This document briefly lays out some data resulting from our research into the international music market which, though oriented to the specificities of popular and contemporary music, outlines a possible digital transformation that can also be applied to the classical music sectors and in general to different entertainment sectors.

**THE NEW GLOBAL EQUILIBRIUM OF THE MUSIC INDUSTRY**

The traditional three-part segmentation of the music industry into publishing, recorded music and live music has had its day, and to these traditional industries a fourth line of production and sales, known as music-tech, has been added.

The music-tech sector is well developed in China, the US, UK, India and Europe, especially in Sweden: here alongside the major international streaming players known to the general public - such as Youtube, Apple Music, Facebook Live, Twitch/Amazon, ByteDance/Tiktok, Tencent, Spotify – there are also lesser-known entities such as Kobal, working in the sale of music catalogs, or Believe, a digital and physical distributor that is also active in the field of synchronization for cinema and advertising.

Music-tech is a sector which is, by definition, capable of attracting capital through the application of development models with strong scalability and sustainability: to give just a few examples, Spotify alone is worth as much as Universal on the stock market, Kobalt reaches half a billion dollars in turnover, and ByteDance, known to the general public for the platform TikTok, exceeded 17 billion in revenue in 2019, surpassing even YouTube. The interest of the financial markets and the excellent performance of some companies have led to a renewed interest in music companies, with the major ones very active in recapitalization partly thanks to revenue generated by their immense catalogues.

Moreover, it is interesting to note the role of the music-tech sector in supporting the “resistance” of physical media and particularly vinyl. Amazon is in fact the most important distributor of physical music in the world, but there are also thriving companies that specialize in national markets, such as Feltrinelli in Italy, or in niche markets, such as Bandcamp, an independent productions distributor, or Discogs, which specializes in music collection.
For years, publishing has been watching the movement and transformation underway in the world of recording, gradually benefiting from the development of the live industry to some degree without embracing any real transformation of the specific industry that has always been the backbone of music, turning the creativity of artists into a “product”.

Digitalization has meanwhile revolutionized the production system by introducing profound changes into the creative process. It has also resulted in the development of new business opportunities, leading to growth in the synchronization market thanks to the development of the videogame market, and the increase in film and television productions.

However, the most anticipated and ultimately possible technological transformation is that of full protection of intellectual property rights which can now be traced on a global scale.

The record industry, which went into crisis 20 years ago due to its inability to face the challenge of digitalization, has caught up over time thanks to the “liquefaction” of the product from physical to digital and the consequent re-conversion of the supply chain. The current record market is now seeing almost half of its total revenue coming from digital music, while in Italy almost 60% of users consume music via digital media, according to data from IFPI.

It is a real revolution that has made an unlimited amount of music immediately accessible on a global scale and at very little cost, thus stimulating consumption. Today, music is the most widespread cultural product of consumption in terms of hours of use.

There is no shortage of weaknesses however: digital has created a sort of structural imbalance in the supply chain determined by the need for an ever-increasing production rate and the resulting drop in the value of each individual production.

The larger companies have reacted by joining together. Today on the global market there are only 4 major active companies compared to the 10/12 that were counted in the last century.

Companies that are smaller and quirkier in comparison with the mainstream have sought access to a wider market so as to compensate for the increasing costs of promotion, a real thorn in the side of independent productions. Artists then saw a drop in profits deriving from music production and an era of semi-dependence on the ability to compete in the live market has essentially begun.
The **live industry** has managed to take advantage of the increased consumption of music and has repositioned itself as the economic head of the supply chain.

However, the practices of this industry have not undergone a digital transformation, with the sole exception of ticket sales services, provided by companies so powerful that they can afford to buy more than 50% of the entire live music market.

Despite positive numbers showing an increase of around 8% per year in ticket sales up to 2019, today’s reality, even before the pandemic crisis that has obliterated an entire season's operations, is that of a sector stuck in traditional business models, with high levels of investment and low margins. In this apparently booming sector, the small and medium-sized operators are actually struggling, and the digitalization of the supply chain is seriously lacking, with only rare examples of experimentation on the new frontiers of cross-reality.

**Music-tech** has a short but intense history.

In 2001 Napster was born, in 2005 along came Youtube, and in 2008 Spotify was founded. Among the most recent queens of the market, Twitch arrived in 2011, but was acquired by Amazon as recently as 2014; Tik Tok is from just 2016, yet in a very few years this sector has literally turned the entire musical ecosystem upside down. This transformation continues at breakneck pace for many professional figures who are now destined either to transform or perish.

The traditional industrial and distribution system has already disappeared, leaving workers, agents and warehouse managers out of work. The production models have been definitively transformed. The role of producers skilled in the use of digital workstations that guarantee better results than the best "equipped" analog recording studios is prevalent. Roles that have so far proved "untouchable" such as curatorial A&R and artistic directors are now threatened by algorithms able to steer business choices in a bottom-up logic, based on public taste. There are also applications that can boost artistic performance thanks to artificial intelligence or even replace the creatives with synthetically generated music.

Reliable research into music-tech is non-existent. The Chinese Tencent alone boasted turnover of 50 billion in 2019, while in the same year Apple Music generated revenue of almost 10 billion. Combine these figures with the other aforementioned big music tech companies and the total exceeds 100 billion, more than the record industry and the live industry put together!!!

In the world, if 100 is the total economic value of the music industry 4.0, music-tech would be worth 60, the live industry 30, and the traditional recording and publishing industry 10.
THE MUSIC INDUSTRY IN ITALY AND THE IMPORTANCE OF THE MUSIC-TECH INDUSTRY WITHIN IT

In Italy the music sector is still largely carried by the traditional sectors: live music had reached almost 1.6 billion in turnover in 2018; the record business 250 million in 2019. The specific copyright "market" worth over 500 million is also significant - similar to that of much larger markets such as the English or German ones - demonstrating the validity of a detailed analytical system of enhancement typical of the Italian market.

If we consider the wider system which includes synchronization, musical instruments, education and reproduction media, SIAE research estimates its value within the ecosystem at roughly 4.7 billion, or even 8 billion, to go by estimates from the Chambers of Commerce.

It is important to note that this is a highly autarchic system in terms of consumer preferences - almost 60% of the music consumed in Italy is Italian, though it remains dominated by large international players – none of them Italian - in both recording and live music.

Moreover, the level of international penetration of Italian-made music is very low, with a negative trade balance of several million between imports and exports.

The music-tech sector is still underdeveloped, with no relevant studies on the subject, let alone organizations certifying as to the reliability of the data.

From an empirical analysis carried out by Music Innovation Hub, which started building up the Italian music-tech community in 2019, there are about fifty companies operating on various levels: start-ups, design studios, consultants, but none of much importance in terms of employment or the economy.

An insubstantial ecosystem in terms of turnover and the relevance of individual entities, but dynamic and interesting in certain areas: music publishing apps for choirs and orchestras, synchronization services, event broadcasting, sales of musical interfaces – tools and software – as well as some experimental projects in digital distribution.

The system is highly fragmentary and effectively subject to the big international companies. It cannot be documented in part due to the lack of dedicated ATECO codes and a dearth of the kind of concrete support initiatives typically found in this sector, such as incubation and acceleration projects.

In this sector, Italy is also absolutely insignificant on an international level.
INNOVATION, VALUE GAP, DISINTERMEDIATION

The digitalization of the industry now underway is irreversible and carries momentous impact, with the increased fluidity of the market helping some local phenomena, such as K-pop or Latin music, to become worldwide phenomena leading us into a new cultural era.

In Italy, too, direct, low-price consumption has forever transformed the artistic landscape, putting front and center artists who target a very young audience without the resources to purchase the physical product: a real revolution with important economic implications thanks to the emergence of small and very small new businesses with the potential to become significant players in the market.

Yet there are some relevant points to unravel.

The most important is the value-gap or the ratio between streams and earnings guaranteed by the current monetization systems*. It is basically impossible to make a living from streaming alone, so much so that even stars of a more advanced age are forced to return to their old touring schedules in order to support the expensive lifestyles once guaranteed by income from catalogs and editions.

We are therefore facing a fragile ecosystem - as evidenced by the Covid era - an industry with a great deal of “product”, but little economic value.

If music production no longer pays as it once did, but acts more as a tool of communication in the relationship between creator and consumer, the balance of power within the supply chain is altered, as are the professional figures required and the tools needed to enhance the investments that are increasingly necessary to emerge in the midst of a real flood of content uploaded to the internet every day**.

To some extent, the artist has an increasingly direct relationship with his/her audience, but it is much more complex to effectively manage and exploit all the new interests and activities so as not to find yourself suddenly pushed out of the market and devoid of resources.

This leads to a digital transformation of the music industry at all levels with the need for a faster pace of production, constant updating of communication strategies, and the possibility of an international dimension in musical projects.

In the face of the industry’s delay in adapting to the digital revolution, a new potential conflict emerges: music-tech companies looking to simplify services turn to professional content producers directly.
Disintermediation is the basis of a new conflict of interests between the different pillars of the industry. Despite the growing interconnection between different players - major record companies, distribution and streaming services, multinational live music, ticketing services that share quotas and governance systems - all of them have diverging objectives because they are based on different models.

On the one hand, there is the goal of acquiring an increasing number of followers at the lowest possible cost by setting the price point as low as possible for purchase or consumption of music; on the other hand is the need to assign a value to musical products that ensures a return on investments and long-term sustainability.

Clearly those who benefit most are the eco-systems with the capacity to rationalize and establish fair innovation processes, harnessing their power as an instrument for competition on a global scale, perhaps aiming at the creation of new markets, but striving above all to allow music production to achieve its full potential for the benefit of all concerned.

LIVESTREAMING AS A DIGITAL NATIVE BUSINESS MODEL

In Italy, entire sectors within the supply chain have been definitively digitalized, although the industry itself seems to lack a culture of innovation that keeps pace with the most effective tools and solutions of the day. Such an approach would enable the industry to look on new challenges with more enthusiasm and give them greater prominence.

The approach to livestreaming is not an exception. It is branded as a format with little chance of success rather than a new paradigm of the music industry, yet is unequivocally one of the most interesting solutions among those on the market.

The streaming services that we have become acquainted with in recent years have succeeded in establishing a new relationship between artists and their audience. Though lacking in differentiation and true innovation in terms of features, they have disrupted a consolidated system without destroying the wider ecosystem. On the contrary, they have renewed its central role, even at the – very heavy - cost of a full conversion.
The challenge that we are facing today is to consider the opportunity that the digitalization of live music presents in an industry that is still stuck in decades-old production models.

We need to come up with concepts that go beyond the simple reduction of a live concert to a digital viewing experience, something that is already possible through other media, first and foremost in television.

The current trend is to devise new virtual music experiences, which can vary from intimate sessions for a few participants, perhaps enhanced by gamification strategies, to the possibilities offered by immersive technologies (audio and video).

If we set off on this journey with a narrow outlook, the opportunities will naturally be limited in scope: we therefore need to come up with a new native digital creativity, which does not treat livestreaming as a mere digital transposition of what was physical before, but rather looks on virtual events - of which livestreaming is just one element – as a new frontier for the music industry.

While it is absolutely true that a live concert does not and will never offer the same experience to the audience, the growing potential of digital media has yet to be integrated into the creative processes of those who deal with live music and the experiments currently underway show that there is ample room for the construction of “other” experiences compared to those we are used to.

A concert that is simply filmed and put online is reductive as a solution, when there are new and engaging native digital formats with the potential to emerge.

Concert halls, clubs, festival and events organizers are now up against the challenge of expanding their skillset and upgrading digital equipment in order to keep up with the unstoppable process of transformation that is underway, and find a central role for themselves within it. This same transformation that allows us to face the critical situation with a proactive attitude today, will allow live events to adopt hybrid models tomorrow, giving them the chance to “augment” the experience both offline and online.
GIVING VALUE TO MUSIC PRODUCTS

Another fundamental concept that the music industry – and more generally the cultural sector – together with its operators and public - must embrace in order to complete the digitalization process is that of **digital scarcity**.

In the analog world, live tours remain an important revenue stream for the music industry because they represent a form of physical scarcity: an touring artist might appear in a city only once or twice a year and it is impossible for the same performance to be repeated or replicated at any other time. Depending on the artist’s level of fame, attending these rare experiences may cost up to thousands of dollars for fans who are willing to pay for VIP treatment.

On the contrary, many people expect online content to be free and omnipresent, which is to say the very opposite of scarce. The Covid-19 pandemic has forced many artists to move from a low-volume, high-margin model of physical scarcity to a high-volume, low-margin model of digital ubiquity. Under pressure, several artists are now releasing more content at a faster pace than before (livestream is a great example), but they are not remunerated to the same extent as they would be by going on tour.

Embracing forms of digital rather than physical scarcity could potentially help artists to bridge this gap in value and provide the foundations for a music economy. We are still at the dawn of digital scarcity in music, which so far has mostly taken the form of digital equivalents of physically scarce goods and experiences.

Growing these models of digital scarcity in the music field is not so much a technical problem as a cultural one. In a world like the one we live in today, live shows basically no longer exist and digital ubiquity does not adequately compensate for the lost value. Closing this gap by purely digital means would require a great shift in our mindset, meaning no longer taking the ubiquity of digital music for granted.

Recognizing intellectual property as the only real value of an industry with the illiquidity of the cultural sector means setting up monetization systems for digital cultural content as well as copyright monitoring and redistribution systems, potentially homogeneous and harmonized on a European level so as to fully exploit the global dimension that digitalization offers us.
CONCLUSIONS

In the process of digital transformation the traditional sectors of the music industry have the historic opportunity to join the new music-tech sector, finding common interests and establishing rules that benefit the whole system rather than just the individual figures within it.

The historical moment is favorable.

According to a recent study by Goldman Sachs, while reporting a negative performance of 25% in 2020, the entire ecosystem will soon see a resurgence, making up for the losses of the past two years, and hitting double its value – 140 billion – in 2030. This process will largely be powered by streaming services, which, even more than the live realm, are the real driving force behind it.

New artistic, managerial and technical skills are needed in this new playground, hence new professional figures, who have the native ability to think digitally. This offers the best chance of reaching a huge potential audience at little expense, harnessing the potential of Made in Italy – in the sense of a product made in Italy – on an international scale.

Digital transformation does not lead to a devaluation of current production and usage models, nor to a downsizing of the role of production centers. It introduces new experiences, whether hybrid or digital. However, it must be combined with strong safeguards for intellectual property, in order to not only alter the public perception of the value of music – currently regarded as a commodity – but also to support its development on a permanent and transparent basis.

In some ways, we are facing a new landscape that it is up to us to govern if we wish to avoid repeating the mistakes of over-enthusiastic digital revolution models. We must take care to protect the interests of those who create and invest in cultural content.

*A recent English study has shown that between 900 streams on Amazon and 7.3k streams on Youtube are needed in order to earn the equivalent of an hour’s work – according to UK standards.

**Every day, 40k tracks are uploaded on Spotify – in 2019 it was 20k per day.