THE RISING POWER OF UGC

MIDiA

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Audible Magic

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A word from Audible Magic

No one can deny that user-generated content (UGC) has had a huge societal impact. We connect, communicate and network with others using UGC. It has created a thriving creator community including musicians, content producers, gamers, influencers and more. With over 20-years' experience working directly with both content owners and social media platforms, we understand the power of UGC. It is why we are proud to sponsor this report on the Rising Power of UGC by MIDiA Research.

On reading this report you will see that:

- The creation and consumption of UGC continues to grow dramatically
- To benefit from this continued market expansion requires implementing new, simpler licensing frameworks, especially for music
- This could lead to an accessible market worth $6 billion for both content owners and social media platforms

This report considers some of the implication of the 2019 EU Copyright Directive, which acknowledges the importance of UGC in today's economy and presents unique opportunities to encourage the growth of the digital streaming market.

The report outlines how platforms can be covered under new safe harbour provisions provided that they use best efforts to both obtain licences and to prevent the distribution of unlicensed content. Many of the themes in this report are opportunities for Audible Magic to engage our technological leadership in content recognition, and are a logical extension of our trusted role as the bridge between copyright owners and the world's most innovative social media platforms. This fits well with Audible Magic's strategy with our forthcoming Rights360 licensing and compliance hub.

Through Rights360 we simplify the licensing and use of UGC content (across multiple social media platforms and business models) from one portal. This creates new income streams for content owners while addressing their concerns around substitution, compliance and control across the wide range of UGC platforms. For the platforms, Rights360 lets them monetise content and offer users richer experiences, eliminating the need to invest in resources to obtain and manage licences. As an end-to-end solution, Rights360 covers six key components, content identification, ownership attribution, music licensing, rights management, reporting, and payment administration.

We feel everyone who has a role in the digital content ecosystem will appreciate the insights and findings in this report and believe you will come away with a greater appreciation for the substantial market opportunity for technology platforms, content industries and for creator markets.

Happy reading!

Vance Ikezoye, founder and CEO, Audible Magic

About Audible Magic

Audible Magic offers innovative solutions to identify content, manage rights, license content and monetise media. Audible Magic's Emmy-winning automatic content recognition technology powers billions of transactions monthly for most major social media platforms and music distributors. The company has become a trusted intermediary and advisor to rights holders and platforms.

For more details visit our website: www.audiblemagic.com

About MIDiA Research

MIDiA Research is a market intelligence and consulting firm with longstanding expertise in the business of entertainment and digital media.

We help businesses formulate commercially actionable strategy to navigate the evolving digital landscape. Our clients leverage our expertise, proprietary multi-country consumer data and market forecasts to enable smarter and faster decisions.

We work with record labels, TV networks, streaming services, tech firms, financial organisations, gaming and sports companies, providing unparalleled insights into trends and innovations shaping the entertainment market and audience behaviours.

For more details visit our website: www.midiaresearch.com

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Introduction – a golden era of social expression

In the spring of 2019 user-generated content, or UGC, already accounted for $1.2 billion of the global recorded music industry's revenues, according to one major label executive interviewed at the time by Billboard. With that sum driven mostly by YouTube, the music industry was once again in buoyant mood, having entered into a major licensing round with Facebook, a social platform that has a 40% greater global user base than YouTube. In that same article, Universal Music Group's chief digital officer Michael Nash was quoted: "Getting a license deal in place with Facebook around UGC sets an important precedent for the entire social category."

Nash was right, but what happened at the same time as the industry's new deal with Facebook, was the biggest single boom in music UGC the industry had experienced since the emergence of YouTube. A song by rapper Lil Nas X, "Old Town Road" (which had been largely ignored by country music radio), became the first clear example of a new social platform – TikTok – turning a song into a meme and then into a global smash hit. More than two billion streams later, Old Town Road set a new course for music industry marketers, with almost every marketer in the industry hoping to repeat the song's success – though not necessarily with a clear blueprint as to how to do that. Although Lil Nas X signed a major record deal with Sony Music, he had already uploaded the song to TikTok himself, and largely credits the app with its subsequent success. There is no greater single example than Old Town Road, but there are plenty of other examples of the new rising power of UGC, reflected by the sharp growth in social media platforms in 2020.

Social media platform advertising revenue totalled $119 billion in 2019. Social and sharing platforms numbered a gross total (i.e. including double counting) of 7.7 billion users. New social giant TikTok itself surpassed one billion users in August 2020. Without a doubt the growth of UGC platforms has taken a jump, but the unique events of 2020 seem to have taken things even further. Since the world was struck by the COVID-19 coronavirus pandemic, massive changes in the behaviours of users around the world have driven further unprecedented growth in the consumption of digital entertainment content, much of it adapted to new use cases – more TikTok videos yes, but also more home exercise classes, more video watching, more online gaming and more social networking. Meanwhile, the pandemic has also been the catalyst for the creation of a new sector for music with live streaming, and we explore all these possibilities in this report.

Joining YouTube, Facebook, Instagram, Snapchat, Twitter and TikTok are the gaming platforms Twitch and Fortnite, and new players like Triller and Roblox – all facilitating new forms of digital consumption merged together with social expression, creativity, communication and sharing. These new platforms are enabling creativity not just for 'users' but for professional creators too, who have adopted new ways to engage with fans just as those fans have found new ways to express their fandom. It seems like the golden era of UGC has arrived.

About this report

Audible Magic has commissioned MIDiA to produce a White Paper on the rising power of UGC and the untapped opportunity to monetise the growth in UGC consumer behaviours and new platforms. We will examine the growth of new platforms, use cases and 'music and content put to purpose'. These new behaviours and the platforms that host them are reaching new demographics that previous licensing structures have yet to really monetise – in particular the under 24s demographic, where the penetration of streaming services is far lower.

The main focus of this report is on music, though we will dip into other content types and reference UGC trends in video and games, and potential developments in sports. We will look at how social media and UGC platforms do not respond to traditional licensing structures and how meanwhile, opportunities are missed. We will frame these trends within the disappointing performance of ad-funded models.

Advertising from Spotify and other on-demand audio streaming platforms made up just 7% of the total turnover ($35 billion) of the global recorded business in 2019, with video-based advertising from YouTube and others contributing more at 11%. Advertising revenue overall makes up 18% of music business revenues. With subscriptions peaking, this is an imbalance in terms of how music content is being monetised – something Spotify has been looking to address itself with its own substantial investment in ad technology and through the introduction of podcasts.

With the slowdown of streaming subscriptions, content owners might well ask "what's next?". But what's next is already here. Social media is the *new music consumption*; it just isn't being fully monetised or utilised.

What exactly is user-generated content?

UGC has become a much used – but loosely applied – term, and can mean different things in different contexts. It describes fan-created content which features or augments professional content. This includes self-made videos (lip syncing, dance routines or tutorials, reactions) augmented audio such as covers, music tuition and tips, mash ups and remixes, and quotes of lyrics or parodies.

However, UGC is always changing. It also covers the informal creation of content by artists themselves. As we have already noted, it was Lil Nas X that uploaded Old Town Road onto TikTok. Indeed, UGC has become such a rich source of content that UGC creators have often turned professional in their own right – sometimes global superstars. YouTubers, social media stars and influencers are all creators that generate what we tend to define as UGC. Many of them can make a good living and build careers from this activity.

Each type of UGC creator has a role to play in this space and we will look at how each type is driving the growth of content, entertainment time, and multi-billion dollar distribution platforms.

UGC is driving the music sector

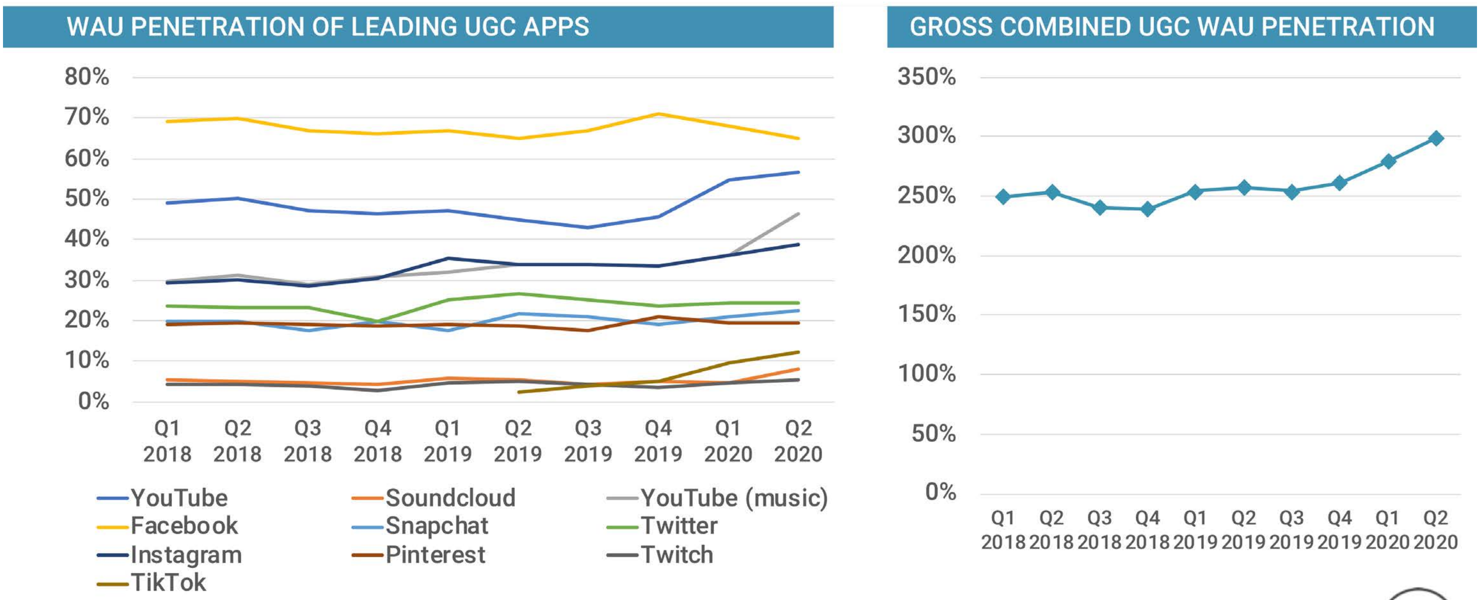
Social media and music are highly symbiotic. The UGC sector related to music has been a major contributor to music's overall growth in recent years via the 'halo' effect of driving audio streams on streaming platforms such as Spotify, Apple Music and Amazon Music. Music is an indication of our personal tastes and values and sharing our listening habits or posting our favourite artists and songs is a demonstration of our identity. Artists and the music industry have leveraged the extended reach of social media platforms to generate an almost constant flow of content that keeps their fans engaged and helps them reach new audiences. This has been more important than ever during the 2020 COVID-19 pandemic. Social media and UGC platforms have given fans a window into artists' lives, creative pursuits and even their homes at a time when more structured content (live shows, official promo videos, finished albums) has not been available.

The new growth for digital music is 'music put to purpose', be that music as a 'meme' of TikTok and Triller, virtual concerts on Fortnite or Twitch or the booming digital fitness, health and wellness sector. TikTok has shifted the paradigm on how fans not only discover and share music, but also create.

Fans, through their creations, play a part in the success of music through dance, lyrics and other creative skills – which bring additive appeal to their favourite artists' works. The growth in consumption on the back of this new interaction between artists and fans has been explosive.

Figure 1: While the competitive landscape of UGC destinations is continually evolving, the overall reach of UGC consumption is growing steadily

Weekly active use (WAU) of leading UGC apps, US, Canada, Australia, UK, Q1 2018 – Q2 2020



MIDiA Research Consumer Surveys Q1 2018-Q2 2020, US, Canada, Australia, UK, n = 4,000

MIDiA

Figure 1

Although the social and UGC app marketplace is ever changing and evolving, overall usage continues to grow at a strong pace. While some UGC and social app weekly average user (WAU) bases have flattened (e.g. Pinterest, Twitter, Twitch) others have grown. Across the US, UK, Canada and Australia, the cumulative penetration of weekly active users (WAUs) i.e. all of the app user bases added together, grew from 250% in Q1 2018 to 300% in Q2 2020, with a pronounced acceleration during 2020 driven largely by the rise of TikTok and the ever-growing reach of music consumption on YouTube.

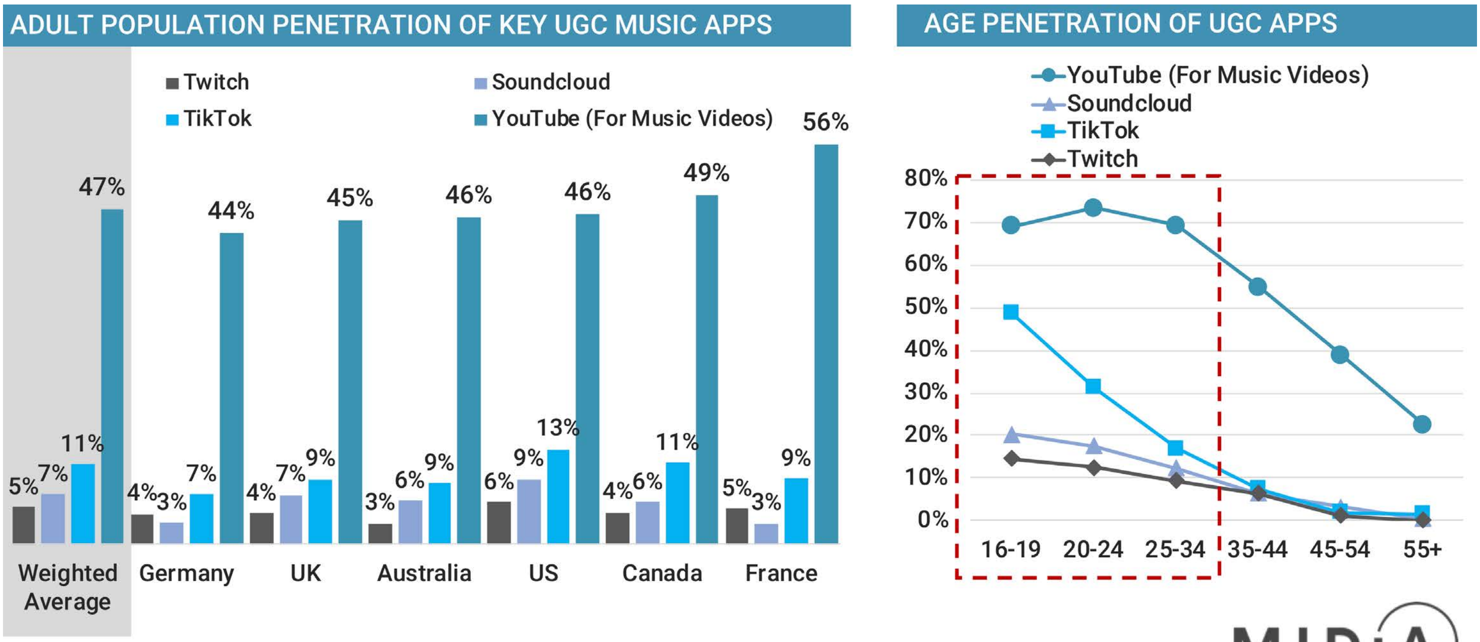
Reaching audiences professional content cannot reach

When it comes to music, UGC is the means by which many fans now find and enjoy songs and artists. To artists and music marketers, UGC has become key to capturing the imagination (and fandom) of young audiences. Music marketers are prioritising their marketing efforts (both organic and paid) on social platforms such as Instagram, Facebook, YouTube and TikTok, even before trade marketing efforts with streaming services. Social platforms are where artists and music marketers can add content or take direct marketing action, and see the outcomes in terms of audiences and engagement (follows, posts, reactions).

These platforms are used to find and build audiences, but the subsequent problem for marketers is how to then migrate these fans across to streaming services where they will consume paid-for music. The issue is that these platforms are 'sticky' – once consumers are engaged, they do not want to jump off until they are ready to; the user decides when. This is the key reason why attitudes need to change in regards how to reward creator value while the users are on social platforms. For many (especially younger) audiences, this is where they are consuming music, not simply discovering it. We explore later in this report the idea that music discovery/promotion and music consumption should be seen as a continuum, which helps to understand not only the role of UGC today but, critically, how it is developing.

Figure 2: UGC music consumption is well established across the entire population but is central to behaviour for Gen Z and young Millennials

Consumer adoption of key UGC music apps, US, Canada, Australia, UK, Germany, France, Q2 2020



MIDiA Research Consumer Survey Q2 2020, US, Canada, Australia, UK, Germany, France n = 6,000

Figure 2

YouTube dominates streaming music consumption across most markets globally. UGC and user interaction is one of the key reasons it continually outranks Spotify and other audio streaming services. While official music videos account for the majority of music-based activity and revenue on YouTube, users lean forward and engage with comments and likes, creating a virtual community of engagement around every track. But many users go further and start creating their own versions of their favourite tracks, such as covers, dance tutorials, mash ups and remixes. Unofficial UGC videos account for around 10% of the total views of the biggest YouTube music videos.

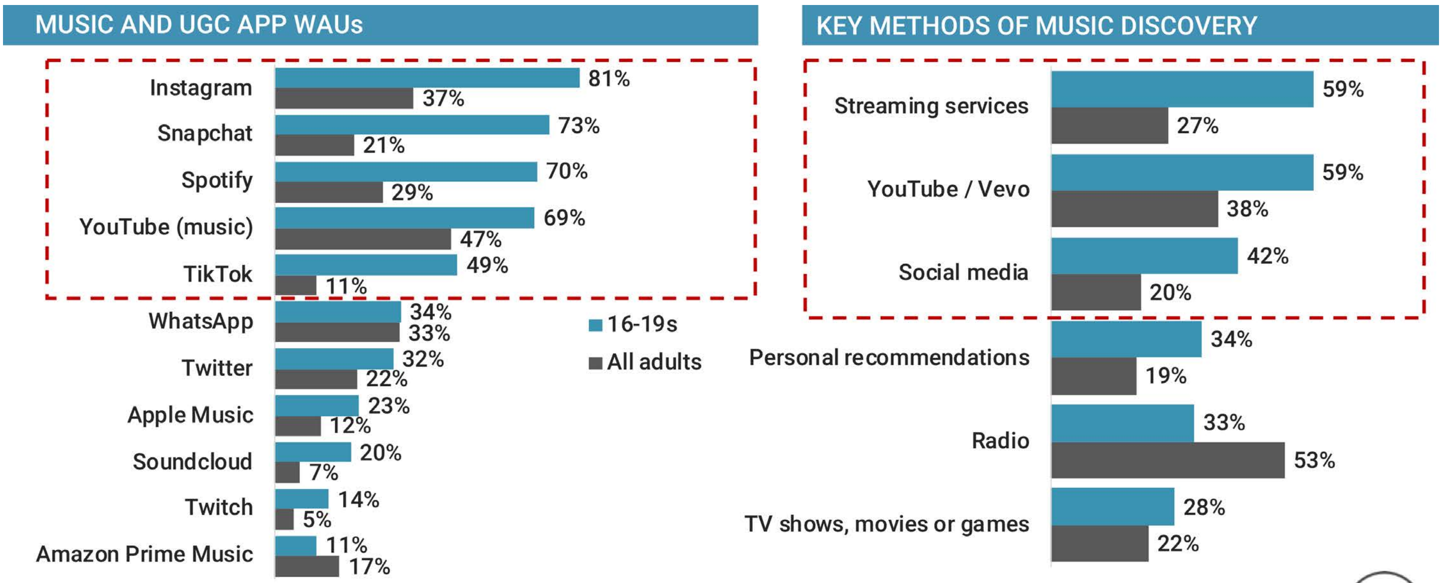
However, UGC's role in music consumption now goes beyond YouTube. TikTok is the most notable new player, creating a vast global audience of creators with music as the backdrop. Whereas YouTube relies upon a minority of users to create content for the majority, TikTok has created an environment where the majority of the audience become potential creators in one way or another. As with Instagram and Snapchat, TikTok has broken down the creator / audience dichotomy by empowering its users with a suite of powerful, easy-to-use creator tools.

This is the blueprint for tomorrow's digital content marketplace, one in which audiences will expect ever more ways in which they can stamp their own personal mark on their favourite content. Gen Z and younger Millennials are at the forefront of this shift.

While this sort of activity may still be relatively niche on a total population basis, among teens it is already mainstream as evidenced by the fact that nearly half of 16–19 year olds use TikTok at least weekly. These young audiences are developing behaviours and expectations that they will take with them as they age and become the core of tomorrow's digital audiences.

Figure 3: UGC plays a far bigger role in the music behaviour of teens than it does for the wider population

Weekly active users (WAUs) of key music and UGC apps and music discovery methods, US, Canada, Australia, UK, Germany, France, Q2 2020



MIDiA Research Consumer Survey Q2 2020, US, Canada, Australia, UK, Germany, France n = 6,000

Figure 3

Teens' media consumption is dominated by social media and streaming, with WAU penetration for Instagram, Snapchat and Spotify averaging 2.7 times higher for 16-19 year olds than the overall population. Music and social are natural extensions of each other for Gen Z, and users are adept at jumping between platforms as they skip between discovery, consumption and self-expression.

Although streaming and YouTube are the main ways in which 16–19 year olds discover new music, they most strongly over-index for social media as a music discovery method. Although this is often because labels market their artists via social media, it is also because that is where they can express themselves through music either through social signalling (comments, likes, shares) or because they can create their own content around the music. UGC and social media are thus both central to younger fans' music experiences and a key driver of discovery, representing a double benefit to the music industry.

The emerging ‘middle market’ of platforms

So far, we have looked at the major social media platforms, but it is worth noting that new platforms are emerging all the time. Triller, for example, is an AI-based music video creation platform which currently allows full song plays, but for a limited catalogue. It has recently licensed global music catalogue via a partnership with UK-based 7Digital. Another video-sharing app similar to TikTok is Weishi (owned by Chinese entertainment giant Tencent).

Caffeine.tv, a platform built by ex-Apple designers, allows users to create live broadcasts for friends and followers. The broadcasts appear in a feed where audiences can react or respond with comments. Like Twitch (which offers earnings for high views or subscriptions) Caffeine has launched a monetisation programme that rewards engaging broadcasters.

Houseparty is a group video messaging app that allows video chats that can host up to eight users at a time. Users can apply video filters, stickers and other effects while a live conversation is in session. The app was launched as Meerkat in 2016 but saw a boom in young users during the 2020 lockdown period and has grown to over 20 million users.

Some significant UGC players are dominant in their own geographical regions, a trend that may continue to develop as national governments begin to intervene in the emerging technology spaces. With TikTok unavailable in India, local equivalents such as Rizzle and ShareChat have grown to become India’s biggest video-sharing platforms. In addition, gaming is set to drive more opportunities for music UGC, in particular Fortnite and building games such as Roblox – both now huge. In the mid-term, virtual reality and augmented reality will also create new opportunities in both the gaming and social media sectors.

A new music format: live streaming

New formats are also developing, such as live streaming. The early movers on live streaming were the major social media platforms like YouTube, Instagram Live, Twitch and Facebook Live. But a series of new platforms have been building traction, including StageIt, Maestro, Side Door, Driift and of course, the lockdown success story Zoom. Some artists, like Erykah Badu, have even created their own platforms. Some performances have live-streamed well and attracted large audiences (BTS’s Bang Bang Con attracted 750,000 paying users, while Erykah Badu’s streamed shows have reached over 100,000). A new sector has arrived, and importantly for the music industry, live streaming will reach new audiences. While many fans have used live streaming as a substitute for ‘real’ concerts, others are attending live streams because it is easier and cheaper.

Live may not mean a performance in front of a physical audience gathered in one place, but it now represents a performance to an audience gathered online, from anywhere in the world at the same time.

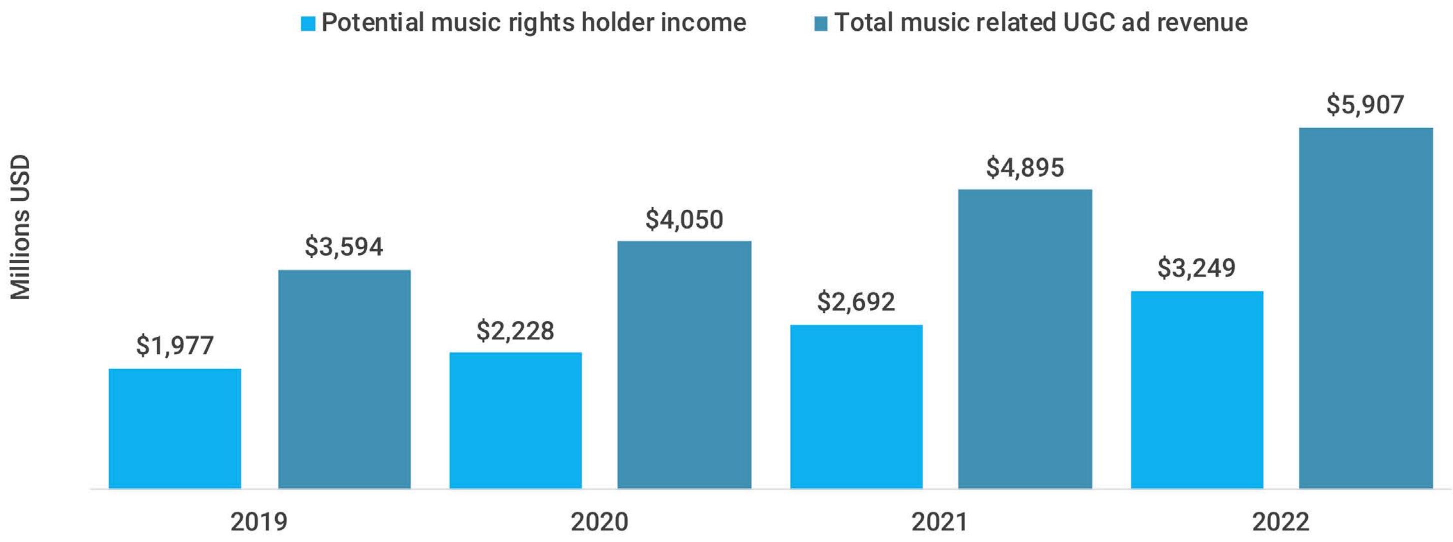
This new sector is free to innovate with more immersive and interactive formats – allowing the audience to view shows close to any band member, or possibly even to tweak with the sound and video feeds. Live streams could give artists more opportunity for subtlety and experimentation and free them from the mentality of "that will never work live". There is an opportunity here for venues to redesign themselves to facilitate these experiences and become genuine purpose-built live and livestream hybrid facilities. New partnerships between venues and live streaming platforms will truly shake up the sector.

What could the live streaming sector be worth in performing rights revenues, ad-funded revenues, ticketing or even subscriptions? It is hard to say while the sector is nascent and currently fragmented across many platforms. However, the longer the uncertainty over the future of physical live performance – especially larger-scale events such as festivals – the more the live streaming sector will need the technology, data and licensing infrastructures in place to reward creators.

New growth part 1: potential new music revenues from the growth in UGC

Figure 4: Music-related UGC is a fast-growing and under-commercialised sector with huge future potential

Potential UGC music-related revenues, 2018 – 2022, global



MIDiA Research UGC model 09/20

Figure 4

MIDiA estimates that music-related UGC revenue will be worth $4 billion in 2020, with $2.2 billion of that being potential music rights holder income. To be clear, not all of this revenue is currently flowing to rights holders – it is simply an estimate of the potential revenue attributable to music-based UGC. On the current trajectory of social media activity, this opportunity is set to increase to $5.9 billion over the next two years, with a music rights holder revenue potential of $3.2 billion.

It should be noted that the growth of the Chinese digital marketplace is key to this growth, with Chinese platforms representing 50% of the social media ad revenue increase between 2019 and 2022. The strong growth of music-related UGC revenue in 2019 was driven by multiple platforms, but especially so by ByteDance's Doyin in China and TikTok in the rest of the world. Although TikTok faces uncertainty in the US and India in 2020, the sheer scale of ByteDance's revenue indicates just how important a player the company is for the UGC music sector. ByteDance's reported revenues were $17 billion in 2019, up from $7 billion one year earlier.

The potential of UGC beyond music

With the above potential figures related to music, the application to other content sectors also remains of huge potential. In film and television, UGC has also become part of the landscape of social media platforms through content such as parody sketches, trailer clips (for film-related YouTube fan or film study channels) and even more recent trends such as ASMR (autonomous sensory meridian response) 'relaxation' videos – which have become a phenomenon that has swept from Asia to the rest of the world and become a major hit with younger demographics. The film and television industries have so far allowed widespread, mostly promotional UGC based on time-limited clips (from a few seconds to a few minutes) and, like music rights holders, have yet to tap into monetisation through a share of advertising revenues.

Meanwhile, in sports, as the global pandemic and long-term disruption for sporting events continues, rights holders have become even more focused on building digital engagement beyond their pure play broadcasting of live events. Rights holders have been experimenting with digital partners as they transition to targeting the younger demographics that traditional pay-TV distribution partnerships are failing to address. As they engage the younger audiences, UGC will become a larger element in sports.

The emergence and potential of virtual currencies in monetising UGC

The advertising potential in UGC is strong, but advertising is not the only way to monetise. In Fortnite or League of Legends, users play for free but microtransactions and virtual goods are built into the games as upsell options. Users can personalise their avatars or their in-game experience through 'skins' or using virtual currency to even introduce new characters. Fans can buy badges, pay other players 'tips' or pay to have their comments prominent on noticeboards.

The use of microtransactions in the gaming and esports communities is changing the way that games companies generate revenues and is adding considerable value to the industry. Indeed, micropayments and in-app purchases are a $30 billion sector within the gaming industry. Gamers (and game spectators) like virtual goods – while only a small segment of them spend, those that do enjoy greater engagement and more exclusive experiences.

Already start-ups like Fanaply are creating value for music artists and fans in this new virtual goods economy. The service allows artists to create virtual collectibles in the form of 'digital cards', with which fans can commemorate events and enjoy recognition for their fandom. A digital card might confirm the attendance at a specific event, being a top listener for an artist, or being one of the first hundred fans to watch a video premiere on YouTube.

Virtual goods apply themselves well to the 'promotion-consumption' continuum, explored later on in this report. While fans can pay directly for digital cards, they can also use them to unlock future benefits – allowing them to earn value as well. Virtual currencies such as digital cards can create value along the continuum.

Music and gaming – symbiotic and supercharged in 2020

"Gaming, in a weird way, builds us as artists" (Not3s, UK rapper and creative advisor for Fanatic Games)

In terms of consumer demand, games and music have always shown a strong overlap. MIDiA's global data for Q2 2020 reveals that one in 10 consumers watch 'games-related videos every month', but this rises to 18% among music streaming subscribers.

Music and gaming first blew up with Activision's Guitar Hero, and later with the infamous in-game radio stations of Grand Theft Auto which became a music industry promotional phenomenon. Music and games developed further through FIFA Street and FIFA Ultimate Level. However, gaming has continued to grow its influence in music. This comes partly as the gaming industry has continued its exponential growth, and partly with the rise of cross-entertainment games worlds such as Fortnite and gamer entertainment video platforms such as YouTube, Twitch and Facebook Gaming, which have in 2020 become proxy main stages in the absence of real live concerts.

When the music industry thinks about the opportunities in gaming, it usually considers the traditional 'syncing' of songs into popular games or promoting songs to UGC creators and influencers in the gaming world. More and more, however, the industry is also working with games platforms to host virtual concerts. In February 2019, Marshmello held a live music concert within a game of Fortnite, drawing an audience of 10.7 million players. In April 2020, Travis Scott exceeded this figure with his own concert, pulling in 12 million players. Fortnite publisher Epic Games capitalised on Marshmello's success by turning Travis Scott's pandemic-based concert into a temporary residency. Four subsequent replays gained a further 15 million players who watched the concert.

However, unlocking further monetisation of fandom in the growing gaming entertainment worlds is only just beginning. Artists have been making revenues from virtual goods and badges. According to MIDiA's global consumer survey (Q2 2020) one quarter of games video viewers and 35% of live music streamers buy 'digital items' in games. Furthermore, games video viewers (13%) and live gameplay streamers (27%) are significantly more likely to buy music artist merchandise than music streaming subscribers (8%).

It is rapidly becoming less important to sync your song in Fortnite (or promote the song to influencers) than it is to have a deal with Epic Games to enable players to purchase 'audio moves' and other premium content experiences.

UGC creators are dependent on their distribution platforms and the deals they have with them. Therefore, developing the UGC opportunities means developing partnerships with the big platforms in video (e.g. YouTube, Twitch, Facebook Gaming), and social and games worlds (e.g. Fortnite, Call of Duty, GTA, Fall Guys, Minecraft, Roblox). Sustainable frameworks need to be in place with the UGC distributors.

Some licensing developments look very encouraging in this space. For example, Twitch recently launched Soundtrack by Twitch, with a catalogue of more than a million licensed songs for its community of creators to use in their streams. The feature is designed to enable creators to choose from curated playlists or 'radio stations' to use when broadcasting, with Twitch's team of editors maintaining them, i.e. Twitch has licensed music and invested in curation, with the aim of deepening engagement and improving the user experience.

New growth part 2: from value gap to innovation gap

Social platforms have evolved into a key cornerstone for the growth of the music industry at scale, and at the same time the increase in UGC activity is generating high valuations for tech-enabled distribution platforms. But where is the revenue for rights holders? UGC could generate significant revenues from demographic groups that do not pay for music, but who consume content on social platforms with voracity – especially so in the case of short-form video.

Holding back monetisation — what are the barriers?

To unlock the monetisation of UGC, the content and technology industries need to work better together. When it comes to the music industry, the complexity and cumbersome nature of licensing frameworks has been a frustration for technology platforms since the digital age began. In the words of one content industry executive we spoke with for this report:

"I fundamentally believe we bolted global digital licensing onto country-based broadcast licensing."

On the other hand, music rights holders have been frustrated by technology platforms seemingly hiding in safe harbour: leveraging the current 'safe harbour' legal frameworks as a way of holding off from entering licensing negotiations at an earlier stage of development and undervaluing the price of content. The frustrations and concerns of the 'content communities' (right holders, creators) and 'technology communities' (platform developers and entrepreneurs) have validity on both sides. Content licensing is onerous and complex, and it is seen as a constraint to innovation by platforms. Yet those platforms would not attract users and grow as commercial entities if it were not for the use of professional content. Without writing a long thesis on those differences, we have distilled the relationship in the next section to simply recognise these differences. They are both identifiable and ultimately surmountable, with the results being new growth with UGC as the catalyst.

Figure 5: From value gap to innovation gap

Recognising the differences between the content and technology communities in their approach to content licensing and partnership

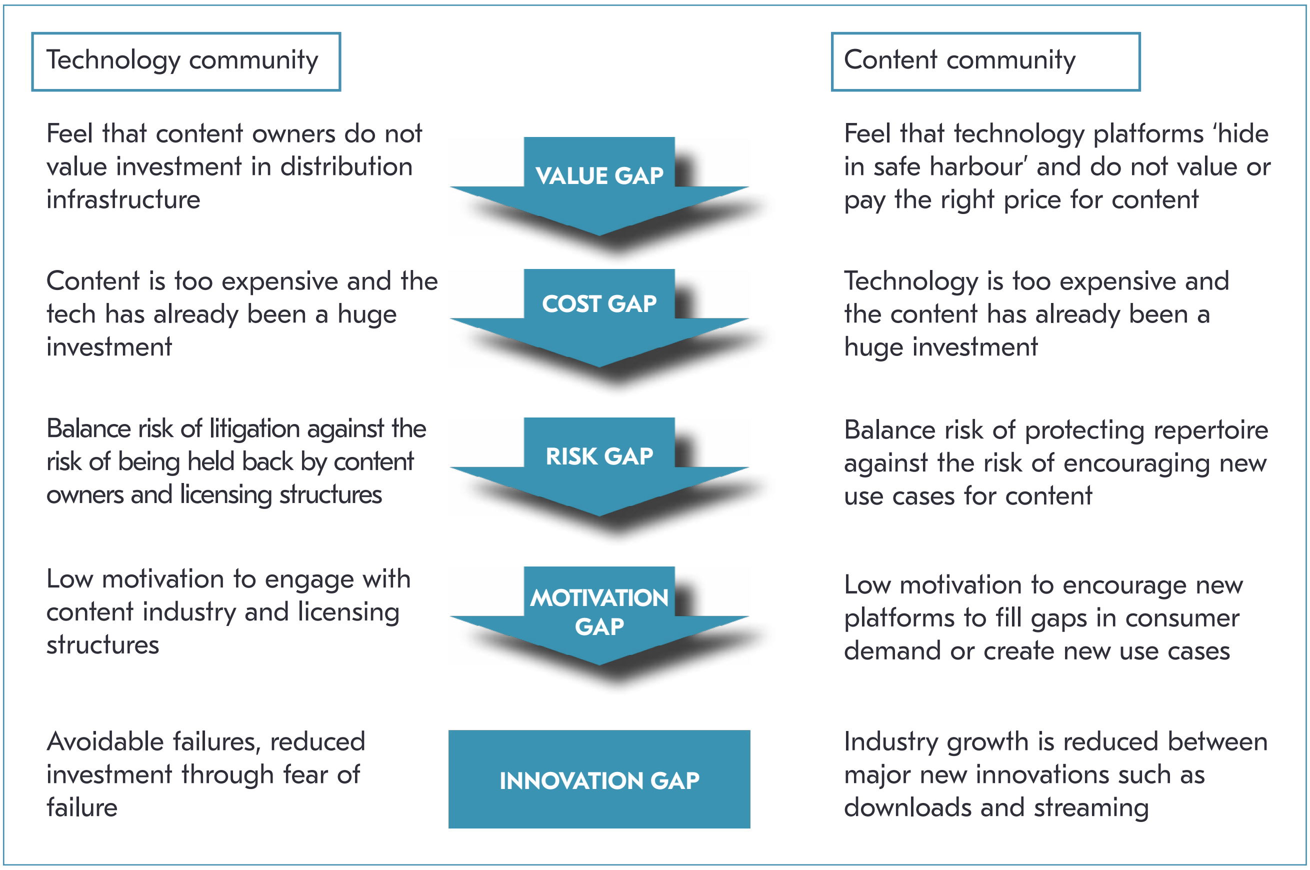


Figure 5

The idea of 'innovation licensing' is not new to content industries, who are often willing to license a proportion of their catalogues (with defined usage) to technology start-ups. Nevertheless, the successful cases of such an approach leading to platform growth and long-term success are too few and far between. UGC leaves the choice of content to the user, and consumers don't think in terms of limited catalogues and rights – even if terms and conditions help improve copyright education; users want to create without worrying about the implications. In this sense, traditional approaches to content licensing don't work effectively. We argue instead that the idea of the innovation license needs to be in place at scale, so that new innovative platforms can consider a 'sandbox' of content to be available for them to build new features and encourage new consumption behaviours.

The current innovation model is 'back to front', with new entrants such as TikTok or Peloton seemingly willing to run the risk of 'grow first, license later', until such time as they are in a position (or are forced) to negotiate with content owners. By its nature, this system means that only the strongest and biggest tech players come to the table to fully license catalogues, with many more simply never reaching this stage.

Even if technology companies consider their innovation is more UGC than professional content, they need to understand that the licensing of UGC-related activities is fundamental to the future success and growth of their platforms.

On the other hand, rights holders see potential risks with more permissive innovation-based licensing. Many rights holders either feel that the sense of obligation to their creators means that they must avoid risk – even if they would like to take more risks with licensing. In short, there is no effective or convenient method by which content owners can offer innovation licenses at scale to newer or smaller platforms. Instead, the 'default' position for content owners has been to wave the 'copyright wand', expecting the potential licensees to do all of the required heavy lifting in terms of technology, reporting and, of course, payment systems.

All this has had an effect of reducing motivation on both sides, meaning that many new technologies would rather operate with go-to-market strategies that either circumvent licensing, or try to avoid it altogether. We argue that content companies should instead make it their mission to monetise music better through social and video. Meanwhile, technology players need to recognise copyright and intellectual property, both earlier and with deeper respect for the works and value of creators. It is their work that provides the fuel that drives the technology engines.

Traditional licensing structures are not designed to monetise the new growth. Some technology platforms have claimed the need to secure hundreds, or even thousands of deals to meet the requirements to be 'fully licensed'. This includes detailed data and reporting requirements too. Even with the larger platforms, licensing deals are being done without these requirements in place. Consequently, even after deals are up and running, rights holders still complain about poor reporting or lack of visibility about content use. Key data is missing, or reporting is not considered to be a priority on the partnership's roadmap.

The current gaps in understanding lead to more than the value gap, but an innovation gap. If the innovation gap is addressed, new innovations will come to market faster, and potentially monetise faster too.

Snapchat and Twitter still show promise for music

Snapchat and Twitter remain in the top tier of social media platforms today. Snapchat finished Q2 2020 with 238 million daily active users (DAUs), an increase of 35 million year-on-year (YoY), while Twitter's monetisable DAUs metric reached 186 million (a record 34% YoY increase). Both platforms have been closely associated with music.

Snapchat now enables users to add licensed music to their videos, with the launch of 'Sounds on Snapchat' in October 2020. The feature allows users to add licensed music to their 'snaps', and recipient users can swipe up to view album art, song and artist information. They can also listen to the full track by 'jumping off' to streaming platforms like Apple Music or Spotify. Snapchat has launched the feature to boost user engagement as more users share videos containing music.

Twitter represents an untapped opportunity in music. The social media platform first launched a standalone music app "Twitter #music" back in 2013 following the acquisition of Australian music app "We Are Hunted". However, the app was closed after just 12 months. Although Twitter continued to experiment with music features, the contradiction has emerged that Twitter is one of the most prominent hubs of influence in music, yet it has not launched a successful value-add feature that can monetise its users' engagement around music content.

A substantial percentage of the social network's conversationalists are among the world's biggest recording artists, while Twitter users are more engaged with music. Eleven of the top 20 Twitter accounts today are music artists (Katy Perry, Justin Bieber and Rihanna are in the top five). On the consumer side, while 21% of consumers stream music for free, this figure rises to 32% of Twitter WAUs.

Twitter revenue was $683 million in Q2 2020. If only 20% of Snap Inc. and Twitter's ad revenues were directly attributable to music, both platforms would generate greater ad revenues from music than Spotify.

We raise Snapchat and Twitter as talking points only. It is possible that any number of previous social media platforms could have become even more valuable platforms for music, from iMeem to Vine (acquired by Twitter but shut down in 2016).

Blurred lines – the new relationship between promotion and consumption

The content industries have a history of clearly delineated distribution between promotion and purchase. With music, radio and press promoted the songs that labels and managers considered the most enticing examples of the artist's current project that could be packaged up as singles or sold to consumers via retailers as albums.

With film, trailers and press acted the same way in promoting subsequent purchase windows – a theatrical release, followed by a physical disc and then cable or free-to-air television. Digital has changed this structure, first via downloadable content, but much more dramatically through streaming.

"It is important for music content owners to start imagining UGC as another format or channel for the delivery of music rather than simply as promotion or audience development." This would require quite a radical rethink of some of the underlying ways of doing business, but I believe would release significant value to artists and fans alike".

Promotion and consumption are no longer mutually exclusive. They are part of a continuum whereby a vast array of content is distributed via multiple platforms, with the ultimate objective being to engage fans by absorbing their time in the attention economy. Along this continuum comes a spectrum of ways to compensate creators – be that from ad revenue, subscriptions, ticket sales or physical products. Indeed, new forms of remuneration like micropayments, virtual goods and crowd funding are other emerging ways in which creators can monetise their content through the UGC route via vast audiences.

Figure 6: UGC will drive the development of a promotion-consumption continuum whereby 'sales' will be superseded by a 'value exchange'

Three phases of the role of promotion, sales and consumption in the music ecosystem

	PROMOTION: Content owner pays channel or platform in exchange for exposure/discovery	SALES: Consumer pays content owner or retailer for products	CONSUMPTION: Consumer spends time enjoying the content
THEN	Press, in-store ads, paid media Radio & MTV are both licensed and promotional	CD, DVD, download stores	Consumer listens or watches on fixed play devices
NOW	Creative for socials, paid digital media and D2C/CRM Radio & YouTube are both licensed and promotional	Consumer subscribes or streams for free (ad-funded)	Consumer listens or watches on any device Consumers share and augment: UGC
NEXT	Content owner and platform operate under hybrid model, based on activity and data reporting. **Advertising is more personalised to users**	Consumer subscribes or streams for free (ad-funded) **Growth of virtual currencies allows consumer to 'sponsor' artist and 'earn' through activity**	Consumer listens or watches on any device Consumers share and augment: UGC **Consumers create and share: UGC**

Promotion and consumption blur, sales becomes 'value exchange'

Figure 6

There are some areas where promotional benefits are dominant. Currently this includes platforms like TikTok, which are proving valuable as vehicles for artist discovery. They even become part of the creation/production process, as with Lil Nas X, who attracted A&R scouts, impressed with the engagement he received. UGC has brought artists closer to their fans than the more standard 'professional' formats such as tracks on streaming platforms or even live events. As previously stated, there is an intimacy to UGC – where social media can provide a glimpse into the life of the artist, and in many cases a two-way conversation between the artist and fan.

However, for certain segments, UGC and free-to-consumer platforms are becoming the primary ways in which fans discover and consume music. Often content is created not to promote a commercial release at all, but instead simply to be enjoyed and to help develop the artists' overall audience. During the lockdown period, music artists, actors and sports stars became far more creative, with living room sessions, Zoom broadcasts, tutorials and live chats.

These formats had nothing specifically to promote but they were immensely popular with fans. These types of content also developed a following and generated new revenues for their host platforms.

New consumer behaviours are different to anything we have seen previously in the culture-based industries. Consumers have more choices of where to spend their time, leading to shorter attention spans. Sampling and meme culture are rife in the social media world, and increasingly the technologies are being made available to help almost all consumers become curators, and many to become creators themselves – as we see with TikTok and with many gaming platforms.

It is important to note that rights holders are careful to ensure that UGC does not substitute or cannibalise professional content, and this is fair enough. In most cases, the creative use of professional content will add some value – whether that be promotional for rights holders, audience building for users, platforms and artists or indeed, directly through licensing. It is important that the UGC and rights holder sectors work together to understand this continuum better. Content creators appreciate promotion, but they take a view that separately, their content is central to the value creation through audiences, users and ultimately revenues for platforms. Whether a creator views fan activity as promotion or consumption is a matter of perspective and subject to debate. What is beyond debate is the value of social platforms, especially emerging short-form UGC platforms. More and more creators are embracing this model.

UGC platforms are feeding into the wider content ecosystem. Viral success on social media will not only generate revenue (albeit at a low per-play rate) but it will also stimulate greater plays on streaming platforms, which leads to radio and other airplay, which fuels sync, live, merch etc. Increasingly, the way content creators and copyright owners are coming to view UGC is not as either promotional or consumption, but as a growing contributor to the commercial ecosystem.

The critical glue in this, of course, is data and reporting. What is important is that artists are informed in a timely way about how their content is performing. This knowledge enables more informed decisions to be made. Services like YouTube now offer enhanced analytics data to artists (YouTube Analytics for Artists) which looks at the artists' own channels and at their third-party channels. It provides a holistic view of an artist's performance across the entire platform.

Solutions frameworks

So far, we have painted a picture of opportunity: the explosive growth of UGC activity that both utilises and adds to professional content, the growth of the social media platforms that host this activity, the promotional benefits for artists and the potential of monetisation through ad revenues and virtual goods. But what really needs to change for these opportunities to be more fully exploited by both sides – the rights holder content industries and the technologies that drive the behaviours?

Both sets of industries have very different cultures and mindsets. The major music rights holders – labels, publishers and collective management organisations (CMOs) – have spent two decades gradually transforming themselves into 'digital first' businesses (with music publishers still on that path): setting up digital operations, technology infrastructure and, more recently, licensing teams and data analytics capability across their business functions.

Meanwhile, CMOs have established themselves as crucial partners for songwriters in handling licensing, processing and administration of music rights for streaming. However, many CMOs are not-for-profit societies and have been operating with strict governance structures since the first half of the 20th century. Many CMOs have not been able to update their technology capabilities sufficiently to be able to handle streaming requirements.

Music publishers have even more to gain from UGC in many ways, since much of UGC has rights implications for song compositions such as cover versions, karaoke and lyrics citations. For music publishers and CMOs there is an opportunity to generate new revenue from UGC that makes up an even greater proportion of overall publishing revenues than for the recorded music business.

Meanwhile, the technology players have come to appreciate (if not fully comprehend) the complexities of the copyright world, with its multiple layers of rights holders and geographically dispersed licensing frameworks.

The different 'DNA' of technology and content communities still remains and always will enable, despite cyclical deal renewals, the frequent exchange of executives and the increasing ability to share a greater level of data for reporting of business. Over two decades of digital business development the two sides have got to know each other very well. However, this has been mostly managed by closely observed relationships, detailed negotiations and active (and labour intensive) account management.

The system has worked, but only in that the major rights holder organisations have become adept at managing a small number of very large partnerships. In music these are limited to a manageable handful of digital service providers (DSPs) and the major social media players.

From the content owners' perspective, although they make every effort to stay in touch with new innovations and engage in early dialogue, the reality is that many just do not have the resources or 'bandwidth' to service new players with the attention they require to fulfil early potential. We strongly argue that content owners need to bring on the next generation of technology platforms as responsible citizens and partners, but also take responsibility in enabling them to launch and go to market early, with content licences in place – not wait for these platforms to get 'too big to ignore'.

"Content organisations remain passionate about their intellectual property and protective about their copyrights. Copyright is their 'magic wand' and the most powerful tool in their toolbox".

In the music industry, over two decades of digital market development, attitudes are shifting from a primary focus on anti-piracy and blocking to monetising through commercial relationships and proactive licensing – but we are not there yet. The music industry successfully nurtured Spotify to great effect. However, that journey took a long time and has not been without its difficulties – even though the vast majority of the content licensed by Spotify was the already-digitised catalogue of music labels. To scale new innovation and UGC-related opportunities, a different approach is required. New innovations need to be brought on earlier, and in turn encouraged to find viable commercial models sooner so that they can deliver value to the industry as they grow.

We are moving to an era where the 'toolbox' for enabling this type of growth is ever-expanding and becoming more sophisticated through technology and data. Improvements in metadata and content identification mean that content is trackable, traceable and reportable. As this capability expands – as with music streaming services – the data becomes much more powerful, enabling content reporting, trend visibility and insight data and even predictive understanding of the potential for content based on prior performance and peer group data. Indeed, the next wave of data could go further, providing critical attribution insight that gives visibility of how content is consumed across technology platforms – something that content marketers can only guess at today, using a mostly manual process of viewing each platform separately.

Accelerating innovation and monetisation in the middle tier

Rights holders have yet to fully develop their strategies in response to the massive growth of UGC, but they cannot afford to continue to license the sector through the current practice of implementing many thousands of separate deals. Under this current system, the majority of that $6 billion opportunity mentioned earlier will go untouched.

Meanwhile, technology platforms have to figure out how to become broadly licensed earlier in their growth stage, and this means implementing effective copyright management solutions as quickly and efficiently as possible in a margin-constrained business.

Both rights holders and platforms are working through the machinations of current licensing structures through teams of expensive lawyers. Both sides are also working with solutions providers that can step-in and provide the infrastructure to allow innovation and creativity to thrive, by bridging the difference in capabilities, attitudes and cultures between copyright owners and technology platforms.

Platforms and rights holders can meet their UGC challenges at scale by working with a central licensing and operational hub. The requirements of the hub would be threefold:

1. Provide the (vast majority) of content catalogues as pre-licensed to new technology platforms
2. Provide deep expertise and operational resource in understanding rights holders' license requirements including rights implications, data requirements, obligations to artists and exceptions
3. Provide an operational platform with best-in-class functionality for content identification and matching to usage, catalogue and rights management, analytics and reporting, compliance and royalty processing

In addition to these core capabilities, intimate knowledge, expertise and relationships are required by hub operators in order to broker more innovative licensing deals that can meet the demands and concerns of the two very different sets of industries.

The new European Copyright Directive and Article 17

Governmental entities are playing an increasingly prominent role in UGC music, for example via Europe's new Copyright Directive and the White House's intervention in TikTok's US operations. While the US TikTok situation is tied to wider geopolitical issues, the pending European framework, in balancing the competing priorities of platforms and rights holders, has the potential to take the UGC music market in two directions.

Come down too heavily on the side of the platforms and rights holders risk being under-remunerated, come down too heavily on the side of rights holders and platforms may feel compelled to constrain UGC music activity and potentially focus more heavily on royalty-free music.

The New European Copyright Directive was passed in June 2019 and its current draft of guidelines is now completed (as of September 2020) following an extensive consultation process. EU member countries have been given until June 2021 to transpose the draft into local legislation. The details of how closely the directive will be transposed by each country is as yet unknown, but the Directive is a unique opportunity to grow the market for both sides of the content industries.

Article 17 of the directive is the section that establishes the new regime for online content sharing by digital service providers. In essence, Article 17 is designed to clarify existing EU law by stating that online service providers who promote content sharing are themselves making the content available, and therefore need authorisation from the copyright owners to do so. But the directive also provides a new safe harbour (where one did not exist before) for online services that use 'best efforts' to obtain licences (and also best efforts to prevent the availability of unlicensed content for which the copyright owner has provided 'relevant and necessary' information). This aspect is critical in allowing new technology platforms to launch, and giving them breathing room to incubate new content uses and grow their user bases.

The way major markets interpret and transpose the directive is yet to be made clear, but without a doubt the directive is productive in that it facilitates a balance to be struck between the necessary protection of copyrighted content and the enabling of users to create, enjoy and share experiences while using content reasonably.

Article 17 is likely to result in a greater understanding that users of social media platforms need clearer education and guidelines in how they utilise and share professional content, while at the same time allowing platforms to continue to nurture users' creativity. The directive also aims to establish a distinction between users based on how successfully they use social media technologies for commercial gain, subsequently enabling a licensing opportunity for the music industry. For rights holders, the directive provides increased levels of protection and respect for copyrighted works, but expects that they will make the required efforts to meet the 'necessary and relevant information' requirement through increased investment in metadata on compositions, including facilitating links between these metadata and the fingerprinting of sound recordings (for example to better identify and then license/monetise) users' cover versions of songs.

Conclusions

Years ago, DJ Spooky predicted that we were entering the era of mass customisation. That is exactly the dynamic created by social media and UGC. What is more, the trend is accelerating, and more consumers are leaning forwards not just engaging with content but personalising it, whether that be comment on it, sharing it with a cover note, liking it, adding music to photos, creating a dance video to a song or even creating their own versions or mash ups. The net effect is that the boundary between professionally generated content (PGC) and UGC is breaking down. The additional complexity is that the definition of what constitutes PGC is changing too. For example, is a vlogger with 10 million subscribers creating any less PGC than a record label artist with one million subscribers? And what happens when that vlogger signs to a label, or when that artist goes fully independent?

One key takeaway from this growing complexity is that the PGC-UGC continuum is developing and will continue to do so. The phenomenon of consumers leaning forward to engage and interact, with varying degrees of creativity, is a central part of both the present and the future of digital content across the board.

As the growth in streaming platforms slows down and content owners begin to ask themselves "what comes next?", they can already look to the thriving UGC activity on social media and new technology platforms. UGC will provide the majority of the growth in music over the next five years. It is 'the next chapter' and as we have demonstrated, could be worth $6 billion to the music industry overall (and potentially over $3 billion to rights holders) in just two years.

These new emerging consumer behaviours exist alongside traditional streaming music but are currently either under monetised, or commercial models have not yet been structured around them. Europe's new Copyright Directive represents an opportunity to build commercial frameworks that can monetise this growing behaviour and in turn create new growth drivers for the music business and for all content creation industries.

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