

Apple's about-face reveals cracks in music industry

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In this May 15, 2015 file photo, Taylor Swift performs at Rock in Rio USA at the MGM Resorts Festival Grounds in Las Vegas. Apple's abrupt about-face on paying royalties for songs during a three-month free-trial period for its new music service was a symbolic victory for superstar Swift and other artists, and a shrewd business move by Apple, at a time when the streaming phenomenon is causing major changes in the music industry. Apple had already agreed to share revenue from the new Apple Music service once users start paying a \$10-a-month subscription fee for the service, which it plans to launch June 30, 2015. (Photo by John Davisson/Invision/AP, File)

Apple's abrupt about-face on paying royalties for songs during a three-month free-trial period for its new music service was a symbolic victory for superstar Taylor Swift and other artists, and a shrewd business move by Apple, at a time when the streaming phenomenon is causing major changes in the music industry.

The olive branch extended by Apple comes as music is increasingly being consumed on streaming services like Spotify and Deezer—to the detriment of album sales and iTunes downloads—heightening tensions between artists, labels and service providers over who gets paid and how much.

Apple had already agreed to share revenue from the new Apple Music service once users start paying a \$10-a-month subscription fee for the service, which it plans to launch June 30. But the technology giant wasn't planning to pay artists and labels directly for the use of their music during the free, 90-day trial period that it's offering to get fans to try the service.

That changed quickly Sunday, after Swift posted an open letter to Apple opposing the lack of royalties during the free period, and declaring she'd be withholding her latest album "1989" from Apple Music because of it. Apple Senior Vice President Eddy Cue reversed the company's trial-period terms, which had gone out to thousands of independent labels, including Swift's Big Machine Label Group, after the technology giant reached a deal with major label groups Universal, Sony and Warner in early June.

The company needed to avoid a "PR nightmare" and quickly extinguish the firestorm that Swift had created, said Daniel Ives, tech stocks analyst with FBR Capital Markets.

"They needed to handle this perfectly," Ives said, because Apple is

facing an uphill battle against competing services like Spotify that are already well-established. "There can be no snafus or speed bumps, from the artists' perspective, or any type of consumer backlash."

Apple hasn't publicly revealed how much it will pay in royalties for the free streaming period. Cue declined to offer financial details in an interview with The Associated Press on Sunday, but he said the payments will be based on a different formula than the company had already negotiated for sharing subscription revenue, since Apple won't be collecting any revenue from the 90 days of free streaming. Instead, Cue said, royalties for the free streaming will be based on a standard amount for each time a song is streamed.

Jeff Price, the CEO and founder of royalty collection firm Audiam, said the free-period royalties could amount to about \$25 million per month in the U.S. alone if Apple Music pays the same as Spotify did in December 2014, according to publishers' data. Ives noted the cost to Apple is "not even a rounding error" for a company that made \$39.5 billion in profit and \$182.8 billion in revenue for its last fiscal year.

While Apple Music doesn't have any subscribers yet, compared to the 4.7 million Spotify had in the U.S. then, its global launch in 100 countries could quickly change that. Still, Price says the gesture will likely be worth it for Apple.

"It got them an unlimited amount of public goodwill and artist goodwill," Price said.

Some artists did praise Apple Monday for its decision, while many more cheered Swift for taking her public stand. Rocker Elvis Costello called Swift "our future president" on Twitter and added, "You tell 'em, Girl."

Artist grumbling about the lack of compensation during Apple Music's

lengthy free trial had been brewing since the unveiling of service at Apple's developer conference two weeks ago.

The American Association of Independent Music expected a flood of sign-ups at launch, suggesting to its members in an email they should reconsider releasing music to the platform right away: "We are struggling to understand why rights holders would authorize their content on the service before October 1."

The fact that independent labels drove this change highlights their growing power in the music industry—and Apple's practice of simply offering independent labels terms that had been negotiated with the majors, said Rob Enderle, principal analyst of the Enderle Group.

"It certainly showcases to Apple that if they step on the labels, some of them can step back pretty hard," Enderle said.

Withholding their latest releases from services like Spotify had already become the norm among top artists who see more to gain from download sales in the initial release period, including Swift and Adele, who herself is set to release "25" sometime later this year. But few artists have the same clout, and because download sales are falling in favor of revenue from streaming services, few spoke out publicly either for or against the plan.

Cue wouldn't comment on whether Swift will now make her album "1989" available on Apple Music.

Ben Bajarin, a longtime Apple watcher and founder of research firm Creative Strategies, said he'd never seen Apple make such a quick reversal on a major business issue. But he said Apple had no reason not to change position after it was clear artists were upset. And it will likely even gain more favor among fans.

"If there were people on the fence about trying the new service, there are tens of millions that will probably try it now, just to see what it's about, and that will help Apple achieve its goal faster," Bjarin said.

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