

The Music Industry in the 2020s

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It's Monday morning in Barcelona, and a smart speaker plays "Celebration" by Cool & The Gang following a request for some feel-good pop songs to begin the day. Meanwhile, several time zones away, an audiophile stays up late watching the Berliner Philharmoniker play Tchaikovsky's "Romeo and Juliet", live from Los Angeles' Music Center. In Dubai, a couple record themselves dancing to "Beautiful People," the hit song by Ed Sheeran, to take part in a dancing challenge on the social network TikTok. A touring metal band checks which of their songs are the most streamed in the Tokyo area, in order to prepare the setlist before a live concert. And in a mall near Milan, a teenager is listening to "Dynamite" by Korean pop Band BTS on her smartphone, while her mother tries to hunt down a re-issued vinyl edition of the Beatles' White Album.

Music has been omnipresent throughout the ages and across all human cultures. It possesses the ability to transcend social, religious, and language-related barriers and reach all kinds of audiences. Much like other cultural products, such as literature, artworks, and movies, it has a way of generating deep, genuine emotions. It shouldn't surprise us then, that it has gone on to become such an important industry. However, despite music's crucial standing in our lives today, its commercial prospects have not been impervious to ups and downs.

"They say the record business has been hit by a perfect storm: a convergence of industry-wide consolidation, internet theft, and artistic drought." This was the headline in 2004, that PBS, the American public broadcaster, used to provocatively proclaim the music industry was dying.¹ Yet two decades later, these and other similarly ominous predictions have not – apparently, at least – come to pass. In 2020, the International Federation of the Phonographic Industry (IFPI) reported that, on average, people listened to 18 hours of music per week, up from 17.8 hours in 2018², and the industry was once again showing sustained growth.

This technical note was prepared by Professor Govert Vroom, Abhishek Deshmane, PhD Candidate, and Isaac Sastre Boquet, case writer. September 2021.

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Since the emergence of digital technologies in the 1990s, the music industry has been in a state of constant disruption. In a world where multiple media compete for the attention of individuals through multiple channels, the ways people all over the world are now creating, distributing, and consuming music seem to be more diverse than ever. This note describes the current state of the industry, the value chain, its actors, and the existing – and emerging – business models.

The Business of Music

The History of the Music Industry

Recorded music came into existence with the invention of the phonograph by Thomas A. Edison in 1877, which enabled sound to be recorded and reproduced using an engraved cylinder – the “record.” Before this invention, the only way for people to listen to music was to attend a live performance. But now music could be distributed on an industrial scale, making it accessible to wider segments of the population. Artists were able to expand their reach as more people further afield were able to listen to their work, thereby increasing demand for tours, which became longer and covered larger geographic areas. This marked the birth of the music industry as we know it today; the oldest surviving music label, Columbia records, was founded in 1889 to distribute both Edison phonographs and playing cylinders.

The emergence of mass media, such as the radio, and later, television, further contributed towards the popularization of music throughout the 20th century. Instead of actively purchasing a particular record, listeners could now tune in to a vast array of radio stations where *disk-jockeys* played a selection of chosen songs, exposing their audiences to new artists, genres, and even types of music. In the end, this created what we now understand as “popular music” with its carousel of hit songs and popular artists; the first charts of the most popular music tracks (like Billboard’s “hit parade”) started in the 1930s.³

Ultimately, the music industry peaked in 1999, when it reached \$38 billion in global revenues.⁴ At the time, it was riding a wave of growth as a more convenient playback media, the CD, had replaced vinyl records and cassettes. CDs combined the accessibility of small cassette tapes with much higher sound quality and fidelity.

However, in June that year, a group of American entrepreneurs launched the file-sharing service Napster. The service allowed users to share files easily and freely through the Internet using the novel MP3 digital audio format, which produced small sized files with CD-like playback quality. It became the first step towards unravelling the entire industry as it had been understood up to that point. In the ensuing years, revenues collapsed while the industry struggled with how to respond to the revolution presented by the Internet and new digital formats, including piracy. Ultimately, the industry reached an all-time low of less than \$16 billion in 2011, having lost over half of its revenues in the space of 12 years.⁵

The trend started to reverse when the industry finally produced the first successful business models built around non-physical digital formats. First through purchasable digital downloads, spearheaded by Apple’s iTunes, and later via streaming services like Spotify and Pandora.

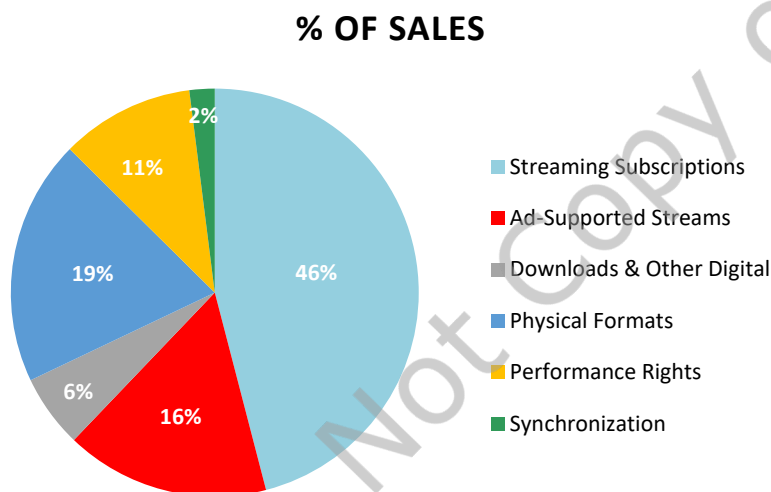


The Music Industry in 2020

According to the IFPI, in 2020, the recording industry achieved revenues of \$21.6 billion, a 7.6% growth versus 2019⁶, and a CAGR of 7.5% since 2015, marking the first 5-year period of sustained growth since 1999. The industry's largest markets are the US (\$12.2 billion)⁷, Japan (\$2.78 billion)⁸, and the UK (\$1.86 billion).⁹

The industry, however, now looks much different from 1999, or even 2011. CDs and vinyls sold at physical stores had already given way to digital goods as the main drivers of business (digital revenue first surpassed physical sales in 2014)¹⁰, but now even earlier successful digital models – like digital purchases – have taken a backseat to new models like streaming. In fact, streaming is by far the biggest contributor to the industry, bringing in 62% of revenue, with a staggering CAGR of 36% since 2015. See **Figure 1** for a breakdown of the industry's revenue streams in 2020, and **Exhibit 1** for historical data.

Figure 1
Music Industry Revenue Streams (2020)



Note: This chart and total revenue figures don't include revenues from ticket sales of live music performances.

Source: Based in "Industry Data." IFPI. Accessed April 27, 2021. <https://www.ifpi.org/our-industry/industry-data/>

These revenue sources are described as follows:

- Streaming subscriptions: services like Spotify, Amazon Music, or Apple Music, where consumers can listen to any song in their libraries in exchange for a subscription fee.
- Ad-Supported streams: these services work similarly, but are funded through advertisements delivered to the user instead of a subscription fee, and usually offer a more limited library or feature set. This category includes modern digital services like Spotify Free, but also the still ubiquitous traditional radio.
- Downloads & other digital: digital tracks that can be purchased and downloaded to the consumer's devices, which then "own" the track.
- Physical formats: sales of physical media like vinyls, CDs, and others.