

# **31th Voorburg group meeting on services statistics**

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## **Mini-presentation on “Sound recording and music publishing activities” (SPPI)**

**ISIC 4.0 : 59.20  
NACE rev.2 : 59.20**

Yann Leurs  
*Insee, France*

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Insee developed a SPPI for the industry of “sound recording and music publishing activities” in 2009 and the corresponding index has been published since 2010. However, the diversity of this industry, the complex layers of institutional actors (especially in France) and the strong evolutions of consumption modes made it relevant to renew the sample of enterprises and transactions in 2014-2015. The purpose of this paper is to provide an overview of this operation.

## 1. Definition of service being priced

As in other publishing activities such as books or newspapers, the description of the industry is associated with an intellectual production whose content is protected by copyrights. At the end, it can take the form of a physical product (music score, tape, CD...), a digital file, or a license giving the right to re-use or to reproduce the sound.

Another point that characterizes the industry is that the companies own the copyrights (or they are administrators of the copyrights on behalf of the copyrights owners). Reproduction of sound recordings without owning the copyrights is not publishing (see ISIC 18.20).

The products or services that have to be priced can be:

- Technical services such as recording services. They suppose the use of a professional equipment (studio or assimilated); it includes live recordings services in the area of an event; live recordings of radio shows; non-live production of radio programs. It excludes the rental of recording studios when the technical staff is provided by the client; it excludes radio programs when associated with broadcasting.
- Sound master recordings: master records resulting of the services mentioned, protected by copyrights.
- Music publishing in all kinds of forms: physical products such as music score books, records, music to download or streaming media. Internet sites which sell music to download legally are classified in the industry, but Internet sites where most songs are posted by the users are not considered as music publishers; they are classified in data storage industry (NACE 63.11).
- Advertisement on Internet sites that are offering file downloading or streaming media. As in all publishing activities, French approach consider that the sales of advertising space shall contribute to the price indexes of the industry (basic prices) *and* to the price indexes of advertising industry (NACE 73.12)<sup>1</sup> (market prices).
- Licenses: products of exploitation of the music copyrights: promotion, authorization, reproduction in all kind of forms or medias. For instance, royalties payed for the use of copyrighted music on radio, TV, in films, spectacles, advertisement, on physical or digital media.

## 2. Unit of measure to be priced

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<sup>1</sup> See OECD-Eurostat SPPI methodological guide, 2014 Edition, 8.1.6.3

Unit of measure for the physical market of records is usually called PPD (price per deal): income of the producer when he deals with a distributor.

Unit of measure for the price of digital files ready to download is basically a price per title / price per album, but when introducing streaming media, these units are no more relevant:

- the unit of measure to be priced is a monthly (sometimes quarterly or annual) subscription,
- in some cases songs may be free or very cheap as the costs are covered by advertising. In this case the unit of measure may be the PPV (price per view) of the banner, or PPC (price per click) on the banner. A monthly subscription may also be suggested to the consumer to have access to the music without having to watch advertisements.

Units of measure for the price of licenses services are manifold, from price per song to the annual subscription payed by a shop where music is played. In France there is also a "remuneration for private copy" collected on each sale of data support (hard disk drives, smartphones, memory cards, recordable CDs...). The price is per unit and depends on the type and the capacity of the support.

### 3. Market conditions and constraints

Production of music recordings is very concentrated in France, where three "majors" dominate the market. They coexist with independent labels that have not the same abilities to access the final consumers, especially through the digital market.

The changes of consumption modes accelerate in 2015. According to SNEP<sup>2</sup>, the sales of records / digital files in year 2015 show a decrease (-4,7%), because of the simultaneous declines of physical sales (-15,9%) and, for the second consecutive year, of music files downloading (-20,5%). However, the vigorous growth of streaming media (+45%) limits the decrease, and shows that this media still has a great potential for the future.

In spite of their continuous decrease over the years, physical products still represent 64% of the French market. Only vinyl discs sold better in 2015 than in 2014, but they only represent 2,3% of the physical market. According to specialists, the CD support tends to be depreciated over the years by the pricing models of distributors with too many "best of" and "special offers".

Streaming media rises up to 69% of the digital market; file downloading 28%. Streaming is mostly financed by consumers' subscriptions (79%; streaming financed by advertisement = 21%). The distribution of the market between all kind of products might be not stabilized and could keep on evolving in the next future.

According to Pascal Nègre, former CEO of Universal, "Music is living his fourth digital revolution. After the piracy, the telephone rings, and the iTunes model, music changes his paradigm with the streaming media, which consists in paying for the use and not for the possession".

The growth of streaming media has consequences both on the physical market and on classic download sites. The arrival of many new actors in streaming services, and the expansion of the catalogues are giving rise to concurrency. Another concurrency is free Internet sites where songs are posted by users.

The French 59.20 industry is also characterized by its management of the copyrights by professional or institutional actors. Many actors coexist to collect royalties and redistribute them among producers and artists. To give a simplified overview, we can mention:

- SACEM (société des auteurs, compositeurs et éditeurs de musique). Since 1851, SACEM has been collecting royalties each time a work of music is played live. As each work played has to

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<sup>2</sup> Syndicat national des éditeurs phonographiques, french professional representative organization.

be declared with its references, SACEM is able to redistribute very equitably the amounts of money.

- SPRE (société pour la perception de la rémunération équitable) collects royalties relating to broadcasting on radio, television or other music broadcasters. Radios and TV channels send their lists to SPRE which redistribute the amounts.
- COPIE FRANCE has the responsibility for collecting and redistributing the “remuneration for private copy” which has been created in 1985 to counterbalance the loss of income due to copies made by the consumers. This tax is collected on each sale of data support. The redistribution mechanism is quite complex: 75% of the taxes are payed to (audio and video) artists and editors “proportionally to the reproductions of their works”, and the other 25% are invested in help for creation.

#### **4. Standard classification structure and product details / level**

We have to remind that, in European classifications, the choice was made to structure the product classification (CPA) like the industry classification. This choice can be seen in the four first digits of the CPA which are equal to the four first digits of NACE. As French product classification (CPF) is identical to the European CPA, the CPF 59.20 includes all the products that shall be relied to the industry NAF4 59.20:

##### **59.20 Sound recording and music publishing services**

###### **59.20.1 Sound recording and live recording services; original sound master recordings**

59.20.11 Sound recording services

59.20.12 Live recording services

59.20.13 Original sound master recordings

###### **59.20.2 Radio programs production; original master recordings of radio programs**

59.20.21 Radio programs production

59.20.22 Original master recordings of radio programs

###### **59.20.3 Music publishing**

59.20.31 Printed music scores

59.20.32 Electronic music scores

59.20.33 Musical audio recordings on discs, tapes or other physical support

59.20.34 Other audio recordings on discs or tapes

59.20.35 Musical files to download

59.20.36 Audio streaming media

###### **59.20.4 Licenses for the use of original audio**

59.20.40 Licenses for the use of original audio

#### **5. Evaluation of standard vs. definition and market conditions**

The price that is in our scope for the physical products is basically the net income of the publisher, that is to say a price without any retailers' trade margin and without any transport margin. For most of the publishers, it is the price (excluding tax) they sell discs to their distributor.

When publishers face intermediaries to sell their works to consumers, the production price depends on the distribution channel. Thus, for the biggest structures that are vertically integrated (internalizing a part of the distribution channel), the production price should be higher.

### B to B vs. B to C

When the industry was first measured in 2010, only B to All was calculated by Insee. During the revision in 2015, an effort was made to distinguish B to B and B to C.

### Use of a CPI for B to C ?

We found that the use of the French CPI "091411 Recorded discs and tapes" was not relevant for the B to C index of 59.20 industry, as it does not distinguish video publishing and audio publishing.

### Importations / exportations

We thought of customs declarations to estimate imports / exports of physical records. However it was difficult to distinguish discs reproduction (18.20) and music publishing (59.20). A CD of a French artist coming from China may be 18.20 because the French editor owns the right of the music before asking for the printing. A CD of an American artist coming from USA may be 59.20...

In all cases, digital market is not covered by customs.

## **6. National accounts concepts and measurement issues related to GDP measurement**

French production of 59.20 Sound recording and musical publishing was estimated to 1 086 M€ in 2014, far less than films or TV industries. However, it has been in a positive growth for four years (+3,6% in 2015), when many other publishing activities are in decrease. Consumption of firms rises up (+8,5%) and compensates the disaffection of the households consumption (-4,9%). These evolutions reflect that publishers have to sell their work to non-integrated distributors, especially to reach the digital market.

First detailed results published in July 2016 for the year 2015 show that these tendencies persist : 2015 would be a fifth year of positive growth in volume (+3,3%), the consumption of firms would remain sustained (+5,8%) and the decrease of consumption of households might even take a break (-0,1%).

(Note that the scope in national accounts is wider than that of SNEP mentioned in 3 that is limited to sales to wholesalers/retailers and Internet platforms).

### **Sound recording and musical publishing in national accounts**

	2010	2011	2012	2013*	2014*
Production (M€)	1 063	1 060	1 065	1 076	1 086
<i>Growth rate of production in volume (%)</i>	6,8	2,4	2,0	3,2	3,6
<i>Price evolution rate (%)</i>	-2,2	-2,7	-1,5	-2,1	-2,6
Intermediate consumption (M€)	603	639	699	739	801
<i>Growth rate of intermediate consumption in volume (%)</i>	34,8	9,0	9,4	7,6	8,5
Households' final consumption (M€)	738	684	685	656	601
<i>Growth rate of households' final consumption in volume (%)</i>	-9,2	-6,1	1,8	-2,2	-4,9

Source : Insee

## 7. Pricing methods and criteria for choosing various pricing methods

### Recording services

Pricing model is quite complex: prices have measurable components and non-measurable (or non-reproducible) components:

- measurable : technical components of the price, such as studio hours, engineer hours,
- non-measurable: fame of the performers for instance.

Only measurable components were integrated in our pricing method.

### Radio programming

The number of companies in our sample was too small to draw conclusions.

### Music scores

We check the prices of durable music scores (standards).

### Physical audio records

We follow the prices excluding tax, specifying the distribution channel and the range of product (standard, new issue, second edition...).

We excluded to follow titles or artists for a long time.

During the glorious years of CD, the choice of the price of a new release incorporated sales prospects based on several criteria: fame of the artist, past sales of the same artist, past sales in the same kind of music, and so on. This price model has evolved to something simpler because of the depreciation of the support.

It is now relevant to differentiate products using a generic criteria (full price, mid price, low price for instance).

### Digital files to download (excluding streaming)

Households buy their music on specialized platforms; part of them are abroad. Publishers sell digital files to these platforms, and/or licenses for albums or titles. Because the prices are very steady and similar from an artist to another, we tend to follow average quarterly prices.

In order to follow the prices of digital files imported from foreign sites, we also decided to check the prices on the Internet sites.

### Streaming media

B to C :

The purchasers prices generally consist in several ways of subscription to the sites (gold, silver...). The fees of these subscriptions cannot measure consumer utility as they ignore the number of songs listened ("streams"), so we tried to get unit value prices (prices per stream), when possible.

B to B :

Publishers sell files to Internet sites for a price that depends on the numbers of streams generated by each work. In practice, publishers and Internet sites share the turnover created by the subscriptions of users and/or the volume of advertisement, in accordance with the terms of their contracts, that can be different from one to another. So for B to B, we also tried to follow prices per stream, but the analysis of production price is quite complex.

To complete the focus, there are also sales to telephone companies, as some of them include a streaming service in the users' contracts.

## Licenses

On the one hand, there are copyrights sales by the publishers themselves. The prices followed may be unit value prices or list prices established by the publishers.

On the other hand, there are royalties collected by institutionals. The main prices have been made public and they may change once a year. For instance we follow:

- percentage fee for the radios,
- annual subscription for shops like hairdressers,
- price per gigabyte for the private copy tax on a USB drive...

## **8. Evaluation of comparability of price indexes with turnover / output data**

National accounts are using SPPI for 59.20 at basic prices as deflator for this industry. These years, the effect of the deflator on the estimation of the growth of the industry is very significant: as the prices are evolving heavily negatively, the growth in volume is amplified by the price effect (for instance, in 2014, the growth in value is +0,9% and the growth in volume is +3,6%).

There is a total alignment of concepts between SPPI and national accounts in the definition of price.

However, there are differences between SPPI and turnover data (annual structural survey) in the method of distribution between B to B and B to C. For the SPPI we tend to apply the following rules to distinguish B to B and B to C:

- Sales of physical discs / tapes are mostly B to C even when transiting via wholesalers and retailers. In the French annual structural survey, publishers tend to declare them as B to B, but according to OECD-Eurostat SPPI guide we have to consider the final users who are households.
- Sound recording studios / live recording services / radio programming are B to B.
- Licenses for broadcasters or for Internet music sites are B to B.
- Royalties collected by institutionals that are redistributed proportionally to the production of the publishers are in our scope, as they are part of their turnover, sometimes significant. Royalties collected by SACEM and SPRE are mostly paid by enterprises and are B to C. Royalties collected by COPY FRANCE on file supports are mostly B to C since national accounts consider that this kind of taxes are paid by the purchasers and not by the manufacturers.

## 9. Summary

Insee developed a SPPI for the industry of “sound recording and music publishing activities” in 2009 and launched a renewal of the sample of enterprises and transactions in 2014-2015. There are various services in this industry: live and studio recording, physical records and digital music including streaming media, licences services. Part of the prices that are followed also consist in advertisements. The point that characterizes the industry is that the companies own the copyrights (or they are administrators of the copyrights on behalf of the copyrights owners).

French production of 59.20 Sound recording and musical publishing was estimated to 1 086 M€ in 2014, far less than films or TV industries. However, it has been in a positive growth for four years (+3,6% in 2015), when many other publishing activities are in decrease. These years, the effect of the deflator on the estimation of the growth of the industry is very significant: as the prices are evolving heavily negatively, the growth in volume is amplified by the price effect.

The price that is in our scope for the physical products is basically the net income of the publisher, that is to say a price without any retailers’ trade margin and without any transport margin. For physical records, we used a generic criteria (full price, mid-price, low price).

For digital media, we tend to follow average quarterly prices and collect import prices directly on the internet sites. For streaming media, we tried to adjust the price with the quantities of listens, so we tried to get unit value prices from the publishers, when possible.

In spite of the complex layers of institutions collecting and distributing royalties, the main prices of licenses services are also included in the index.