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Music Industry's New Money Streams
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Over the past ten years, the U.S. music industry has completely transformed into a digitally driven business. According to data compiled by the Recording Industry Association of America, in 2009 59% of U.S. music industry revenues were driven by physical CD sales whereas streaming brought in a mere 5%. Fast-forward to 2019 and physical CD sales constitute only 10% of revenues, while streaming is now a solid 79%. In fact, paid streaming raked in an astronomical $8.8 billion of revenue for the industry in 2019. The growth of paid streaming services is the singular driving factor behind the music industry's recent success.

Platforms such as Spotify, Apple Music, Youtube Music, Amazon Music Unlimited, and Google Play Music have accelerated growth in the music industry by providing on-demand streaming services for a subscription fee. While these platforms are successful at capitalizing on the digitization of content and improving content distribution, many of them are still subject to natural ceilings because they are not the owners of the songs they stream. This has been an ongoing issue for players such as Spotify, who has been scrutinized in the public markets because of its unclear path to profitability despite its scale and relative success. For instance, the music streaming giant now serves 124 million paying subscribers, but shells out nearly 75% of the monthly revenues it generates on those subscribers to music labels, publishers and the like.

With these favorable economics, music labels are receiving heightened interest from investors and strategics. In December 2019, a consortium led by Tencent purchased a 10% stake in Universal Music Group from Vivendi. The transaction valued UMG at €30 billion and allows the consortium to double its stake within a year on the same terms. Subsequent to the minority investment by Tencent, Vivendi noted in public disclosures that it's considering an IPO for UMG in the near term as the business segment continues to witness strong growth. In doing so, UMG joins Warner Music Group who has also indicated it will be pursuing an IPO.

How well these record labels will perform in the public markets remains unproven. Although labels such as UMG and WMG are directly benefitting from the digitization of content and the surge in streaming, it is unclear whether there is sufficient headroom available for these businesses to continue growing at scale. For example, one researcher cautioned streaming could "slow as it becomes harder to find Americans who are not yet signed up." In order to continue expanding, streaming platforms will need to look outside of the US and European markets. At the same time, labels are looking beyond content ownership and distribution to ancillary entertainment services such as social media strategy and merchandising. Whatever the outcome, it's an exciting time for the music industry as it continues to transform itself.