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Does Spotify Really Hurt Artists?

By Daniel Witt

Many artists and workers in the music industry find fault with Spotify. Spotify compensates artists less than iTunes or traditional record companies. In an age where music has become almost completely digital, music streaming has been a controversial topic among those in the music industry. Spotify, the world's second largest music-streaming platform with 47.7 million monthly users,¹ has taken much criticism for what many people believe is the company robbing artists of their royalties.

The problem with these types of criticisms is that they are narrow minded and only look at one aspect of music-streaming services – direct revenue. Of course, the amount of money made off of the music is an

important aspect, but the reality of today's music industry is that an artist cannot become successful without using music-streaming services. In order to determine the true effect of music-streaming services on the artist and industry, the pros and cons of the service must be examined.

Spotify provides a large portion of the music-streaming market, so focusing on their influence will help to determine what music-streaming is providing or taking away from the industry. The overall conclusion upon examination of Spotify is that even with a few downsides to streaming, the aggregate effect of Spotify on the music industry is a positive one, and as artists learn to embrace streaming services like Spotify, they can find more success in their music careers.

The Downside of Spotify

Downsides to the shift in popularity to streaming services from one-time purchasing are mainly based off the initial revenue collected. The main argument against companies like Spotify is the blatant difference in revenues when comparing streaming to a one-time purchase of a song on iTunes. Luis Aguilar and Joel Waldfogel found that the average revenue for one stream on Spotify is between \$0.006 and \$0.0084. Tit takes an average of 137 streams on Spotify to displace one-track sale.²

Such a large difference can be daunting, especially for newer artists who struggle to accumulate streams on their Spotify catalogue. An artist might feel a more profitable approach for

them would be to push sales of albums and songs using iTunes instead, where they can earn \$0.69³ for a song up front from each person who buys it at a price of \$0.99. iTunes guarantees revenue because no matter how many times the buyer listens to the song, the artist receives \$0.69. The artist will get paid \$0.69, regardless.

Using streaming services like Spotify becomes a whole new, and somewhat more difficult, approach to selling music. For an artist to successfully sell their music, their music must be good enough to stream over and over again to make the same profits as a single-track purchase. The artist could have the same amount of listeners on Spotify as they had in the past on iTunes, but make less revenue because the amount of times the song has been streamed does not make up the difference in revenue from the up-front purchase of the song for \$0.99.

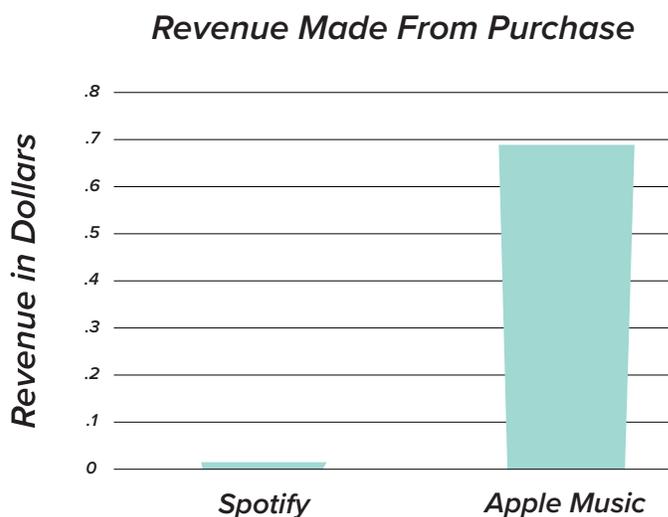
Most studies that have been conducted on the effect of Spotify and streaming on the music industry have found that, in the short run, these services have a negative effect on revenues. Nils Wlomert specifically found that in the case of Spotify's free streaming service (with revenue being generated from ads) the net revenue effect per month for his sample was 1,795,840 euros. However, the net revenue effect of paid streaming offset this negative amount, with a net revenue generation of 4,418,680 euros.⁴ Although the overall aggregate effect is positive, an argument could be made that short-term profits for the industry suffer because of online streaming. Less patient artists and artists who are completely dependent on their streaming revenue may find more of an issue with streaming services because they want a more immediate compensation for their music.

The Upside of Spotify

When considering the benefits of online streaming over one-time song purchases, one of the most prevalent is the ability for the service to combat music piracy. Combating piracy is especially important in today's world, where anyone with a simple understanding of the Internet can find any song and download it for free. Artists lose revenue when this happens, and Spotify has helped in this aspect. A study by Dorr, Wagner, Benlian, and Hess found that music pirates would be much more open to switching to a music streaming service than purchasing music as a one-time download.

"The presented study demonstrates that new offers of music consumption can also be an attractive alternative for music pirates. Although there is no indication of the reduction of illegal downloads in general, music pirates consider the free ad-based version of MaaS [Music as a service] an alternative."⁵

Spotify's free service with ads has helped fight the war against music piracy because the service has a complete catalogue of music to listen to in a convenient location for users. The ability to access this music for free brings music pirates to the service, which in turn generates revenue from advertisements for the artists and the company. Artists have to admit they would enjoy at least a small portion of



Data Collected by Verto Analytics⁴

revenue from advertisements than no revenue at all as a result of pirating.

Spotify allows artists to gain visibility in the music industry more quickly and much more easily. With Spotify's many features, such as playlists, merchandise pages, discover weekly playlists, and concert date info, artists are able to connect with users and make additional sales. The tools also provide a more innovative and direct way for up-and-coming artists to gain exposure because Spotify is geared to help you find new artists. SAs Spotify offers listeners access to the artists' entire music catalogue, music lovers have new tunes at their fingertips. This benefit added to streaming services stands as a definite advantage over iTunes. Independent artist Verite has said this about Spotify and its ability to help her career:

"Spotify won't build your career, nor is that its responsibility. It provides a platform for discovery. It will link your listeners to your merchandise and concerts, and it will provide back-end data for you to locate and analyze your followers."⁶

Many studies have also been performed which show that music streaming services like Spotify have a positive net effect on the music industry in terms of revenue: "Our aggregate level calculations suggest that – given the current number of adopters of free and paid streaming services – streaming services are net positive for the industry."⁷



*Spotify can help local artists gain more exposure. Local Artist T33t3r Tott3r uses Spotify's features to gain fans. Photo courtesy of the author.*³

"The aggregate effect of Spotify on the music industry is a positive one, and as artists learn to embrace streaming services like Spotify, they can find more success in their music careers."

Conclusion

The positive influence of Spotify continues to grow. Sam Wolfson of the Guardian newspaper reported that... since 1995. These companies also enjoyed a 45% increase in subscription streaming revenues in just one year.⁸

These gains in revenue will continue to increase as more and more consumers make the switch to streaming services like Spotify. Critics admit that the initial problems prevalent in earlier streaming years have decreased. Streaming companies are not going away anytime soon. Artists need to learn to use these services as their primary channel of music distribution in order to be successful.

Spotify and music streaming are guiding the world into a new way of consuming music. Just as iTunes replaced CD sales and CD sales replaced record sales, there will be nothing that critics can do to stop these companies from taking over the industry. The sooner the music industry accepts this fact and focuses on finding ways to solve the minor problems that may arise, critics and supporters alike can embrace this new era of music streaming together. 🎵

Notes

¹ Verto Analytics. Most popular music streaming services in the United States as of March 2018, by monthly users (in millions). <https://www.statista.com/statistics/798125/most-popular-us-music-streaming-services-ranked-by-audience/> (accessed 4/3/19, 5:24 PM).

² Luis Aguilar and Joel Waldfogel, "Streaming Reaches Flood Stage: Does Spotify Stimulate or Depress Music Sales," NBER Working Paper Series, October 2015, 4, 20. <https://www.nber.org/papers/w21653.pdf>

³ Stuart Dredge. "How Much do Musicians really make from Spotify, iTunes, and YouTube?" The Guardian, April 3, 2015. <https://www.theguardian.com/technology/2015/apr/03/how-much-musicians-make-spotify-itunes-youtube>

⁴ Wlömert, Nils and Dominik Papies. "On-Demand Streaming Services and Music Industry Revenues - Insights from Spotify's Market Entry." International Journal of Research in Marketing 33, no. 2 (06, 2016): 314. <https://search-proquest-com.erl.lib.byu.edu/docview/1799025152?accountid=4488>.

⁵ Dörr, Jonathan, Thomas Wagner, Alexander Benlian, and Thomas Hess. "Music as a Service as an Alternative to Music Piracy?" Business & Information Systems Engineering 5, no. 6 (12, 2013): 383-396. doi:<http://dx.doi.org/erl.lib.byu.edu/10.1007/s12599-013-0294-0>. <https://search-proquest-com.erl.lib.byu.edu/docview/1459530840?accountid=4488>.

⁶ Verite, "Spotify Isn't Killing the Music Industry: It's a Tool for Enterprising Indie Artists," Forbes Magazine, March 19, 2018. <https://www.forbes.com/sites/bizblog/2018/03/19/spotify-isnt-killing-the-music-industry-its-a-tool-for-enterprising-indie-artists/#48820f07476b>

⁷ Wlömert, Nils and Dominik Papies. "On-Demand Streaming," 314 - 327.

⁸ Sam Wolfson, "We've Got More Money Swirling Around: How Streaming Saved the Music Industry," The Guardian, April 24, 2018. <https://www.theguardian.com/music/2018/apr/24/weve-got-more-money-swirling-around-how-streaming-saved-the-music-industry>