

Music Videos In The News

Examining Online Business Models

Bite Sized Thought Piece

2009

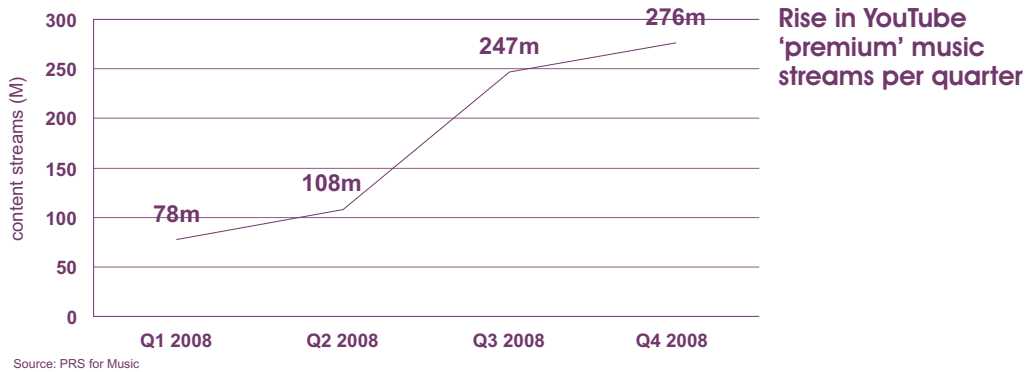


In March 2009, news broke that YouTube was blocking premium music videos from its UK users. This came after the failure of YouTube and PRS for Music to reach agreement over royalty payments made to songwriters, composers and publishers. But, outside of the media world and YouTube users, how big a story is this? And how significant is this for the UK music industry?

Research conducted by Ipsos MORI within days of the news breaking showed that 40% of the British population were aware of the story. This is pretty impressive for a website that was set up in a makeshift office in a garage in the US barely four years ago. The rise of YouTube has been rapid - in November 2006 YouTube was bought by Google in a \$1.65 billion deal. This came shortly after deals with many major music companies (including Warner Music Group, Universal Music Group and Sony BMG Music Entertainment) to host official music videos on the site.

The shift in content is significant. YouTube was originally conceived as a site for users to upload and share content – clips recorded on camcorders, mobile phones and webcams. It did not offer an obvious direct challenge to established music TV channels.





The YouTube business model

'YouTube has had a stronger goal to build a community than to make a lot of money' [YouTube – The Complete Profile, Sid Yadav]. However, with YouTube's rapid growth, deals with the music companies and Google's purchase, all those involved now want a fair return on their contribution.

There has been much discussion regarding the business models of sites such as YouTube. It operates an advertising-driven business model, but (despite much user-generated content that it acquires for free) it still incurs some major costs. As well as the huge bandwidth it must pay for, there are its payments to the music companies and the songwriter royalties for the premium music videos.

As shown in the chart above, 2008 is the year that YouTube really took off in Britain as a place to view premium music videos – 78 million views in Q1 2008 had increased to 276 million by Q4 2008 according to PRS for Music. Worldwide, around half of clips with the highest rankings are music videos.

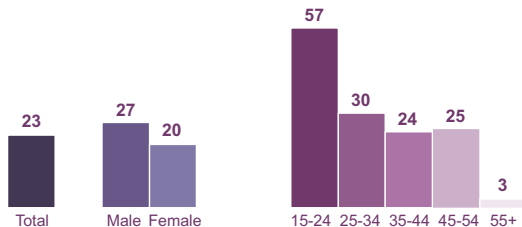
Music TV versus the internet

In the UK, TV remains the dominant method of seeing music videos but for how long? Research conducted by Ipsos MORI in March 2009 showed that 26% of the adult population had watched music videos on the internet in the preceding 12 months, compared to 32% watching them on music TV channels (such as MTV, VH1, 4Music). Of those viewing music videos over the internet, 91% had used YouTube for this.

As shown in the chart below, use of YouTube for music videos varies considerably by age group. Looking specifically at the 15-24 year old group (a core MTV target audience), the importance of YouTube becomes more pronounced – 57% of this group had watched music videos on YouTube in the preceding 12 months – on a par with music TV channels at 56%.

The regularity of people watching YouTube music videos is also striking. Of all adults viewing music videos on YouTube in the past 12 months, just over half (53%) had watched one or more a week with 9% watching every day. Given YouTube's phenomenal popularity, it is not surprising that PRS for Music want to negotiate what they see as a reasonable level of remuneration.

% watching music videos on YouTube in last 12 months



Base: 1,536 GB adults aged 15+ years, 13-19 March 2009

Source: Ipsos MORI

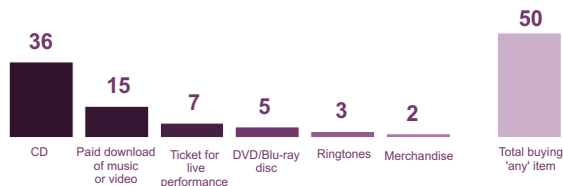
The benefits of exposure

To put the royalty payments in perspective, 0.22 pence per track is the figure that has been proposed by the official organisation the Copyright Tribunal. This is a figure that YouTube says is not sustainable – that it would lose money on every music video watched as this would outweigh its advertising revenue. On the other hand, even at this level, it seems unlikely that any songwriter would get rich based on YouTube royalties alone. To an extent the impasse seems to be about songwriters getting fair recognition for their work through royalties.

Another key question is the extent to which music videos viewed on websites perform a genuine promotional function and drive purchasing. Our research found (chart below) that 50% of those who had watched music videos on YouTube in the past 12 months said they had paid for content as a result of seeing a particular music video. Most commonly, this was 36% purchasing a CD with 15% paying for a download of music or video and 7% going to see a live performance.

So, whilst YouTube can measure how many people click on a link directly from the video to iTunes (where they pay to download the track), this can only give part of the picture. The connection is clearly lost once people log off and shop in the offline world. Similarly, many online purchases will be made at a later date and would not be tracked as being directly related to the video seen earlier on YouTube.

% buying items as a result of watching music videos on YouTube in last 12 months



Base: 304 adults aged 15+ years who have viewed music videos on YouTube in last 12 months, 13-19 March 2009

Source: Ipsos MORi



In assessing the future of music videos on the internet, research can help us understand the complex behaviour and motivations of consumers. Only by looking at and understanding this bigger picture, including offline as well as online behaviour, can business models be developed that really work in our modern 'digitally connected' environment. At Ipsos MediaCT, the rapid evolution of technology and content is at the very heart of our research thinking.

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