



Taking Stock – the launch of Google Music and the state of online copyright protection

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Does the launch of Google Music mark a significant departure in the effort to create a digital platform that can compete with pirated media? Moreover, can it finally bring the music industry back to revenue levels of the early 2000s?

On November 11 Google launched the latest of its initiatives to broaden its brand into new territory. The search-engine behemoth is a major technology player with a vast array of cloud and device-based services ranging from mobile software (Android) to email, office software services, and now music.

Google Music – main features

Google Music will provide two main features:

- accessibility to already purchased/downloaded songs through the Google Music Library feature; and the
- ability to purchase music online through Android Market.

The first feature gives consumers the ability to upload and link all their music through the Google cloud. So for example, music which is currently now stored on a computer can be uploaded to Google Music which then allows users to access their music from any web-connected PC or a mobile device using Google's Android software.

The second feature – *and this is most important for the commercial prospects of the music and content industry* – is the ability to purchase music legitimately through the Android Market.

In addition to these two major features, Google Music will also allow purchasers of music to share these songs with their friends through a small number of free listens.

Crucially, Google has signed licensing deals with most of the major music labels including Universal, Sony, EMI and a number of independent labels.

What are the implications of Google Music for, firstly, the music industry and secondly for the wider world of content in the age of online piracy?



Online music since the early 2000s: a tale of despair

Since 2000 global sales and revenues for the music industry has fallen off a cliff. In 2000 annual global annual revenue stood at \$26.9 billion.¹ This has now fallen to \$15.6 billion, despite both globalization and the advance of digital and portable music technologies such as smart-phones, personal stereos, I-pods etc. Significantly, this fall has coincided with the rapid growth of online piracy and illegal downloading. For example in 2008 40 billion unauthorized files – including DVDs, games and music – were traded illegally. In many countries where online piracy is particularly pervasive the domestic music market and homegrown talent seems to be drying up. According to the recording industry association IFPI Spanish music sales fell by an estimated 22 per cent in 2010, and no new home-grown artist featured in the country's top 50 album chart. This, in comparison, with ten such artists seven years earlier.²

A new way forward?

The last few years have seen a proliferation of online music and a fundamental shift in the way consumers can access and use music. The introduction of the I-Pod and I-Tunes system by Apple in 2000-3 and the subsequent successful mass-commercialization of the format, has been a major driver in the growth of legal digital music sales. The advance of mobile phone and mobile internet technology has combined what previously were separate and discrete platforms onto one device. In 2010 the total number of smart-phones and tablets shipped almost equaled the number of PCs shipped; in 2005 this was less than a quarter.³ Likewise, smart-phone sales in most major markets (the US, UK, France, Germany, Japan) now equal or surpass that of feature phones. These smart-phones are now an increasingly popular and used device to stream and listen to media content including music.

Similarly, there are more legal ways of purchasing music and content online than ever before. For example, the Recording Industry Association of America lists on its website 24 different retailers/vendors from which music can be bought legally. This includes mass online retailers as well as more niche service providers such as Amazon MP3, Aol Music, Spotify and Pandora.⁴

Yet, for all the growth in mobile technologies and the personal accessibility of music through a variety of new platforms and technologies, digital sales are still only a small part of overall music sales. In fact, digital music sales only make up less than a third of the shrinking pie which is total

¹ The Economist, June 9 2011, <http://www.economist.com/node/18805473>

² IFPI, Digital Music Report 2011, http://www.ifpi.org/content/section_resources/dmr2011.html

³ The Economist , "Beyond the PC", October 8 2011, <http://www.economist.com/node/21531109>

⁴ http://www.riaa.com/toolsforparents.php?content_selector=legal-music-services



music sales. And although growing the latest IFPI figures show that in 2010 global digital revenues were up by only 6% to \$4.6billion.⁵

Not so fast...

Based on this it does not seem that the launch of Google Music signifies a new departure for online music and is probably not likely to have a significant impact on the fortunes of the music industry. Granted, many new platforms, such as Spotify's launch in the US as well as Google Music, are still in their infancy making it difficult to make long-term predictions on their net impact. But recent history does suggest that while positive incentives for the legitimate purchasing of online content are an important element of tackling online piracy, their overall effect has been rather limited.

Certainly, Google Music will be a boon for the technology giant and may also over time – with the growing ubiquity of the Android platform – produce impressive results in encouraging music downloads. (Indeed, earlier this month Android Market celebrated its 10 billionth download.) But the fundamental challenge for the music industry remains, by and large, the legacy of the growth and spread of online piracy. Successfully stopping piracy will most likely hinge on a combination of convincing consumers to pay for new platforms such as Google Music and successful enforcement of primary and secondary legislation.

The last few years have seen a number of new laws and regulations introduced in Europe and Asia to try and stem the growth of online piracy. A number of countries – including France and South Korea – have adopted variations of a “three-strikes and you’re out” regime linking piracy offenses to internet access. In South Korea, piracy rates have declined and the sale of digital music sales rose almost by 15% after the introduction of new anti-piracy measures in 2009.⁶

The US is also currently debating new measures under the proposed STOP Online Piracy Act which would place a greater responsibility of enforcement onto ISPs and intermediaries of foreign file-sharing websites. While the US legislative package is different, the key question is would it have the desired effect on behavior? If it would, it may represent one of the last few hopes the music industry has of stemming the growth of piracy.

If you wish to learn more about the work we do on these and related issues, please contact David Torstensson on davidt@pugatch-consilium.com

⁵ IFPI...

⁶ http://www.nytimes.com/2011/01/24/technology/24music.html?_r=1