

ORAL CONCOURS 2015

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Warner Music reveals streaming income has overtaken downloads

The boss of major label Warner Music Group has warned rivals to "think very carefully" before restricting the free tiers of streaming services like Spotify, after his company revealed that it now makes more money from streams than from download sales. The tipping point came in the first quarter of 2015, according to WMG's latest financial results, which saw the label's revenues grow 4% year-on-year to \$677m, helping it record a net profit of \$19m. That included a 33% increase in streaming income, as it overtook WMG's download revenues for the first time.

"The rate of this growth has made it abundantly clear to us that in years to come, streaming will be the way that most people enjoy music," chief executive Stephen Cooper told analysts in the company's earnings call. "Not only that, we are also confident that streaming's ongoing expansion will return the industry to sustainable, long-term growth."

Cooper's comments come at a time when the economics of streaming music are the subject of intense debate within the music industry, with two main issues. Firstly, whether streaming – and the free, on-demand streaming tiers of companies like Spotify and Deezer – is making as much money as artists, songwriters, and labels and publishers representing them, want. And, secondly, whether streaming even pays off for the companies providing it, given that flagship service Spotify recorded losses of €162m in 2014 alone.

On the former point, Cooper's opposite number at Universal Music Group, Lucian Grainge, has spoken out publicly about his desire to focus more on paid subscriptions than free streaming, reportedly egged on by Apple as it prepares to relaunch its Beats Music service globally in June. "The ad-funded part of the music ecosystem – that's on-demand, ad-funded – as I've said before, is not something that is particularly sustainable in the long term," said Grainge at the Code/Media conference earlier in 2015. "Ad-funded isn't a sustainable business for them ... or for us. That's why people get restless."

Grainge's comments have been interpreted as a desire by his company to restrict or even remove the free tiers of services like Spotify, but Cooper advised caution in his comments to analysts.

"There are any number of models out there, and all of those models – ad-based, subscription-based or with both – are better than piracy. To be crystal clear: piracy is zero revenue, it's the theft of intellectual property, and it's not good for anybody. So all of these models are better than piracy," said Cooper. "With respect to going to a strictly subscription world, I think that you can find evidence that when music is not generally available, people will seek out sites on the internet that will offer up that music for no charges, and in many instances, with no economic model. "Before people conclude that freemium should be burnt at the stake, we should think very carefully about the consequences." However, this does not mean that WMG – like Universal and the third major label, Sony Music – will not use its bargaining power when renewing licensing deals to nudge streaming services towards trying to turn free users into paying subscribers.

The Guardian, 12 May 2015