for the purposes of a label's accounting procedures. But whatever share of its revenue a label shares with an artist, half of the total value of a 99 cent single never even makes it to the label, let alone the artists. Indeed 50 cents of the total value goes to sales tax, the retailer and to publishing – some of the latter may or may not go to some or all of the band, depending on who composed the song. In summary, large portions of digital music revenue seep out to multiple stakeholders as is the case with any product that relies upon a distribution channel.
Artist recorded music income in 2013 is far more diverse than it was in 2000 when physical music sales accounted for 99% of revenues compared to just 46% now (see figure three). From the launch of the iTunes Music Store in 2003 downloads surged to become the second largest income source but growth slowed in 2011 and though it retains second place ranking, artist download revenue actually dipped slightly in 2013. The impact of this decline was however offset by the strong growth in streaming and subscription revenue, which now ranks as the third largest source of recorded music income for artists with $0.4 billion in 2013.
The Death of the Long Tail: The Superstar Music Economy

The Superstar Artist Economy
The Superstar Artist Economy

The music industry is a superstar economy, that is to say a very small share of the total artists and works account for a disproportionately large share of all revenues. This is not a Pareto's Law type 80/20 distribution but something much more dramatic. In fact, the top 1% that account for vast majority of recorded music revenues.

Figure Four

The Global Recorded Music Market is a Superstar Economy

Distribution of Artist Recorded Music income, 2013

In 2013 the top 1% of repertoire accounted for 77% of all artist recorded music income (see figure four). The concept of superstar economies has been around for some years and was also recently developed further in Alan Krueger's paper ‘Rockonomics: The Economics of Popular Music’. Intuitively the democratization of access to music – both on the supply and demand sides – coupled with vastness of digital music catalogues should translate into a dilution of the superstar economy effect. Indeed the long tail theory posits that consumers will increasingly engage with the niche content across digital services because of ease of access and discovery tools. However the opposite is true. This is because the rapid growth in digital music catalogue has had two key effects:

- The Tyranny of Choice: Digital music catalogues typically number 25 million – some more - and are growing at a rate of 100,000 tracks every month. This means that however good a music discovery and
recommendation algorithm might be, it needs to get 100,000 tracks better at its job every single month just to be as good as it was the previous month. More tracks paradoxically means less discovery. There is so much choice that there is effectively no choice at all. This is the *Tyranny of Choice* that in turn leads to mainstream consumers flocking, like the sheep that they are, to the familiar and the easy to find.

- **Dilution of Quality:** More people making more music does not mean more quality, the opposite in fact. For all of the positive impact of DIY – and there is plenty – the movement has removed a crucial quality hurdle. Record labels – for all their faults, and indeed there are plenty of those too – act as crucial arbiters of quality and taste. Record label A&R teams filter the best from the rest, while in DIY there is a risk of the self-congratulatory echo chamber, of friends, family and uber fans perpetually praising rather providing tough love. Vast swathes of digital music catalogues consist of music from wannabes that simply are not good enough and - of much greater creative concern - cynical sound-alikes and karaoke versions. Of a typical 25 million digital catalogue only 6 million is 'serious' catalogue and of that only 1.25 million is streamed or purchased with any meaningful degree of frequency (see figure five). The vast majority of the rest is only ever going to perform miserably in revenue terms. Indeed Nielsen reported that 94% of tracks purchased on iTunes were downloaded 100 times or less.

In the context of 25 million digital tracks 250,000 tracks – i.e. 1% - may not be quite as staggeringly small a number as it might at first appear but it nonetheless remains a clear imbalance and one that is intensifying.

**Figure Five**

**The Anatomy Of A Digital Catalogue**

*Distribution of a Typical Digital Music Service Catalogue*
The Death of the Long Tail: The Superstar Music Economy

Recorded music income has plumme...ed since 2000 for both tiers of artists but the Superstar artists have also seen recovery, twice, while the remainder only saw growth return in 2013, and even then only modestly (see figure six). In the mid 2000's Superstar artists benefited most from the ring tone boom that was inherently skewed towards the very top echelons of popular artists. Though that bubble burst as quickly as it arose, Superstar artists saw a new growth in revenue in 2011 that continues today. Key to this transition has been the bias of digital platforms towards the Top 1% and as digital revenues have grown so has the Superstar revenue share.

The concentration of catalogue is not limited to streaming and downloads. According to Next Big Sound, the top 1% account for 79% of YouTube and Vevo music video plays. The concentration for radio is even more pronounced: according to PRS for Music, an average radio broadcaster will play around 1,250 unique tracks in any given month which translates to 15,000 a year, or 0.01% of the total available tracks.
The Superstar recorded music economy does not manifest itself equally across revenue streams however. Interestingly physical music has the weakest concentration of all with the Top 1% generating 75% of all revenues (see figure seven). This may appear counter intuitive given the fact that:

- **The CD is the most mainstream music product of all:** it has the highest buyer penetration rate - 40% compared to 18% for downloads – and the most even gender mix - 49% are female compared to 37% of subscribers.¹
- **High street CD stores have limited floor space:** bricks and mortar retailers only have space for limited stock while a digital store has no such constraints.

But the problem lies not with digital’s catalogue expanse – which we have already seen can actually hinder discovery – but the small amounts of visual display space digital services have. A digital store or service has a home page that often has to squeeze onto a few square inches of smartphone screen while a high street store has dozens of square feet of window space and then hundreds of square feet of front-of-store display space through the doors.
The net effect of consolidation of Superstar revenue has created a significantly different revenue outlook for the two tiers of artists. While the Superstar story since 2003 has been one of relative stability and two periods of growth, for the remainder it has been continued decline since 2000 with a final modest return to growth in 2013. Superstar artists also benefit from a slightly more diverse distribution of revenue, with physical and downloads counting for 75% of all Top 1% artist income in 2013 compared to 79% for the remainder. Historically this was driven by the over indexing of Superstars on ringtones and more recently the similar over indexing on synchronization because big spending big brands' prefer big hits.

The impact of streaming and subscriptions is however perhaps most important element of artist income given the current streaming versus artists zeitgeist. The growth dynamics are similar for both sets of artists – approximately 400% since 2008 – but the scale is dramatically different. Superstar streaming and subscription artist revenue totaled $300 million in 2013, compared to $90 million for the remainder. Crucially the $300 million is a larger amount of income shared among a smaller number of artists making the effect doubly impactful.

Thus Superstar artists feel the benefit of scale of streaming services much more profoundly than lower tier artists. This is, among other reasons, why most of the disgruntled voices that speak out about streaming services tend to be those of
smaller artists or artists that are past their prime, and why we hear little or nothing from the really big artists. The harsh reality is that for the Superstar artists, subscriptions and streaming are driving a recorded music revenue renaissance while for the rest they are not.

The Indie Superstar

This should not however be mistaken for a dominance of major label over independent. Although there is a far stronger bias of smaller labels within the 99% remainder repertoire, big independent labels such as Glassnote (Mumford and Sons), Big Machine (Taylor Swift) and XL Recordings (Adele) have had their fair share of Superstar artist hits in recent years too. In fact independent labels accounted for 24% of the Top 10 albums across the 10 biggest music markets in 2012. Independent artists can be, and are, Superstar artists too. The subscriptions case for independent repertoire is strengthened further by the fact that subscribers skew towards music aficionados who are more inclined towards hunting out independent artist material.

There is a final interesting independent label implication for artist streaming revenue. The Top 1% of repertoire accounts for 84% of all streaming and subscription revenue yet the Top 1% artists only account for 82% of all the revenue. This is because of two factors:

- Many independent labels give their artists larger shares of streaming revenue, often as high as 50% of net revenue
- Big major label pop acts index strongly on the free tiers of streaming services
Conclusions

The concept of the long tail seemed like a useful way of understanding how consumers interact with content in digital contexts, and for a while seemed like the roadmap for an exciting era of digital content. But the marketplace has shown us that humans are just as much wandering sheep in need of herding online as they are offline.

Music is always going to be a Superstar economy. Record labels are in the business of creating hits, though to be fair this is more of a focus for some than others. Nonetheless there will always be winners and losers in music sales and the big winners will win really big. Over time the improved discovery and programming in digital music services should push the needle for the remainder artist tier but a) it will not happen over night and b) it will still have a finite amount of impact.

Ultimately it is the relatively niche group of engaged music aficionados that have most interest in discovering as diverse a range of music as possible. Most mainstream consumers want leading by the hand to the very top slither of music catalogue. This is why radio has held its own for so long and why curated and programmed music services are such an important tool for engaging the masses with digital.

The excessive pollution of digital music catalogues with filler drivel only serves to strengthen the hand of the Top 1% and to make the *Tyranny of Choice*’s power absolute. Music services need to take a good look at themselves and ask whether being able to boast of 20, 25, 30 million tracks is really worth the inconvenience it delivers its users. Cynical derivative sound-alikes, of which there are far too many created each and every month, may deliver revenue for certain parts of the digital music value chain but they have no role in music services. Karaoke tracks do have popularity, but these probably need indexing as discreet catalogue within music services and to not appear in normal search results.

There is also the less palatable issue of what value the lower reaches of the tail of ‘genuine’ music deliver. Not so much small independents, but ‘vanity’ releases from wannabe artists publishing directly via platforms such as TuneCore. On the one hand this issue touches upon the very core of the principle of the democratization of music enabled by digital. But on the other there is the issue of whether the majority of the vast quantity of DIY catalogue gets in the way of most music fans’ digital music journeys - even if it can be a crucial stepping stone towards bigger success for up and coming artists.

At the very least if this segment of artists is removed from the ‘remainder’ tier for the purposes of calculations then the income level distribution would less dramatically skewed towards the Top 1%. If nothing else, the issue of the vast quantity of DIY catalogue builds a case for DIY sector, along with music services
themselves, to create a tailor-made discovery solution that gives this music an appropriate, and fair, role in the digital marketplace.

Until labels, distributors and artists come together to fix the issue of digital catalogue pollution – sound alikes and karaoke especially - the Tyranny of Choice will reign supreme, hiding 99% of artists under a pervasive shroud of obscurity and giving the Superstars a free lap of the track.
Methodology
Methodology Statement

In order to accurately assess the evolution of artist income across all key forms of recorded music revenue we developed a market level model that quantified the share of each revenue stream that goes to artists. The divergence in artists’ commercial relationships and deals means that any analysis of artist income requires a nuanced and sophisticated approach that accounts for the full range of complexities and variables. Thus the model factored the following elements into calculations:

• The different average revenues earned by artists across each format, split by average rates for major label artists and for independent label artists
• The amount of music sales revenue that is withheld from artists that are not yet recouped
• The independent and major label market share across each key revenue stream

In order to assess the share of revenues accounted for by the top 1% of artists across each key recorded music revenue stream we worked with data from leading music services, distributors, record labels and artist managers, including actual sales data sets. The data and feedback were confidential but provided as anonymous micro inputs to create a macro view. The companies that provided input into this study did so on an anonymous basis.

Notes

1 MIDiA Consulting Consumer Survey 12/13, UK only. n = 1,000
2 For the record, as a musician who’s recorded music output is no longer good enough to be signed by a record label – though once was – the author places himself firmly in this camp.
About the Author

Mark Mulligan

Mark Mulligan is the co-founder of MIDiA Consulting and is a digital business strategist with 15 years of analysis, consulting and management experience, with a proven record in strategy, thought leadership and business development.

For 11 years Mark was a Vice President and Research Director at Jupiter Research and then Forrester Research, where he led research and analysis into how technology shapes media businesses and the consumer. Mark works right across digital value chains helping media, technology, telco and software companies harness disruption and innovation to pursue disruptive renewal strategies.

Mark provides expertise and insight including: strategic analysis, competitive market assessment, consumer insight and segmentation, user experience and user journey assessment, and product strategy.

Mark additionally works in an advisory and non-executive capacity with a number of early stage start-ups.

Mark is a widely recognized authority on the digital music market and maintains the industry leading Music Industry Blog which counts dozens of CEOs among its regular readership: http://musicindustryblog.wordpress.com/

Mark is also the author of the forthcoming book ‘Meltdown: The Music Industry in the Digital Age’