

# DIGITAL MEDIA: MUSIC

# DATA AND ANALYSIS WITHIN THIS REPORT

## Overview

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### Subject

### Essentials

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#### Detailed overview

- › Market scope
- › Customer benefit, Market size
- › Future developments, Assumptions and sensitivity

Digital Music is divided into Downloads and Streaming  
Music Streaming is growing fastly, while Download revenue is shrinking

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#### KPI-Comparison

- › Market KPI comparison by region in charts
- › Market KPI comparison by region in tables

Biggest market is the US with US\$4.2 billion in 2016  
China has the highest average growth rate of 22%, but will not reach the same level as Europe or the US

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#### Framework

- › Key Takeaways
- › Music as part of the Digital Media market

Music accounts for 11% of the Digital Media market  
Global Digital Music revenue of US\$13.2 billion in 2021

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#### Best practice and deep dive

- › Spotify
- › Paid vs. Ad-Based Streaming

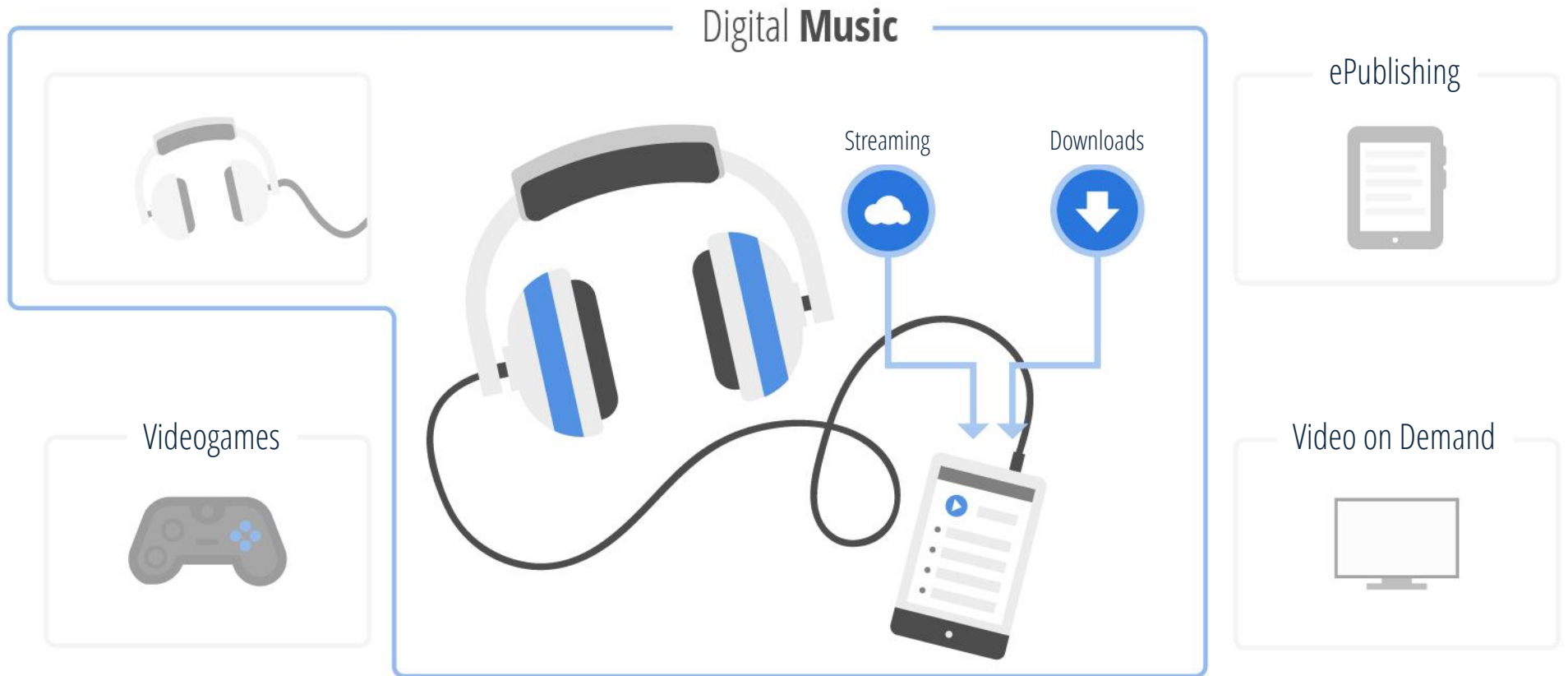
Spotify has 40 million paying users in 56 countries  
Music Streaming revenue is made by paid subscriptions in Europe and the USA

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#### Structure, contacts and imprint

# DIGITAL MEDIA MARKET

## *Market focus: Music*



Focus Segment



Other Segment Reports

# US IS THE BIGGEST MARKET - CHINA IS BY FAR THE SMALLEST

## Customer benefit

**The Digital Music market can be subdivided into Downloads and Streaming.**

Music Downloads are defined as paid downloads of professionally produced single tracks or albums. These files, e.g. in the MP3-format, can be purchased per one-time transactions and are **permanently accessible** for the user.

This permanent accessibility is not necessarily bound to specific files stored on data carriers nowadays. Consumers are purchasing an unlimited usage right of the sound file, which **allows several downloads** and the usage on different devices.

Streaming, however, is a way of **delivering content without the need to download files** of different audio formats. The sound file itself is played from an external source.

Music Streaming services use this technology to offer unlimited access to their content libraries. This service is either ad-supported

or for a monthly subscription fee.

Ad-based services are **free of charge**, but have several limitations. Besides audio advertisements between the tracks ad-supported services might have worse sound quality or limited access. **Subscription services charge a monthly fee** and abolish these restrictions.

Furthermore they offer additional services like **tethered download** possibilities. Users can listen to this downloaded music offline as long as the monthly fee is paid.

Due to this offline mode, the definition of streaming above does not match completely. A better expression to describe this kind of streaming would be **music rental**.

Nevertheless, Music Streaming is the commonly used expression that we will use throughout this report.

Our figures consider both, ad-based streaming and paid subscriptions.

## Market size

The global Digital Music market size is about **US\$9.2 billion in 2016 and accounts for 11% of the Digital Media market**. With this share, Music is by far the smallest market in Digital Media.

The **United States, China** and **Europe** cover **81%** of the global Digital Music market with a cumulated amount of **US\$7.4 billion**, although China is only responsible for 5.3 percentage points of this share.

The Digital Music market in the **US** is the biggest market with **US\$4.2 billion in 2016**. Streaming revenue and Downloads are quite balanced, although Streaming overtook Downloads in 2016 and generates, at **US\$2.3 billion, 56% of the total market**.

The market in **Europe** has a volume of **US\$2.8 billion**.

The high Streaming share in Europe is remarkable. Music Streaming has a **share of 67%** of the total market with US\$1.9

billion in 2016. The Scandinavian countries are primarily responsible for this revenue distribution. While Streaming accounts for 61% of the German market, the Streaming revenue share in Norway, for instance, is 95%.

As already mentioned above, **China** is by far the smallest market. The total market volume, of **US\$0.4 billion in 2016**, is not even a tenth of the **US** market.

Furthermore, **92% of the market is generated by mostly ad-based Streaming**. This US\$0.36 billion is generated by more than 500 million Streaming users in China, which shows a very low willingness to pay for digital content in this market.

For this reason the **average revenue per user and year is only US\$0.7**. The corresponding average revenue per user in the US, of **US\$25.45, is more than 36 times higher**.

# STREAMING IS REPLACING DOWNLOADS – CHINA IS GROWING FASTLY BUT STAYS SMALL

## Future developments

**The global Digital Music market is growing with a CAGR of 7.6% to 2021.** This development is mainly driven by a fast and steady growth of Music Streaming over all regions.

The **US** market, in particular, is growing with a **CAGR of 8.6%**. The Streaming market is growing fastly with a **CAGR of 17.2% to 2021**, while the Download revenue will **shrink with a CAGR of -8.9%** in the same time.

The **European** market is not growing as fast as the **US** market, but **steadily with a CAGR of 6.0% to 2021**. Again, Downloads are declining (-10.3% p.a.) while Streaming is growing (+11.4% p.a.).

Nevertheless, we expect the growth of the **European** Digital Music market to slow down recognizably in 2020, as a saturation effect in the Streaming market cannot compensate a shrinking Download market.

The year-over-year growth from

2020 to 2021 will be +3.4%. **The share of Streaming will increase accordingly.**

*Music Streaming will account for 86% of the European Digital Music market in 2021*

The **Chinese** Digital Music market has the highest average annual growth rate of 22.2% to 2021 and will reach US\$1 billion in 2021.

Both Music Downloads and Streaming are **growing rapidly** on a similar level, but will not come close reaching the market sizes of **Europe** or the **US**.

The growth of Streaming is mainly **driven by increasing average revenue per user**, as the user base is just growing with a CAGR of 5.2% while the revenue is growing faster.

We believe that not only the number of paid subscribers but also the ad-spending on Music Streaming will increase.

## Assumptions and sensitivity

The global Digital Music Market is driven by a fast and constant growth of Music Streaming, while the Download market is shrinking.

After 13 years of growth since the beginning of commercial Music Downloads and the start of Apple's iTunes in 2003, **Music Download sales have started to decline.**

Therefore, Downloads have to be seen as an **interim solution**. In lack of bandwidth, Internet speed and mobile Internet accessibility it was a feasible solution to store music files on local data carriers in order to play them.

These technological limitations have been overcome, which paves the way for the Music Streaming.

Furthermore, Streaming allows for **new monetization opportunities**. As no full copy is made it is possible to offer paid subscriptions, which has to be understood as a **rental agreement**, or even ad-based solutions. These pricing models are very attractive for music consumers. We can observe

a growing acceptance of lending music especially in former more conservative **European** markets like Germany.

Paid streaming **subscriptions are the moneymakers** in Digital Music. Nevertheless, **ad-based streaming has a huge potential**, once ad spending for radio advertisement (US\$17 billion in the US in 2015) shifts towards Music Streaming.

The **Chinese** market has to be seen differently. The **willingness to pay for Digital Music is very low**. Most music is streamable for free on a semi-legal level. These circumstances led to the government's increasingly severe control of copyright.

**New copyright protection laws from July 2015 will drive the Digital Music revenue in China.**

Nevertheless, company information from leading Chinese media companies show that the conversion rates from free to paid content are below 2%.

**Note:** CAGR: Compound Annual Growth Rate/ average growth rate per year.

# DIGITAL MUSIC IN MAJOR REGIONS

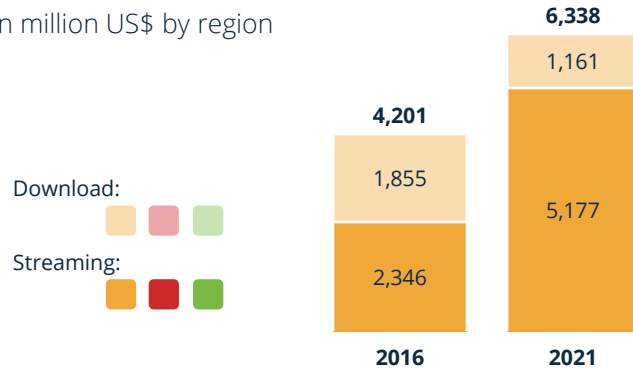
## Market KPI comparison by region

### United States

#### Revenue forecast

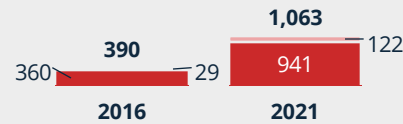
+8.6% p.a.

in million US\$ by region



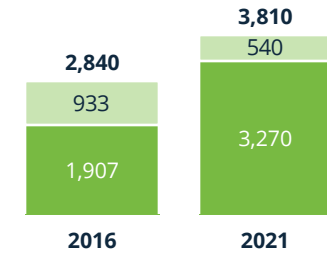
### China

+22.2% p.a.



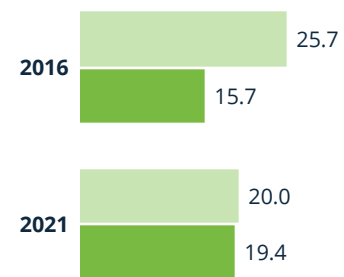
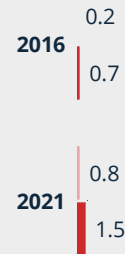
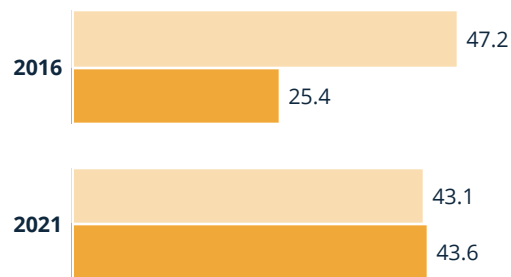
### Europe

+6.1% p.a.



#### Revenue per Internet user

in US\$ by region



# DIGITAL MUSIC IN MAJOR REGIONS

## Market KPI comparison by region

### United States

### China

### Europe

## Revenue

Segment	Unit	2016	2017	2018	2019	2020	2021	CAGR <sup>1</sup> 16 - 21	2016	2017	2018	2019	2020	2021	CAGR <sup>1</sup> 16 - 21	2016	2017	2018	2019	2020	2021	CAGR <sup>1</sup> 16 - 21
Total	mUS\$	4,201	4,605	5,057	5,518	5,954	6,338	+8.6%	390	493	619	762	914	1,063	+22.2%	2,848	3,091	3,322	3,524	3,689	3,818	+6.0%
Download	mUS\$	1,855	1,616	1,423	1,287	1,206	1,161	-8.9%	29	39	54	74	98	122	+25.6%	937	846	760	680	609	544	-10.3%
Streaming	mUS\$	2,346	2,989	3,634	4,231	4,748	5,177	+17.2%	360	454	565	687	816	941	+21.2%	1,911	2,245	2,562	2,843	3,080	3,273	+11.4%

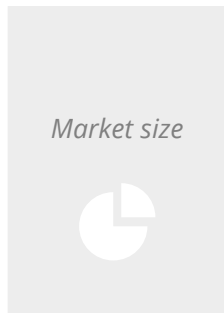
## Users

Segment	Unit	2016	2017	2018	2019	2020	2021	CAGR <sup>1</sup> 16 - 21	2016	2017	2018	2019	2020	2021	CAGR <sup>1</sup> 16 - 21	2016	2017	2018	2019	2020	2021	CAGR <sup>1</sup> 16 - 21
Total	m	111	114	118	121	124	127	+2.7%	517	542	565	585	601	614	+3.5%	142	151	159	167	174	179	+4.7%
Download	m	39	36	32	30	28	27	-7.3%	144	149	153	157	158	159	+2.0%	38	36	35	33	31	29	-5.4%
Streaming	m	92	100	107	112	116	117	+5.2%	511	538	562	583	600	613	+3.7%	124	136	147	156	164	170	+6.6%

1: CAGR: Compound Annual Growth Rate/ average growth rate per year.  
Source: Digital Market Outlook 2016

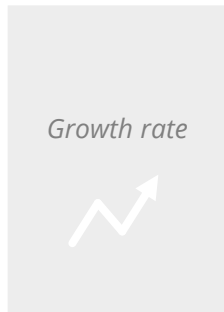
# KEY TAKEAWAYS

## Market sizing subjects for Digital Music

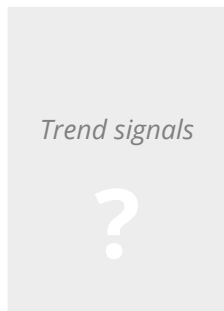


### United States

- ▶ Biggest market with US\$4.2 billion in 2016
- ▶ Streaming is overtaking Downloads in 2016 and generates, with US\$2.3 billion, 56% of the total market



- ▶ Total market is growing with a CAGR of 8.6% although Downloads are shrinking with a CAGR of -8.9%
- ▶ Streaming market is growing fastly with a CAGR of 17.2%
- ▶ Streaming growth is mainly driven by an increasing ARPU, as the user base is just growing with a CAGR of 5.2%



- ▶ Paid streaming subscriptions are the moneymakers in Digital Music
- ▶ Nevertheless, ad-based streaming has a huge potential, once ad spending for radio advertisement (US\$17 billion in 2015) shifts towards Music Streaming

### China

- ▶ China is by far the smallest market in Digital Music
- ▶ The total market volume, of US\$0.4bn, is not even a tenth of the US market
- ▶ 92% of the market is generated by Streaming
- ▶ Highest average growth rate of 22.2% p.a.
- ▶ Both, Music Downloads and Streaming are growing rapidly, but will not reach the level of Europe or the US
- ▶ The total Digital Music market will reach US\$1 billion in 2021
- ▶ New copyright protection laws from July 2015 will drive the revenue
- ▶ Nevertheless, Chinese consumers are not willing to pay for Digital Music
- ▶ We can observe conversion rates from ad-based to paid content from under 2%

### Europe

- ▶ Total market volume is US\$2.8 billion
- ▶ Music Streaming revenue, of 67%, has a very high share of the total market
- ▶ Share of Streaming revenue in the Nordics is up to 98%
- ▶ Growing with a CAGR of 6.0%
- ▶ Streaming revenue is growing rapidly with an average growth rate of 11.4%
- ▶ Download revenue, however, is shrinking very fast with a CAGR of -10.3% to 2021
- ▶ The extraordinary high relevance of streaming in the US will persist also in Europe



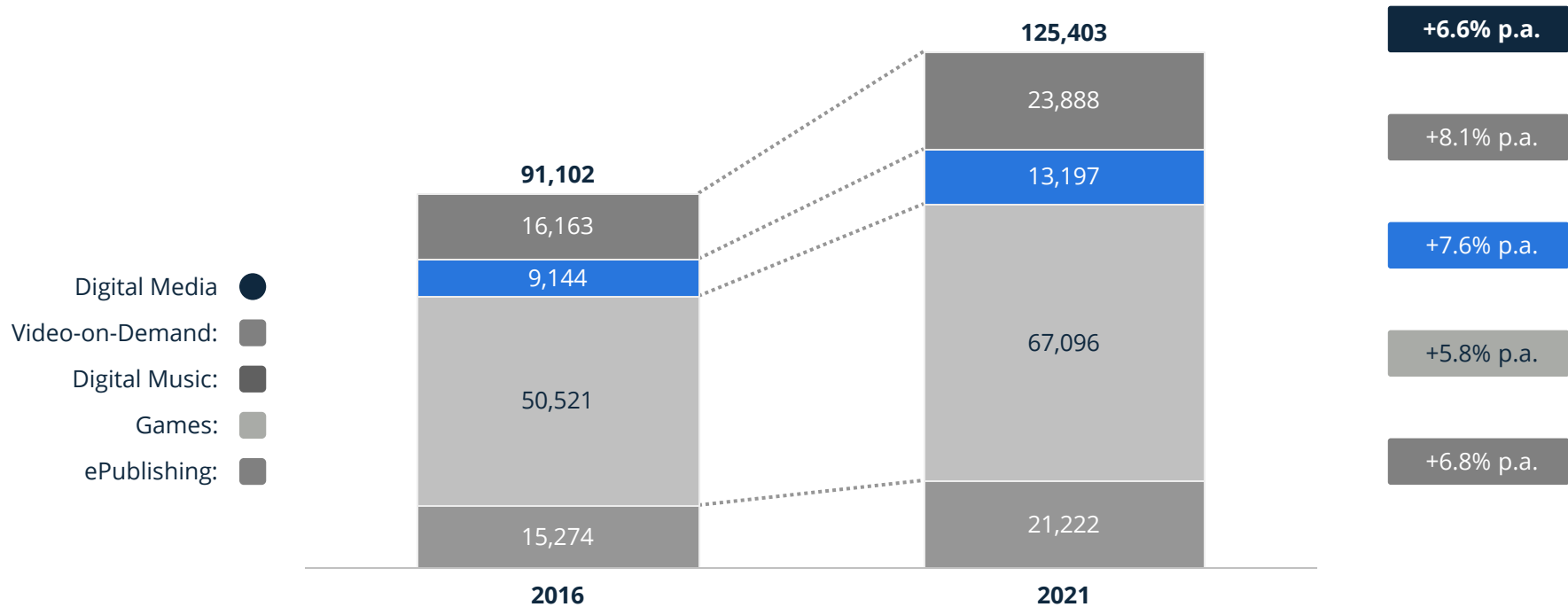
# Digital Music

## Digital Media global segment size and growth rates

### Global<sup>1</sup> Digital Media market revenue

CAGR<sup>2</sup> 16 – 21

in million US\$ by segment

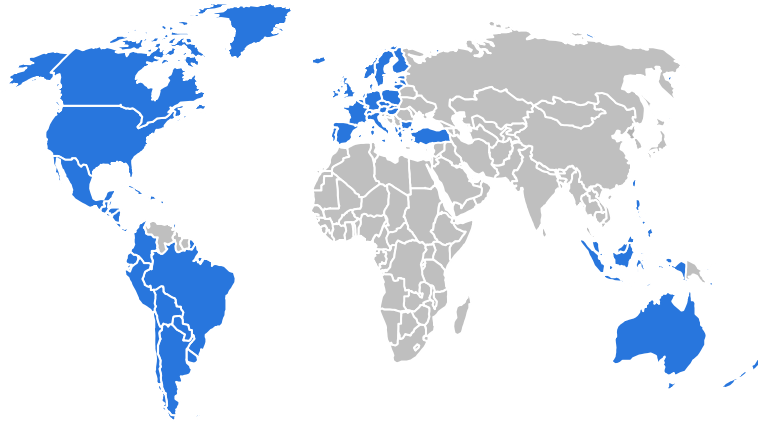


1: Only includes countries listed in the Digital Market Outlook  
 2: CAGR: Compound Annual Growth Rate/ average growth rate per year  
 Source: Digital Market Outlook 2016

# BEST PRACTICE: Spotify®

## Company profile

### Footprint



### Overview

<b>Revenue:</b>	US\$1,945 million	(2015)
<b>Growth (Revenue):</b>	44.5% YoY	(2015)
<b>Loss:</b>	US\$173 million	(2015)
<b>Paying Subscribers:</b>	40 million	(Sep 2016)
<b>Monthly Active Users:</b>	100+ million	(Jun 2016)
<b>launched:</b>	2008	

### Background

Spotify is a commercial music streaming service based in Stockholm, Sweden, that provides mostly digital music content.

Spotify takes a pioneering role in Music Streaming and was one of the first commercial services of this kind. It was founded in 2006 and launched in 2008.

Music piracy was very common

at that time and Spotify was founded as the first legal alternative to illegal downloads.

Today, 98% of Digital Music revenue in Sweden is made by Music Streaming.

Spotify has 40 million paying users in 56 countries.

### Analyst opinion

Spotify suffers the problem, that the yearly loss is growing proportionally to the revenue. The current business model simply does not scale well enough.

As a monthly price of \$9.99 for streaming subscriptions seems untouchable in the very competitive streaming market, a leverage point to solve this problem

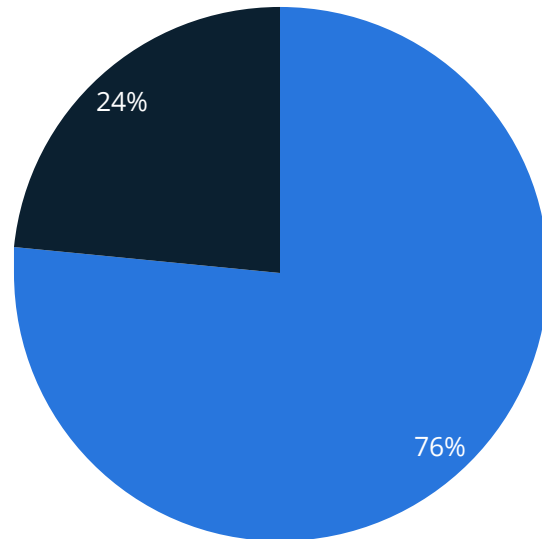
is the ad-based free price tier. The majority of users are not paying for a subscription, while most of the revenue is generated by these subscriptions.

One solution could be to dispense with the ad-based offer. However, improving advertising revenue has a much bigger potential in the long run.

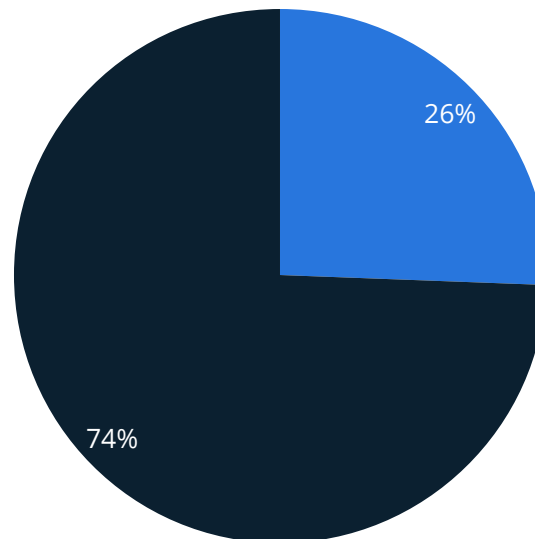
# DEEP DIVE: PAID VS. AD-BASED STREAMING

## *Paid and ad-based revenue shares in 2015 by region*

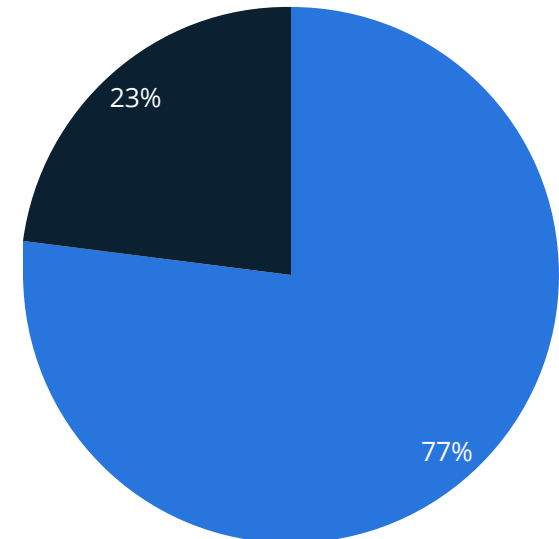
### United States



### China



### Europe



■ Paid Subscriptions ■ Ad-based

- › Ad-based revenue includes income from audio streams or tethered/temporary downloads monetized via advertisements incl. the free tiers of premium services.
- › Most of the Music Streaming revenue is made by paid subscriptions in Europe and the USA

- › Both markets have a very similar allocation of paid and ad-based revenue
- › The Chinese market, however, is the opposite. The streaming revenue here is mostly ad-based

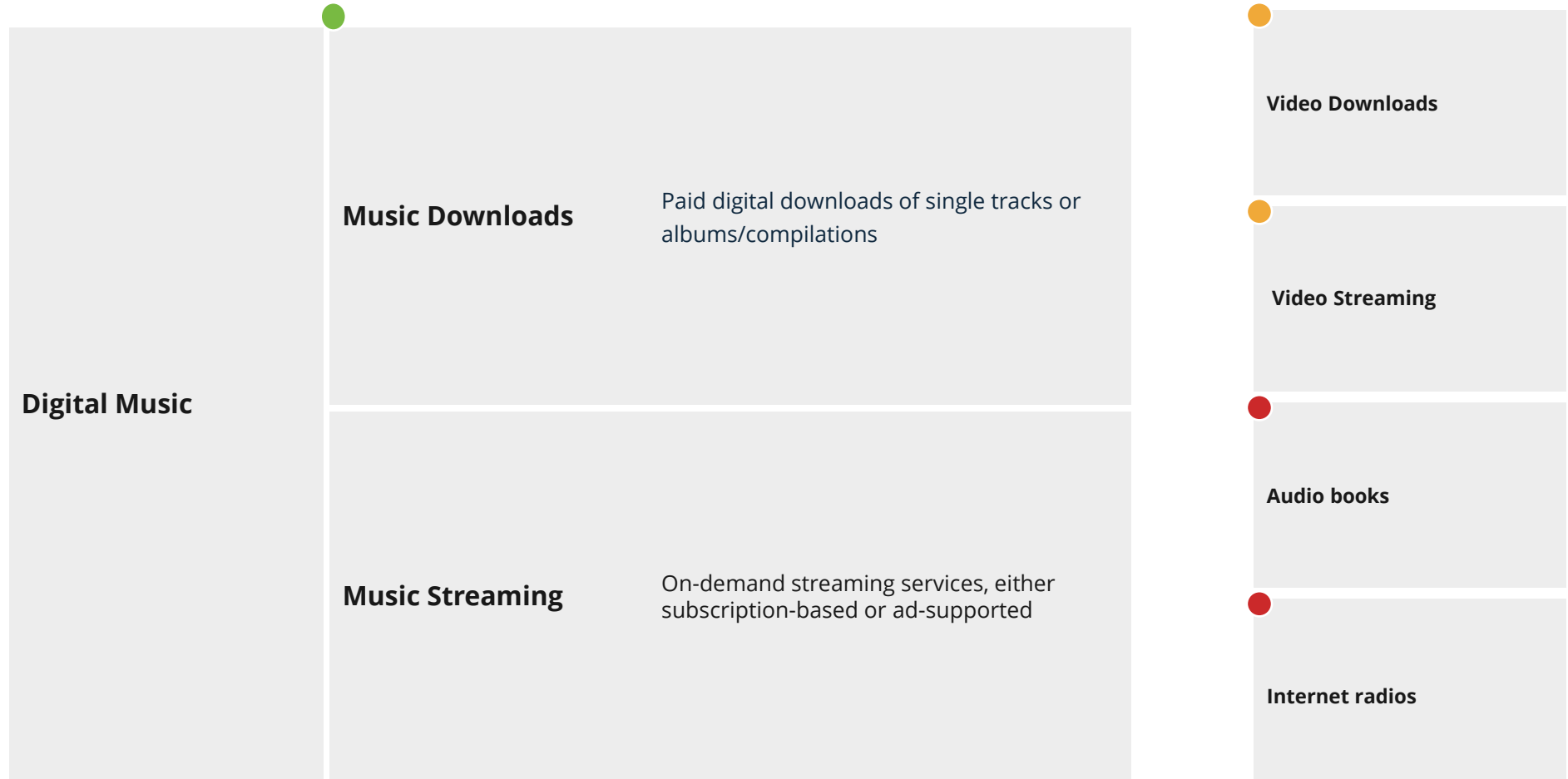
# DIGITAL MUSIC REVENUE STREAM

## Market Structure and definition

Segment

Revenue stream

Out of segment



In scope



Other segment



Out of scope

# ABOUT DIGITAL MARKET OUTLOOK

## 9 Markets, 34 segments & 85 sub-segments



### Digital Media

Video-on-Demand, Digital Music, Video Games, ePublishing



### FinTech

Digital Payments, Business Finance, Personal Finance



### eTravel

Online Travel Booking, Mobility Services



### eServices

Event Tickets, Fitness, Dating Services, Food Delivery



### eHealth

Diabetes, Hypertension, Heart Failure



### Connected Car

Connected Hardware, Vehicle Services, Infotainment Services



### Smart Home

Home Automation, Security, Home Entertainment, Ambient Assisted Living, Energy Management



### e-Commerce

Fashion, Electronics & Media, Food & Personal Care, Furniture & Appliances, Toys, Hobby & DIY



### Digital Advertising

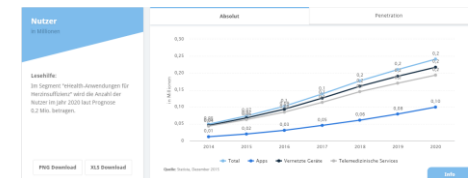
Banner Ads, Video Ads, Search Ads, Social Media Ads, Classifieds

## Details

- › 50 countries
- › Direct access & downloads
- › 7-Year coverage: 2015 - 2021
- › Revenue forecasts



### › User count & penetration



### › Comparable data



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more information

# IMPRINT

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