



## **Audio OTT economy in India – Inflection point**

February 2019  
For Private circulation only



# Contents

Foreword by IMI	4
Foreword by Deloitte	5
Overview - Global recorded music industry	6
Overview - Indian recorded music industry	8
Flow of rights and revenue within the value chain	10
Overview of the audio OTT industry	16
Drivers of the audio OTT industry in India	20
Business models within the audio OTT industry	22
Audio OTT pie within digital revenues in India	26
Key trends emerging from the global recorded music market and their implications for the Indian recorded music market	28
US case study: Transition from physical to downloading to streaming	29
Latin America case study: Local artists going global	32
Diminishing boundaries of language and region	33
Parallels with K-pop	33
China case study: Curbing piracy to create large audio OTT entities	36
Investments & Valuations in audio OTT	40
Way forward for the Indian recorded music industry	42
Restricting Piracy	42
Audio OTT boosts the regional industry	43
Audio OTT audience moves towards paid streaming	44
Unlocking social media and blogs for music	45
Challenges faced by the Indian recorded music industry	46
Curbing piracy	46
Creating a free market	47
Glossary	48
Special Thanks	49
Acknowledgements	49

# Foreword by IMI

“All the world's a stage”– Shakespeare, also referenced in a song by Elvis Presley, then sounded like a utopian dream until 'Despacito' took the world by storm. The audio OTT sector presents an opportunity for the recorded music industry in India to have a 'Despacito' across multiple Indian languages.

Record labels across India have invested heavily in content and public policy since the 90's and that's the biggest reason why India today has a robust recorded music industry powering the goliaths in the Radio, TV and OTT sectors. Preserving our rich cultural heritage, generating employment in the formal and informal sectors, contributing to the national exchequer, and propagating India's soft power from the Royal Albert Hall London to the Academy Awards in Los Angeles, the music industry in India has much to its credit. Not so for our neighboring countries like Pakistan, Bangladesh, and Sri Lanka that had a very vibrant recorded music industry but are now fighting battles for survival.

The audio OTT opportunity can create an inflection point for the Indian recorded music industry to become one of the top 10 markets in the world. In 2017, we ranked #19. China ranked behind India until 2012, yet today China ranks amongst the top 10 markets in the world<sup>1</sup>. For India to realise this potential, it needs:

- More domestic investments at the regional level as domestic players understand that landscape better, and international investments from the global majors and the global indies moving further into the Indian recorded music industry.

- Global practices via free market economics, revenue distribution, monitoring, and reducing the value gap with owners of content getting a fair value.

The global geo-strategist Anne Marie Slaughter coined the term “webcraft”, a sprawling complex of networks, coalitions, partnerships and initiatives undertaken by businesses, NGOs, universities, foundations, cities, provinces and determined individuals, all working with the government. In case of the recorded music industry, it will be the coming together of the industry, creative community, ISP/telecom firms, and advertisers alongside the government departments at the Center and State to find lasting solutions to piracy and drive traffic to licensed sites.

Latin music today earns more revenue from the U.S. than in South and Central America. The tech savvy Indian diaspora (~31.2 million)<sup>2</sup> has a global footprint which represents a huge export opportunity for the Indian recorded music industry.

Statutory licensing, safe harbor provisions and other historic legislations were put in place when digital delivery mechanisms of music were at a nascent stage. Today, music delivery occurs through digital platforms and the enterprise values of these platforms range from hundred of millions of dollars to billions of dollars. The party has just begun in India, let the music spin and not be hampered by faulty policy choices that would put the growth of Indian content sectors at risk.

**Blaise Fernandes**  
President and CEO  
The Indian Music Industry (IMI)

<sup>1</sup> Vision 2022: Dialogue - IMI Convention 2018

<sup>2</sup> [http://mea.gov.in/images/attach/NRIs-and-PIOs\\_1.pdf](http://mea.gov.in/images/attach/NRIs-and-PIOs_1.pdf)

# Foreword by Deloitte

The Indian recorded music industry has faced some turbulent transitions over the past few years that have altered the overall course of the industry. While a host of operational and regulatory challenges have surrounded the industry, the Indian recorded music industry has increasingly shown promising signs of growth and recovery in recent years. The ever increasing reach and significance of technology in our lives has been one of the cornerstones of the aforementioned growth of the global and Indian music sectors.

A common trend noted across the world has been the increasing smartphone and internet penetration. Factors such as low data cost and the availability of affordable smartphones are further disrupting the traditional television & broadcast, and related industries to bring about a dynamic shift in the way content is being consumed. The rise of audio as well as video over-the-top (OTT) platforms played an instrumental role in this shift.

Currently the audio and video OTT market in India is valued at around US\$ 280 million<sup>3</sup>, with the evolving audio OTT market providing nearly 150 million<sup>4</sup> monthly active users access to millions of soundtracks across platforms. The industry is expected to continue generating employment opportunities in the future with the rapidly changing

technological environment and increasing usage of digital tools. With increasing smartphone and internet penetration and the potential for growth across the rural areas of the country, the Indian audio OTT market is poised to grow further at an aggressive rate.

At the outset, we would like to thank the Indian Music Industry (IMI) for taking up the initiative to understand the audio OTT economy in India and underline important potential trends and developments that could shape the future of the industry.

The reach and consumption of music has been increasing multifold and with the spread of digital media, the trends only seem to point towards more favourable times. It is therefore imperative to assess and understand the audio OTT economy and highlight several key studies to showcase how the growth of the sector is contributing to the overall reach and growth of the music sector.

This report also highlights the potential of the industry and identifies key trends that can influence the outlook for the industry.

Jehil Thakkar  
Partner  
Deloitte India

<sup>3</sup> <http://loudest.in/2018/05/24/the-rise-of-ott-music-platforms-and-content-in-india/>

<sup>4</sup> <https://www.bgr.in/news/music-app-gaana-aims-to-have-over-200-million-subscribers/>



# Overview - Global recorded music industry

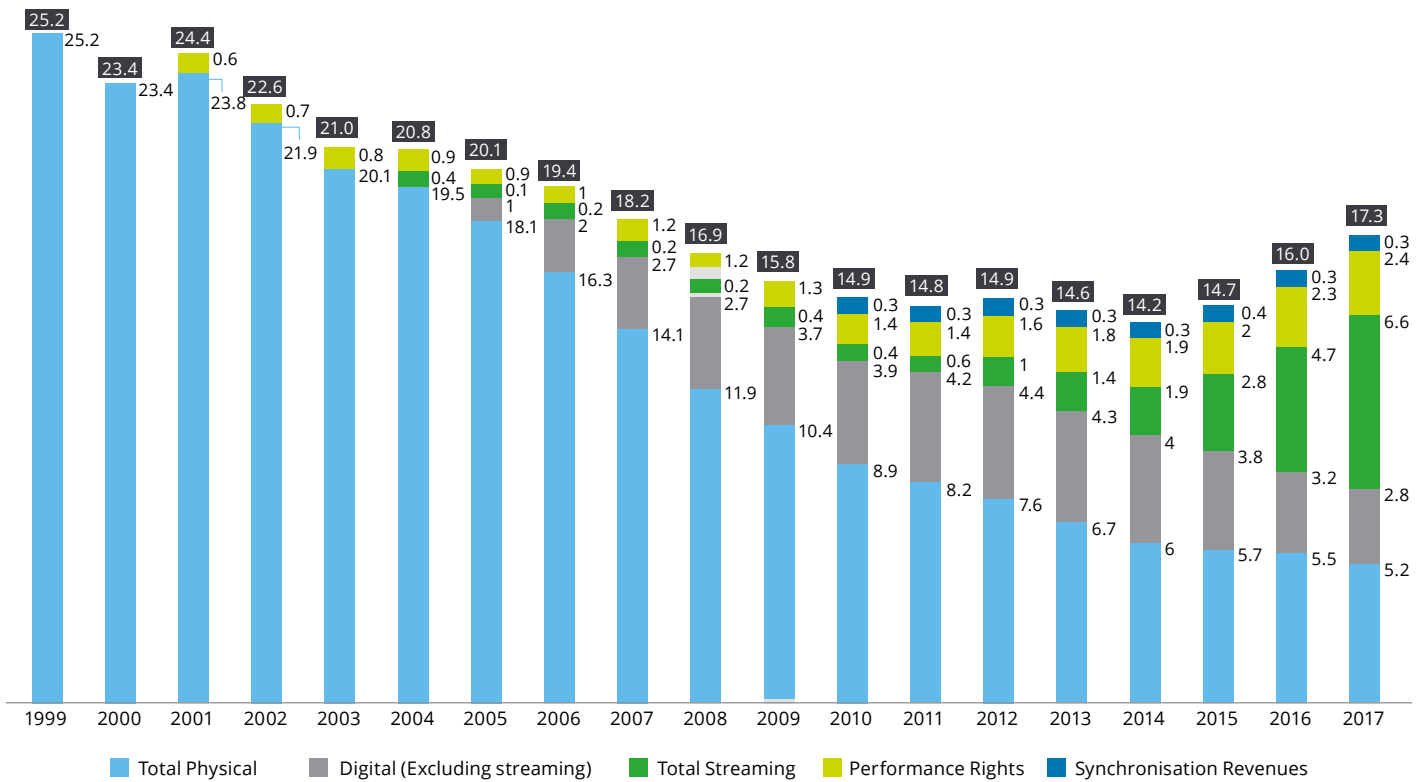
Over the last 20 years, the global recorded music industry fell from US\$ 25 billion<sup>5</sup> in annual revenues to US\$ 14.1 billion in revenues in 2014 and finally displayed promising signs of growth after 2014. The industry grew by nearly 4 percent in 2015 and continued to be on an upward trajectory through 2016 and 2017 with ~9 percent and ~ 8 percent growth, respectively. The growth in the global recorded music industry was largely a result of disruptions in technology and digital media, and record companies' active licensing strategies. Technology has directly influenced all spheres of the music industry with its effect being felt across the industry

value chain. While the advent of digital production tools/software has augmented the way music is produced, the rise of audio OTT platforms has provided stakeholders such as artists, music labels, and consumers a new medium to present, market, and consume millions of soundtracks each year.

The last few years witnessed the global recorded music industry traverse a challenging yet exciting path. While the industry has been surrounded and affected by issues such as piracy and the value gap, it has shown promising signs of growth over the last two to three years.

<sup>5</sup> IFPI Global Music Report 2018.

Figure 1: Global recorded music industry revenues (US\$ billion)



Source: IFPI Global Music Report 2018

Digital consumption including streaming of music has been steadily growing and is the largest contributor to the overall growth and revenues of the global recorded music industry. The increase in digital distribution and consumption of music was led by greater outreach of smartphones globally—primarily owing to discounted rates of handsets, lower data tariff rates, enhanced connectivity, and increased internet penetration.

The affordability of smartphones along with improved internet access at reduced cost has directly influenced the consumption of music using digital means.

% of mobile connections (globally) that are smartphones is expected to increase from 57% to **77%** by 2025<sup>6</sup>.

The mobile internet penetration (globally) is expected to increase from 43% in 2017 to **61%** by 2025<sup>7</sup>.

<sup>6</sup> <https://www.gsma.com/mobileeconomy/wp-content/uploads/2018/05/The-Mobile-Economy-2018.pdf>

<sup>7</sup> <https://www.gsma.com/mobileeconomy/wp-content/uploads/2018/05/The-Mobile-Economy-2018.pdf>

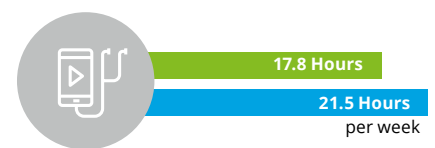


# Overview - Indian recorded music industry

The IFPI – representing the recording industry worldwide, found in a recent survey that Indian consumers spend 21.5<sup>8</sup> hours per week listening to music, higher than the global average of 17.8<sup>9</sup> hours per week - clearly making India a music-loving country. The Indian recorded music industry has emerged as a major growth driver for the revenues generated in the global recorded music industry in the last few years. Owing largely to the rapidly evolving technological landscape, the growth and revival of the domestic music industry took the overall revenues to US\$131 million or INR 850 crores<sup>10</sup> in 2017. Despite operational and regulatory hurdles such as piracy of music, the value gap, challenges in monitoring

commercial exploitation of music, and lack of awareness pertaining to copyrights and royalties, the Indian recorded music industry is currently ranked 19th, globally in terms of revenue. Breaking into the Top 20 markets in the world is indeed a significant step for the Indian recorded music industry. A key driver, the Hindi film industry (Bollywood) has ruled the Indian recorded music industry for decades together where Bollywood film producers prioritised good music for their movies to register good opening week returns in terms of revenue.

In line with global trends, digital revenues were the single largest contributor to overall industry revenues in 2017.



Indian consumers spend **21.5** hours per week listening to music

Global average of **17.8** hours per week

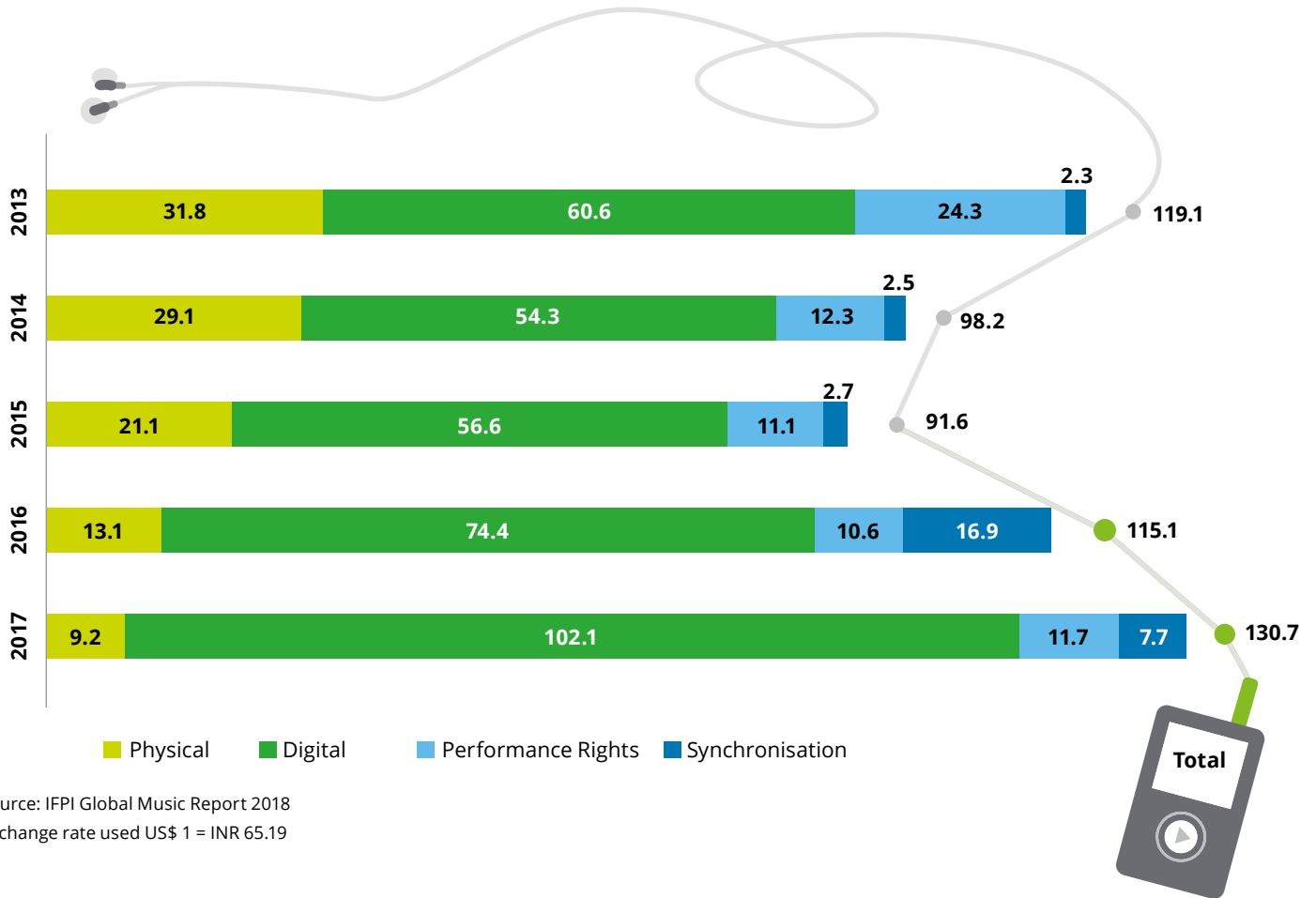
<sup>8</sup> IFPI Music Consumer Insight Report 2018.

<sup>9</sup> IFPI Music Consumer Insight Report 2018.

<sup>10</sup> IFPI Global Music Report 2018.

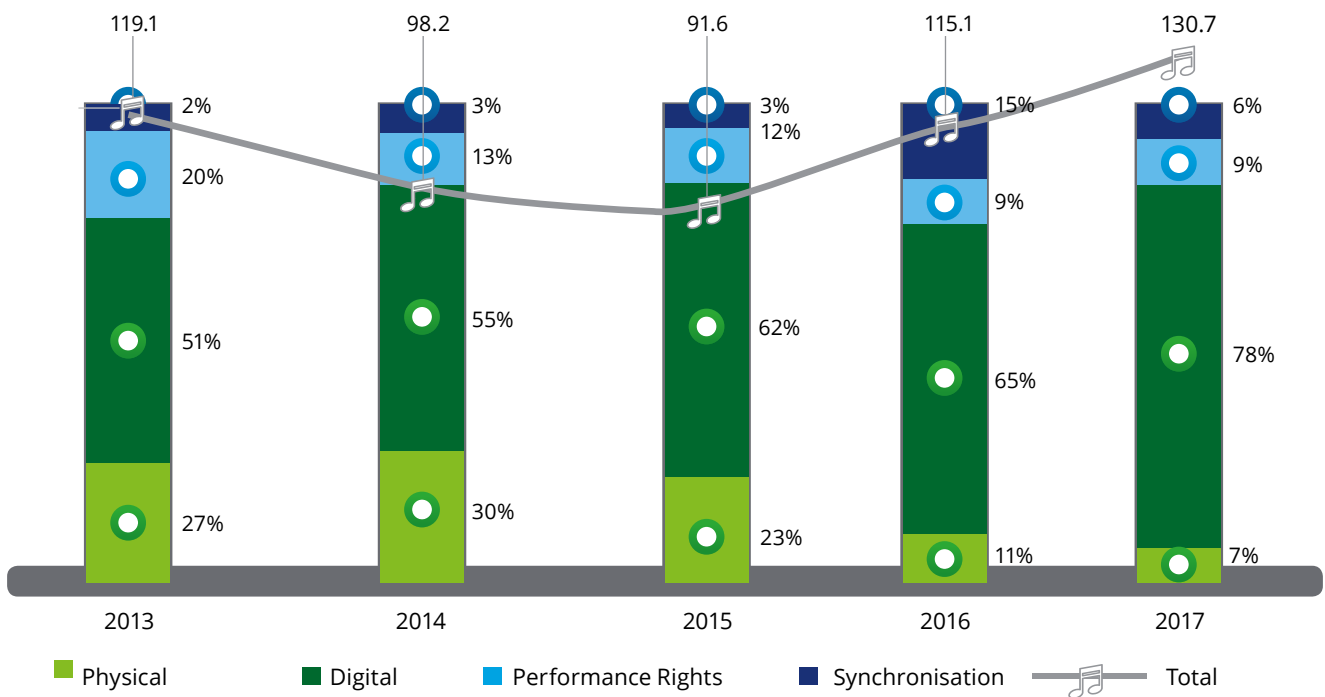


Figure 2: Indian recorded music industry revenues (US\$ million) by format



Source: IFPI Global Music Report 2018  
Exchange rate used US\$ 1 = INR 65.19

Figure 3 - Indian music industry revenues (%) by format - 2017



Source: IFPI Global Music Report 2018



# Flow of rights and revenue within the value chain

Songs or sound recordings form the core of any music industry. Creating a song for commercial release requires a production team that helps create the content, a marketing team that packages and sells, and a distribution leg to ensure that the content reaches a wide audience. Audio OTT platforms represent one of the major distribution and consumption mediums for content owners and consumers respectively and thus it becomes imperative to understand how music / audio content is created and thereafter supplied to audio OTT platforms.

Per industry discussions, a comparison between investment versus financial risk with regards to monetisation of sound recording has been shown in figure 5. Artists (Lyricists, music composers and singers) have fixed fee arrangements and therefore have been categorised in low investment, low financial risk grid. Film producers invest in the music production and may receive high or low return

based on various factors like arrangements with the artists in the film or budget of the song, so they have been categorised in high investment, medium risk. Music labels are categorised in High investment, high financial risk grid as investments are based on factors like budget, artists and actors in the film but return is dependent on the popularity of the soundtracks. Audio OTT services have been placed in medium investment, medium risk grid as the usage rights for commercial exploitation of soundtracks largely depends on the nature of the rights taken (pay per use with or without minimum guarantee, fixed fee arrangement) which could be provided for use over a defined period of time, in perpetuity or for single use.

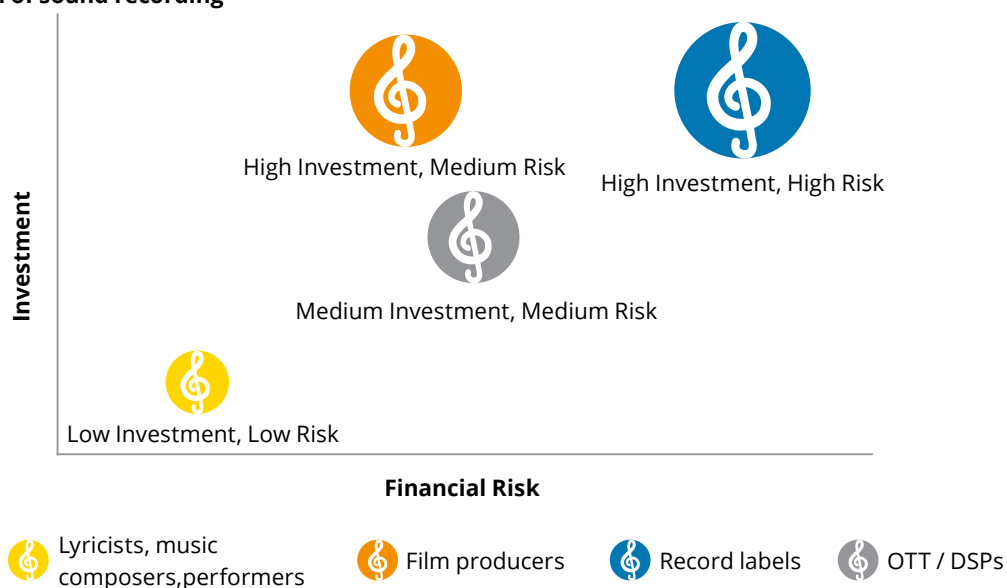
An audio OTT platform focuses on content delivery to the consumer, within the distribution space, by procuring content from music labels / publishers / other distributors and offering it over the internet. It is usually accessed through an independently hosted application.

Figure 4: Revenue streams between the various verticals

	Value chain vertical		
	Creators / Owners	Publishing and marketing	Distribution
Stakeholder	<b>Music owners</b> Music producer, lyricist	<b>Music label</b> Record label	<b>Distributors</b> Brick and mortar stores, radio broadcasters, audio OTT platforms and online hosting services
Revenue sources	<ul style="list-style-type: none"> <li>• Sale of music rights to film producer / music label</li> <li>• Royalties for content use</li> <li>• In film scenario, upfront fees received by composer, lyricist and singer from film producer</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue share in sale of music to end consumers via digital / physical / Synchronization / Public performance / Radio</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue share in sale of music to end consumers</li> <li>• Advertisements</li> <li>• Subscription revenue</li> <li>• Data bundle</li> </ul>
Revenue generated (2017-18)	<ul style="list-style-type: none"> <li>• INR 14684 - INR 14987 crores<sup>11</sup> - Indian film industry</li> <li>• INR 2000 crores<sup>12</sup> - Live music industry</li> </ul>	<ul style="list-style-type: none"> <li>• INR 850 crores<sup>13</sup> - Indian recorded music industry</li> </ul>	<ul style="list-style-type: none"> <li>• INR 2590 crores<sup>14</sup> - Radio industry</li> <li>• INR 710-920 crores<sup>15</sup> - OTT industry</li> </ul>

Source: Industry discussions, Vision 2022, The Indian Music Convention 2018, Economic Contribution of the Film and Television industry in India, 2017 by Deloitte

Figure 5: Major industry stakeholders in the Indian recorded music industry: investments vs risk profile with regards to the monetisation of sound recording



Source: Deloitte analysis, IMI estimates

<sup>11</sup> Economic Contribution of the Film and Television industry in India, 2017 by Deloitte

<sup>12</sup> Vision 2022: Dialogue - IMI Convention 2018

<sup>13</sup> IFPI Global Music Report 2018.

<sup>14</sup> <https://www.ibef.org/download/Media-and-Entertainment-Sep-2018.pdf>

<sup>15</sup> Economic Contribution of the Film and Television industry in India, 2017 by Deloitte

**Creation and Production**

Creation entails a song being conceived followed by a series of tasks initiated to create and develop the content. The trigger for content creation could be a result of a music composer who has developed a creative melody or a result of the creation of lyrics by a lyricist/ songwriter or as per a brief from the film producer.

**Scenario 1: Sound recording creation started at the film producer level**

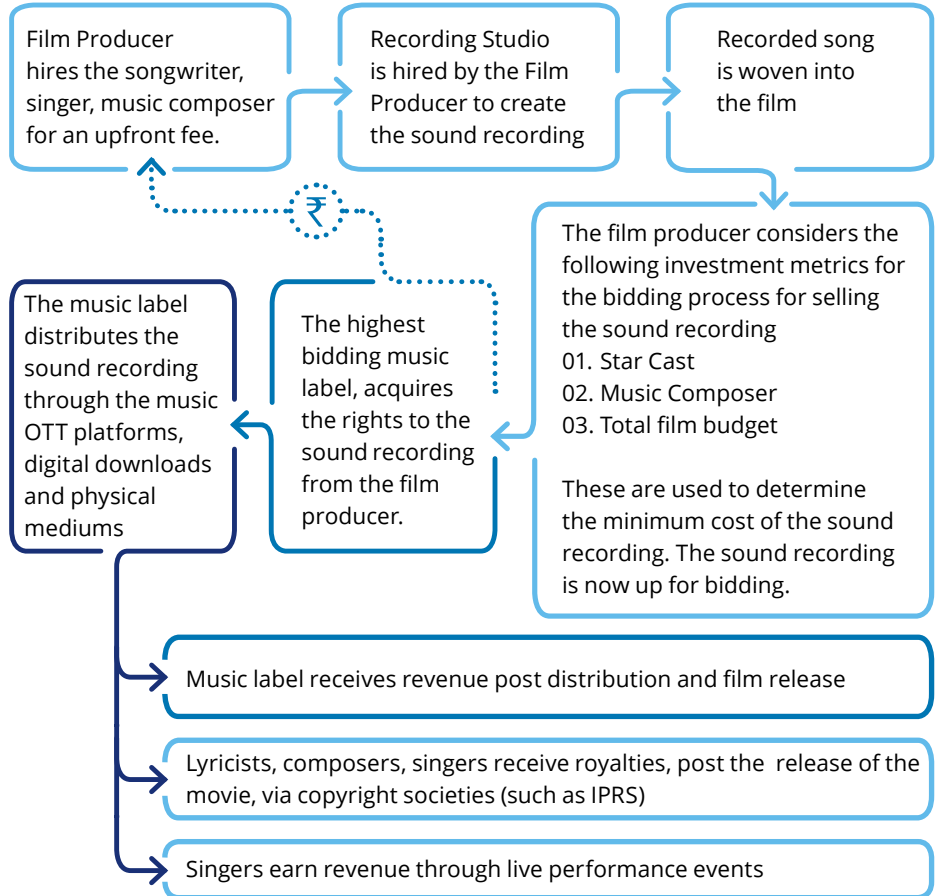
The film producer hires the songwriter / lyricist, composer, singers and the recording studio for an upfront fee. Once the sound recording is created, the rights to this recording is sold to a music label based on several criteria in a bidding process. Thereafter, the winning music label distributes the sound recordings through the music OTT platforms, download stores, and physical retailers. Lyricists / songwriters and composers receive royalties after the release of the film /sound recording. A depiction of all stakeholders in this scenario with their respective investment as well as risk exposure is highlighted in Figure 5.

**Scenario 2: Sound recording creation started at the music label level**

A music label works in collaboration with a lyricist/songwriter, singer and music composer to create an audio single/ album. The copyright to the created content is mutually or exclusively owned by the music label or the artist as per the content licensing terms. In most cases, music labels produce or bear the entire cost of production and hence own the copyrights also. The copyright owner also holds other rights pertaining to reproduction, distribution, and modification of the sound recording. Royalties paid for use of the audio content would go to the owners of the copyright. The usage rights for commercial exploitation of soundtracks largely depends on the nature of the rights taken, which could be provided for use over a defined period of time, in perpetuity or single use.

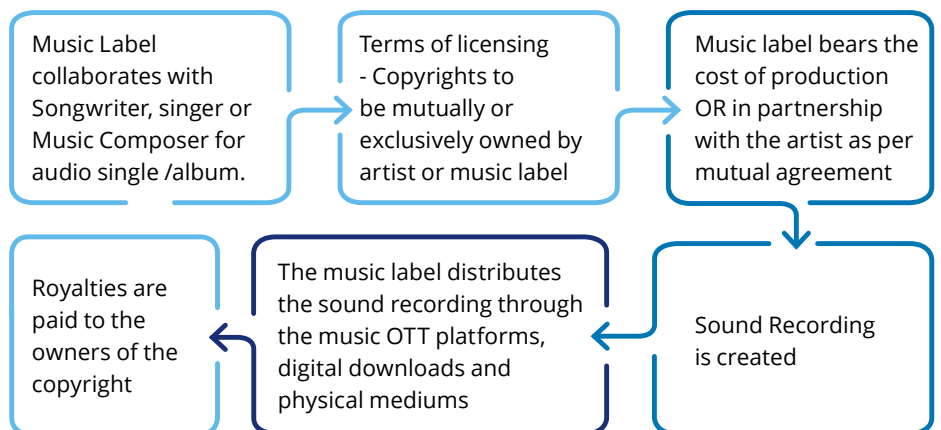
**Figure 6: Value Chain of Music for Indian Film Industry**

**Scenario 1: Sound recording creation started at the film producer level**



Source: Industry discussions

**Scenario 2: Sound recording creation started at the music label level**



Source: Industry discussions

**Scenario 3: Sound recording creation started by independent artists**

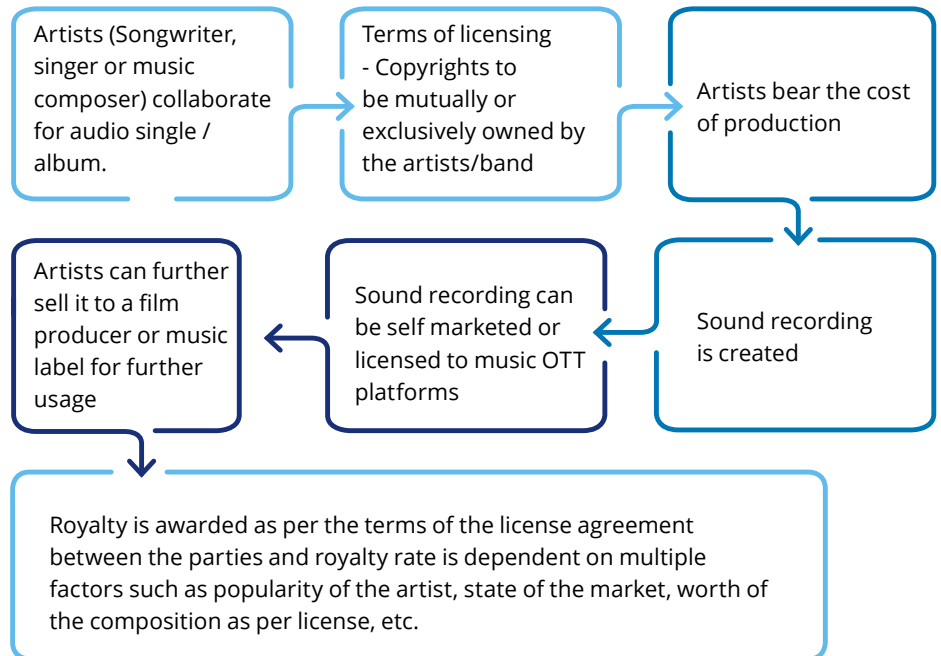
The creation and production scenario would entail one or more artists such as songwriters, singers, composers producing music at their own expense. The sound recording thereafter produced can either be self-marketed, sold on digital platforms or sold to a music label / film producer for further usage.

Royalty is awarded per the terms of the license agreement between the parties and royalty rate is dependent on multiple factors such as popularity of the artist, state of the market, worth of the composition as per license, etc.

**Publishing and marketing**

Publishing and marketing cover compilation of the produced audio tracks into physical and digital carriage mediums such as compact discs (CDs), Blu-Ray, portable Universal Serial Bus (USB) drives or internet-based hosting platforms, where a user can stream online or download. These are then marketed through different mediums such as an event for audio launch prior to a feature films release, multimedia advertising, etc. The music labels that procure/produce the audio track typically

**Scenario 3: Sound recording creation started by independent artists**



Source: Industry discussions

take control of publishing and marketing and incur huge costs towards marketing the song using TV , digital media buying, digital media buying, radio channels. In India, this is initiated as a pre-film release activity and continues until six to eight weeks after the film is released<sup>16</sup>.

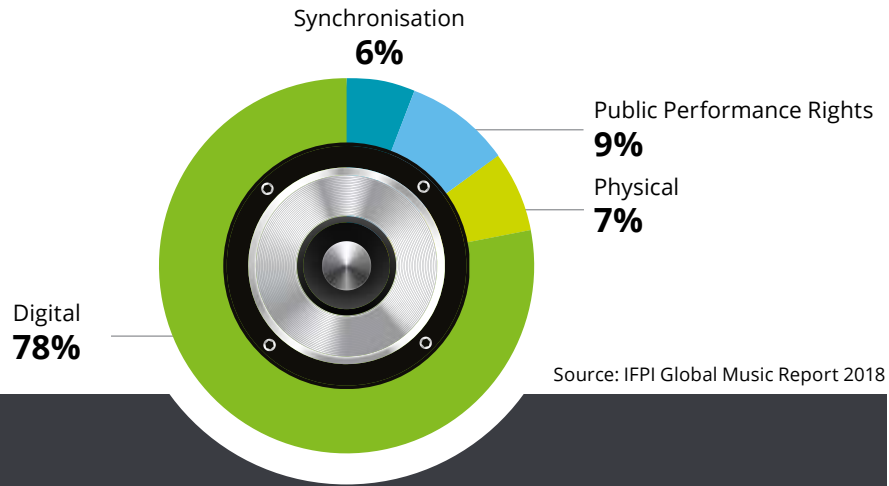
<sup>16</sup> Industry discussions

**Distribution and revenue sources**

Distribution refers to the delivery of the published audio content to consumers. Typically, revenues from recorded music can be segmented in four ways:

- 01. Digital;
- 02. Physical;
- 03. Synchronisation; and
- 04. Public Performance Rights

**Figure 7: Indian recorded music industry revenues (US\$ million) by format - 2017**



Source: IFPI Global Music Report 2018



**Digital**

Digital distribution and consumption of music includes distribution of digital music on internet platforms such as YouTube, music-oriented websites, audio OTT platforms such as Gaana, Apple Music, Amazon Music, Wynk, and JioSaavn etc. Revenues from digital means contribute nearly 78 percent<sup>17</sup> to the overall recorded music industry revenues in India and 54 percent<sup>18</sup>, globally.



**Physical**

Physical distribution involves distribution and consumption of soundtracks using audio tapes, cassettes, CDs. Previously, this segment contributed to the majority of revenues of the recorded music industry, however, physical sales accounted for merely 7 percent<sup>19</sup> of the overall industry revenues, in 2017, in the country.



**Synchronisation**

Synchronisation involves distribution and placement of soundtracks in feature films, television shows, advertisements, video games, etc. Synchronisation is a growing revenue stream for content producers and owners, and currently contributes 6 percent<sup>20</sup> to the overall industry revenues.



**Public Performance Rights**

An emerging revenue stream for producers and owners of content in India, performance rights include revenues generated from concerts, live gigs, events, music festivals, etc. The growing popularity of Indian music festivals such as Sunburn, NH7 Weekender, Magnetic Fields, Electric Daisy Carnival, and Hindi-music concerts from popular Indian artists are poised to provide a strong boost to performance rights, emerging as one of the key sources of revenues. Performance rights typically involve event managers, hotels obtaining performance licenses from original content owners at a certain licence fee.

<sup>17</sup> IFPI Global Music Report 2018.

<sup>18</sup> IFPI Global Music Report 2018.

<sup>19</sup> IFPI Global Music Report 2018.

<sup>20</sup> IFPI Global Music Report 2018.







# Overview of the audio OTT industry

Digital consumption of music refers to streaming on audio OTT platforms such as Apple Music, Amazon Music, Gaana, Wynk, and JioSaavn, watching music content on video OTT platforms (such as YouTube), purchasing and downloading music through third-party music-aggregating websites and services (such as Apple iTunes), accessing content on mobile phones (including ringtones and caller ring back tones (CRBT) or any other kind of interactive revenue streams over the digital device. According to IFPI's Music Consumer insight Report 2018,

about 75 percent of the smartphones users<sup>21</sup> listen to music on their phones, 86 percent consumers<sup>22</sup> out of which use on-demand streaming. Additionally, smart speakers are becoming increasingly popular as a regular medium of music consumption and are helping drive uptake of streaming globally.

Over the past few years, streaming has emerged as the single biggest contributor to the overall growth of music consumption. This growth, however, has been different for countries around the

<sup>21</sup> IFPI Music Consumer Insight Report 2018

<sup>22</sup> IFPI Music Consumer Insight Report 2018

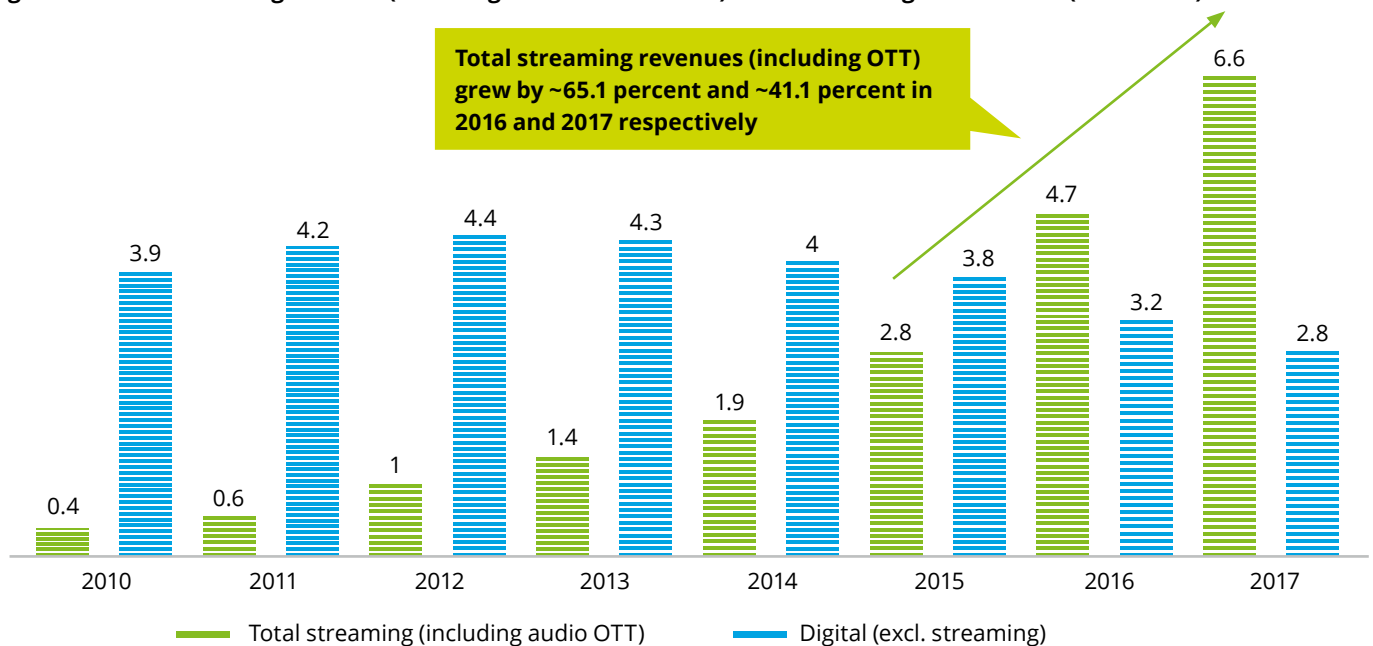




world with a few countries witnessing a strong growth momentum, while the others adapting at a slower pace. As we can see from figures 9 and 10, United States tops the chart both in terms of revenue at US\$ 2,769 million and user penetration at 47.3 percent. Some of

the most popular music streaming services globally with their respective monthly users are: Apple Music with 50 million monthly users<sup>23</sup>, Spotify with 191 million<sup>24</sup>, iHeartRadio with 100 million<sup>25</sup>, Pandora Radio with 68.8 million<sup>26</sup> and Deezer with 14 million<sup>27</sup>.

**Figure 8: Global streaming revenue (including audio OTT revenue) versus other digital revenues (US\$ billion)**



Source: IFPI Global Music Report 2018

The Indian recorded music industry has undergone tremendous changes in the past decade with a key lever being the shift from physical to digital. According to IFPI's Global Music Report 2018, revenue from digital contributes INR 665 crore (78.5 percent) to overall music revenue (INR 850 crore). Of the total music revenue, audio OTT revenue accounted for 66.8 percent (INR 567 crore).



<sup>23</sup> <https://appleinsider.com/articles/19/01/29/apple-music-grows-to-50-million-subscribers-during-holiday-quarter>

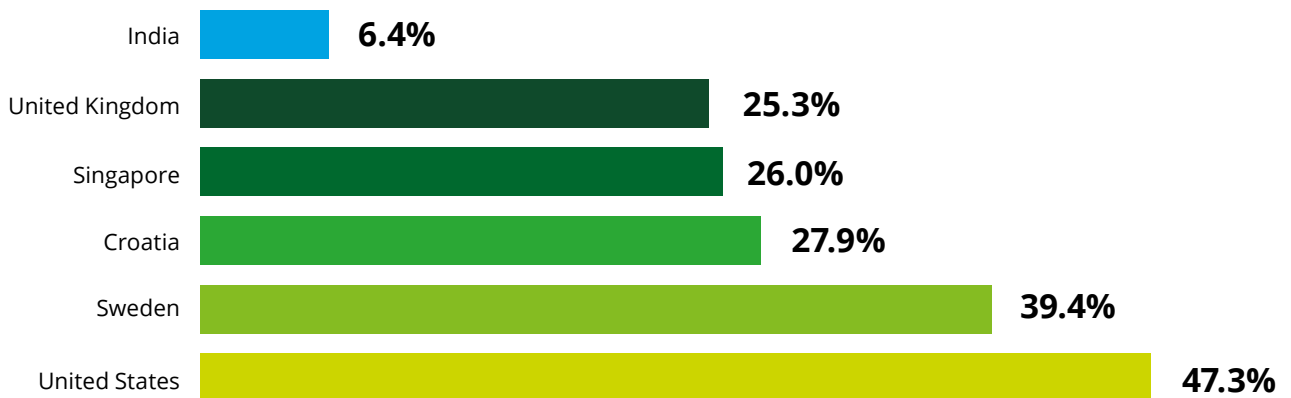
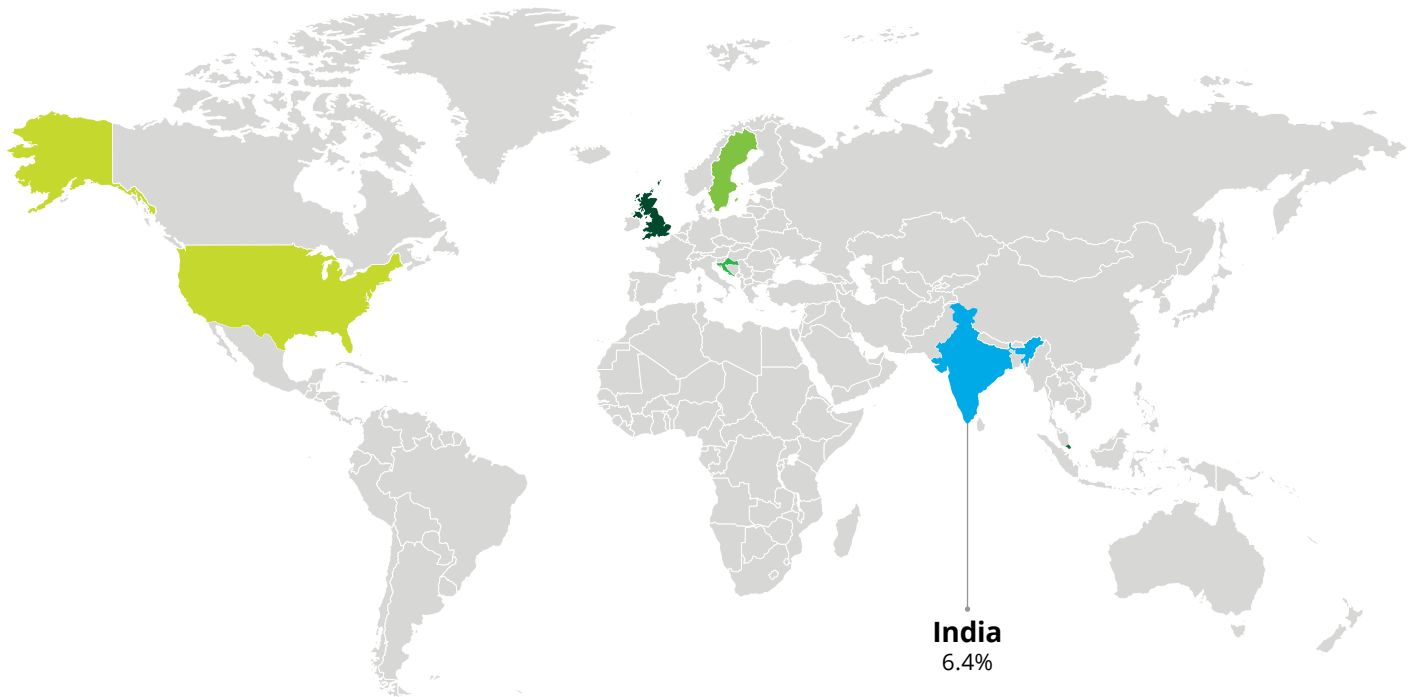
<sup>24</sup> <https://www.marketwatch.com/press-release/spotify-technology-sa-announces-financial-results-for-third-quarter-2018-2018-11-01>

<sup>25</sup> <https://www.forbes.com/sites/hughmcintyre/2018/05/25/the-top-10-streaming-music-services-by-number-of-users/#333fe1da5178>

<sup>26</sup> <https://musically.com/2018/11/06/pandora-financial-results-reveal-subscriptions-growth-but-active-listeners-decline/>

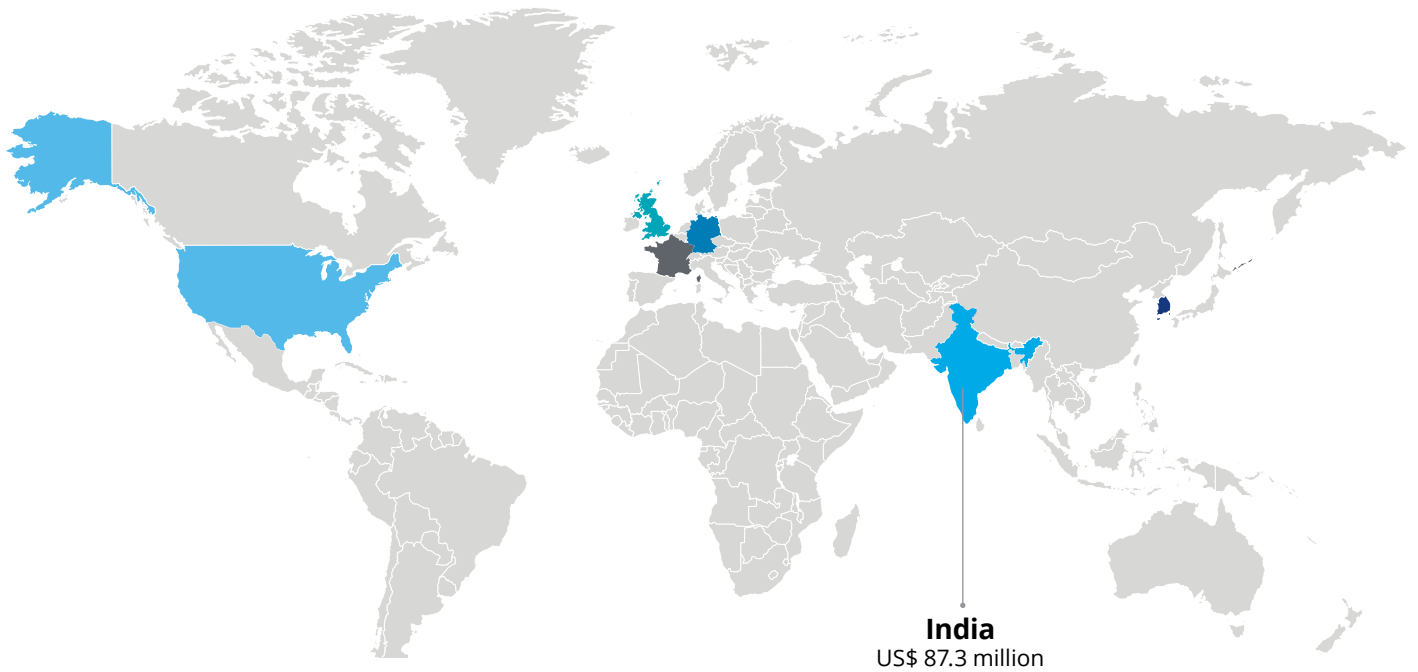
<sup>27</sup> <https://www.forbes.com/sites/hughmcintyre/2018/05/25/the-top-10-streaming-music-services-by-number-of-users/#333fe1da5178>

Figure 9: Global comparison: User streaming penetration for India and top 5 countries in the music streaming market for 2018



Source: <https://www.statista.com/outlook/209/100/music-streaming/worldwide>

Figure 10: Global comparison: Revenue for India and top 5 countries in the music streaming market for 2017



**Top 5 countries and India - ranked as per streaming revenues**

Rank	Country
1	United States
2	United Kingdom
3	Germany
4	South Korea
5	France
16	India

Source: IFPI Global Music Report 2018



# Drivers of the audio OTT industry in India

With its growing internet and smartphone penetration, India is on the path of transitioning into a digital economy. The Indian Government has endeavoured to boost digitisation through several economic reforms, investments and policies to increase India's digital infrastructure and raise the digital participation rates.

The telecom subscription base of India stood at 1.19 billion in November 2018<sup>28</sup>. Acting as a powerful catalyst, the launch of Jio saw a dramatic shift in not only the economics of the Indian telecom industry, but also in the quantum of internet and data usage in the country. The heightened competition in the Indian

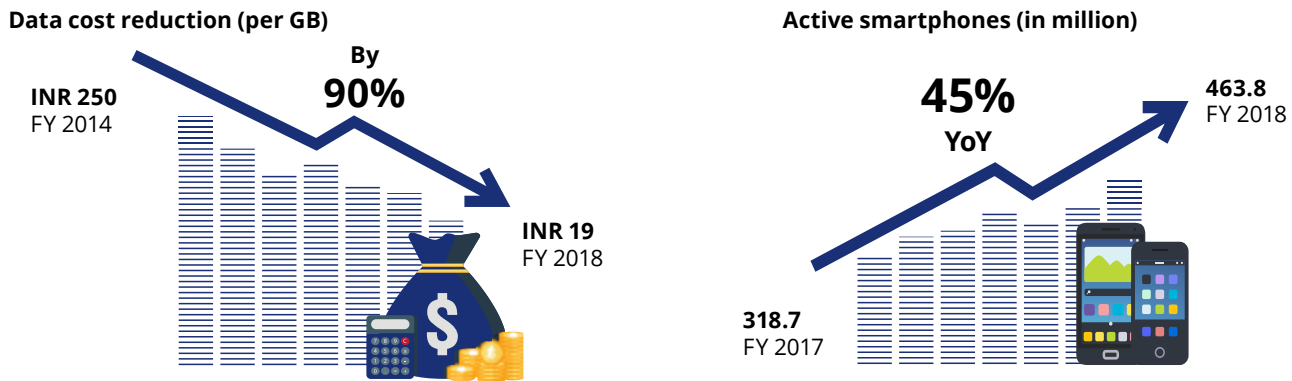
telecom industry saw a drastic reduction of data prices and emergence of many low-cost smartphone manufacturers from different countries.

The number of smartphone users in the country stood at 404.1 million at the end of 2017. This number is expected to more than double by 2022 to reach 829 million users in the country<sup>29</sup>. The launch of low-cost smartphones and enhanced feature phones by Indian telecom players in the range of INR 1,500– 2,500 has fueled the increased uptake of mobile phones in India. This, coupled with the attractive data packages, has resulted in a significant increase in per capita data consumption.

<sup>28</sup> [https://main.trai.gov.in/sites/default/files/PRNo05Eng18012019\\_0.pdf](https://main.trai.gov.in/sites/default/files/PRNo05Eng18012019_0.pdf)

<sup>29</sup> <https://economictimes.indiatimes.com/tech/hardware/india-to-have-over-800-million-smartphone-users-by-2022-cisco-study/articleshow/66917976.cms>

Figure 11: Changing technological landscape of India with reducing data cost and increasing number of smartphones



Source: <https://economictimes.indiatimes.com/industry/telecom/telecom-news/jio-led-data-price-reduction-fuels-smartphone-adoption-in-india-cisco/articleshow/64774860.cms>; IFPI Global Music Report 2018

The digital revolution across India has transformed the country from a traditional audio-visual market to one that is experiencing an increasing number of people shifting to digital platforms to consume music. Emergence of audio OTT platforms has provided the local audience with a new medium to consume a variety of genres of music.

in January 2018 and is poised to grow further in the next few years. Both audio and video OTT platforms have witnessed a significant surge in their usage. The rapid increase in the usage of connected devices, especially smartphones, has primarily contributed towards the shift from traditional media (such as television and radio broadcasts) to digital media.

The audio as well as video OTT market in India was valued at over US\$ 280 million<sup>30</sup>



The unprecedented disruption that India is currently undergoing, has provided many opportunities for digital and traditional Media and Entertainment (M&E) sectors. Development of a robust music streaming ecosystem led to the overall number of music streaming users to nearly 150 million in December 2018.<sup>31</sup> Some of the leading audio OTT platforms have been categorised here on the basis of the region of their origin.

Indian audio OTT platforms	International audio OTT platforms
Gaana	Apple Music
Hungama	Amazon Music
JioSaavn	Google Play
Wynk	
Vodafone Music	

Globally renowned streaming service, Spotify, is currently in the process of setting up its platform in the country and is due to enter the Indian market in the first quarter of 2019<sup>32</sup>.

India has an online video audience of more than 225 million, which is expected to grow to 500 million by the end of CY 2020.<sup>33</sup> In comparison, the audio digital music audience is around 150 million subscribers, which is only 60 percent of

the online video audience - indicating the significant growth opportunity in the audio OTT space, thereby potentially increasing the revenues of the Indian recorded music industry.

<sup>30</sup> <http://loudest.in/2018/05/24/the-rise-of-ott-music-platforms-and-content-in-india/>

<sup>31</sup> <https://www.bgr.in/news/music-app-gaana-aims-to-have-over-200-million-subscribers/>

<sup>32</sup> <https://www.bloomberg.com/news/articles/2018-11-27/spotify-is-said-to-secure-rights-to-booming-indian-music-market>

<sup>33</sup> <http://www.businessworld.in/article/YouTube-Reaches-Around-225-Million-Monthly-Active-Users-On-Mobile-In-India-Google/26-03-2018-144571/>



# Business models within the audio OTT industry

## **Difference between traditional modes of distribution and new audio OTT industry**

Disruptions in technology and digital media have widely influenced how content today is distributed, accessed and consumed. With the advent of internet based streaming platforms, the global recorded music industry witnessed the emergence of two additional mechanisms for digital distribution of content. Together, traditional radio broadcasting (analog or digital), linear non-interactive online streaming (internet radio) and non-linear interactive streaming (audio OTT, YouTube) form the three most widely used distribution technologies in the industry currently. The table below indicates differences between the traditional broadcasting model versus the new internet based streaming products. Within the internet based products, it also differentiates the linear and non-linear product. Thereafter, comparison has been

shown with non-linear interactive streaming where the listeners can pick and choose the music or talk shows they want to listen to or watch. Online music streaming services allow the listeners to choose music from a library on the app or website whereas radio stations do not provide similar access or navigational control, however, they do provide access to some of their shows after they have been aired over the radio in linear manner.

Audio OTT players follow different models based on the source of revenue generation. A player can offer its content free of charge to the user and supported by advertisements or generate revenue through user subscriptions. With the entry of players from telecom and retail businesses, a few bundled options are also available. Audio OTT platform business models can be categorized as ad-supported, paid and bundled.





Figure 12: Traditional radio versus internet based streaming services

Features	Traditional music services	New online music services	
	Radio Broadcasting	Linear non-interactive Online Streaming	Non-Linear interactive streaming (audio OTT)
Basic usage requirements	Tune to radio frequency of the respective Radio channel	Internet connection to go to website/app	Internet connection to download the app or visit the website
Availability of the service	Radio stations available in the area	Across the world - subject to licenses in that country (website or app rights may differ from one country to another)	Across the world - subject to licenses in that country (website or app rights may differ from one country to another)
User can choose any song	No	No	Yes
User can skip the track or play an earlier song	No	No	Yes
Offline play without Internet	-	No	Yes

Source: Industry discussions

Figure 13: Business models within Internet based audio services



Ad-supported Model	Bundle	Paid Model
<p>Content is available to users on a free to use basis, and the usage from these platforms is supported in the form of advertisements. However, consumers can enjoy an ad-free experience by paying a subscription fee.</p> 	<p>Usually available from telecom service providers that also provide an audio streaming service. The service providers offer bundled pricing to their consumers for core telecom services with access to value added services, including audio streaming services.</p>	<p>These platforms provide audio OTT services based on user payment. These can be broadly divided into two types:</p> <p><b>01. Transactional:</b> This is purely pay and own model. These platforms allow consumers to pay, download and own the song forever. Apple's iTunes store is an example of this model.</p> <p><b>02. Subscription based:</b> These platforms provide audio OTT services based on a fixed monthly/periodic subscription fee. The song is encrypted on the audio OTT platform app and never downloaded or owned by the user. All music files reside on the cloud or encrypted to the music app. Payment of subscription fees allows the user unlimited; and in some cases, offline, access to songs.</p>

**Key players within the audio OTT industry**

In an intensely competitive market where more than 15 audio OTT service providers have launched in India, investments are pouring in from all corners, including telecom operators and media companies. Over the last few years, major telecom

operators have licensed music from music production houses to provide content on their audio OTT platforms. This was done with a dual motive to tackle competition from audio OTT providers and to improve the value added services offered to the telecom subscriber base.

**Figure 14: Some of the major audio streaming service providers within India and their business models**

Players	Ad supported	Paid - downloads	Paid - subscription	Bundled
Amazon Music			●	●
Eros Now	●		●	
Gaana	●		●	
Google Play		●	●	
Hungama	●	●	●	
iTunes (Apple Music)		●	●	
JioSaavn	●		●	●
Teluguone	●			
Vodafone Music		●	●	●
Wynk Music	●	●	●	●

Source: Industry discussions

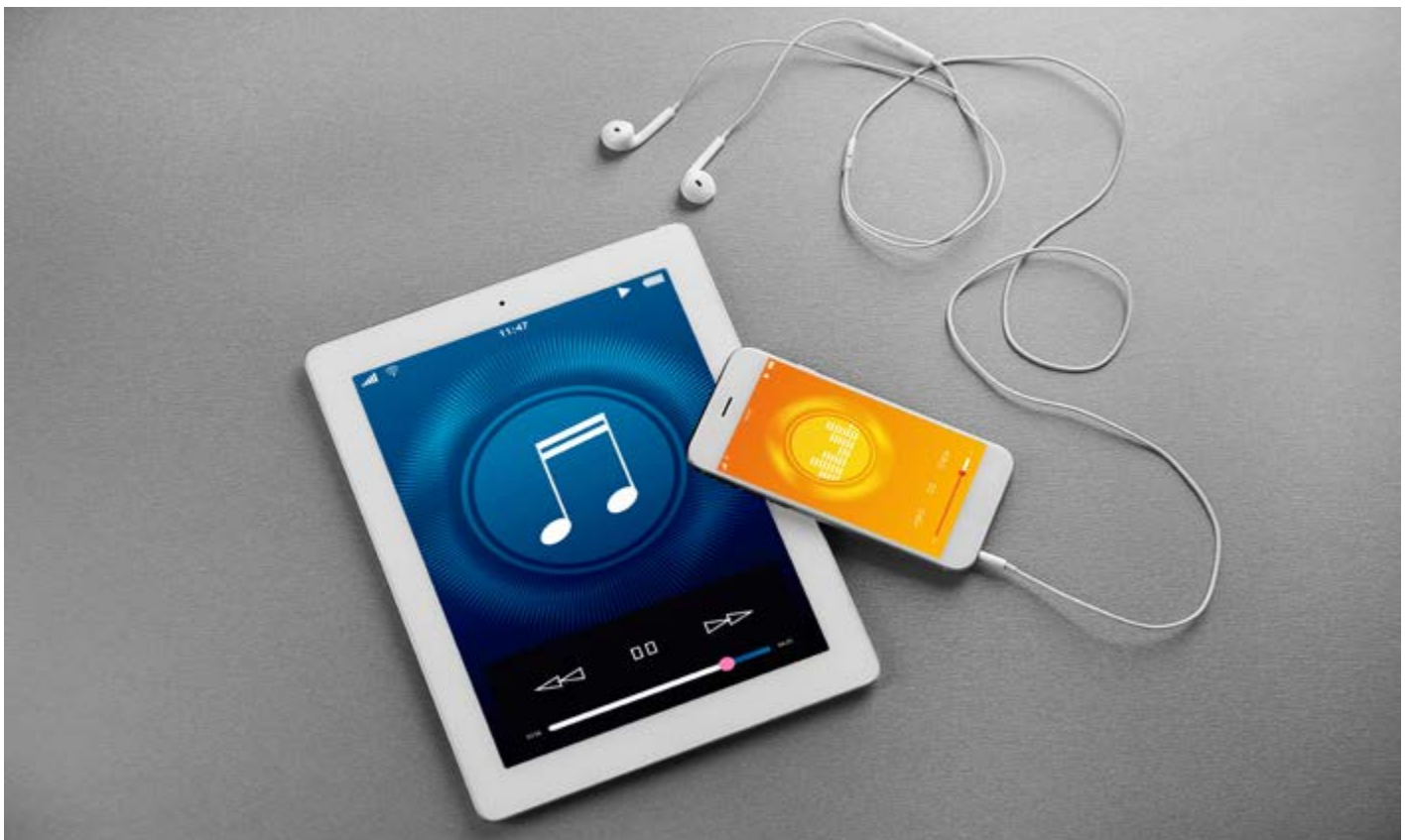


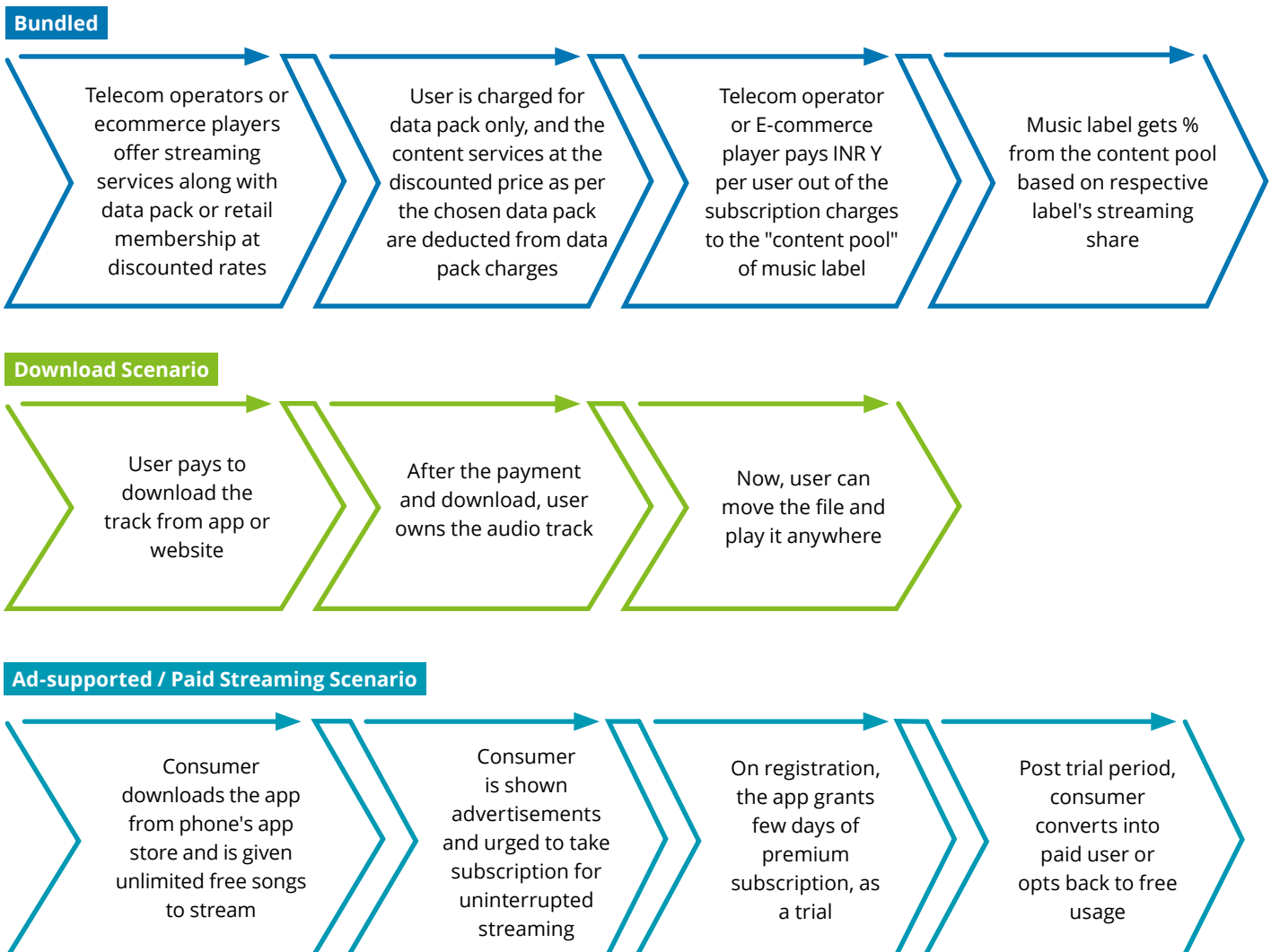


Figure 15: Different features available in free versus paid subscription models

Features	Free User	Paid User
Sound quality while streaming	Low	High
Number of songs streamed per month	Limited/Unlimited - varies by platform	Unlimited
Offline Streaming (play without internet)	Not Available	Available
Advertisements	Typically after every 3-4 songs	No advertisements
Access to features / content	Limited access	Complete access

Source: Industry discussions

Figure 16: Customer journey for different business models

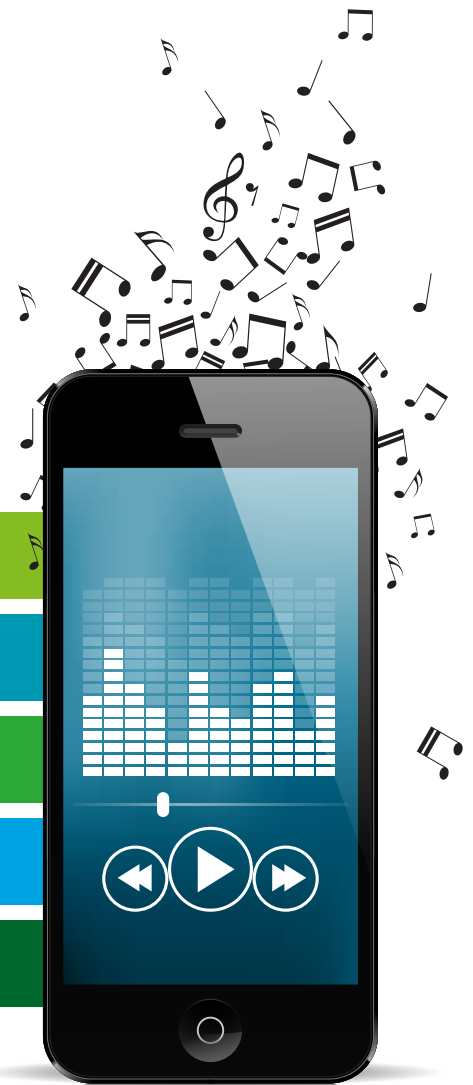
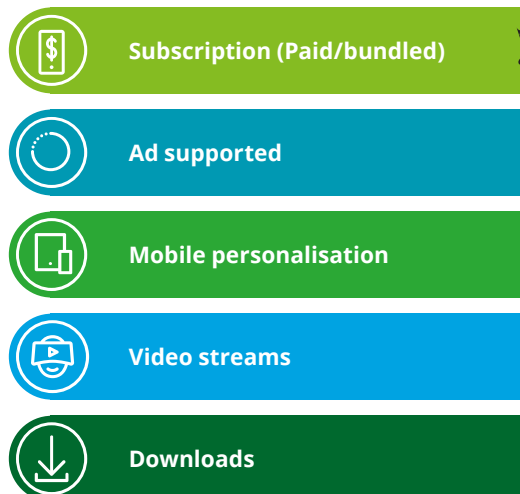


Source: Industry discussions



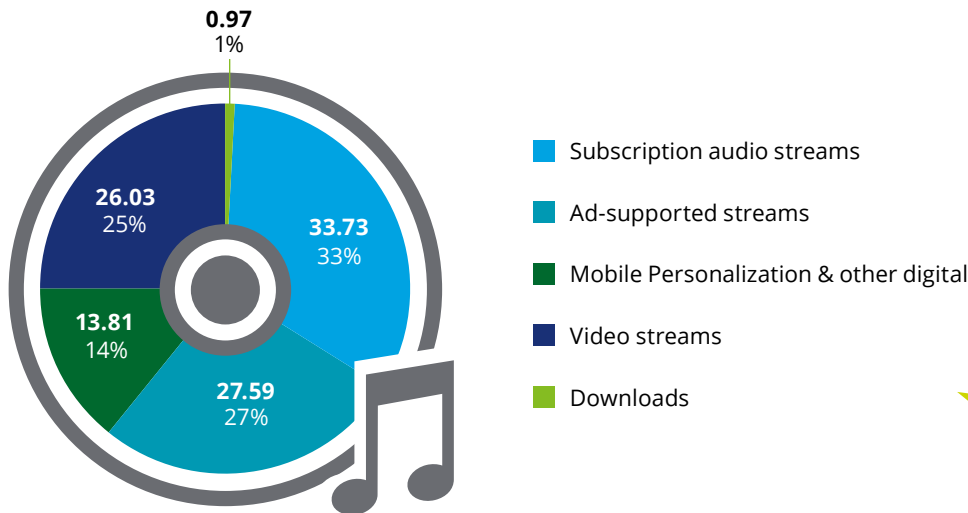
# Audio OTT pie within digital revenues in India

Based on the trends discussed in the overview section, it is evident that digital consumption is increasing due to increasing smartphone penetration and low-data prices.



The broad revenue split from the different audio OTT business models:

**Figure 17: Indian digital music revenues by format (2017)  
(US\$ million)**



**In India, 60 percent of digital revenue comes from ad-supported and subscription streams.**

Source: IFPI Global Music Report 2018

Of the five digital music revenue streams in India, 60 percent of the revenue comes from streaming. According to IFPI’s Global Music Report 2018, total revenue from ad supported and subscription streaming is US\$ 61.32 million where ad-supported is US\$ 27.59 million (45 percent) and subscription stream is US\$ 33.73 million (55 percent).

Paid subscribers provide a stable source of revenue, but unfortunately in India less than 1 percent of the subscribers are paid users and nearly 14 percent subscribers are bundled users; the remaining 85 percent of users are on free subscription<sup>34</sup>. This implies that, 15 percent of the subscribers contribute to 55 percent of streaming revenues, where as 85 percent of subscribers contribute to the remaining 45 percent of streaming revenues (i.e. ad-supported streaming revenues). For free platforms, revenue earned from ad spots helps to recover cost of operation. Currently, the cost of a 10 second advertising on music streaming apps ranges between INR 150 and INR 250 CPM (cost per thousand impressions).<sup>35</sup>

Therefore, to inculcate the habit of paying for music among consumers, it is critical that audio OTT platforms actively try and convert free users and bundled users to paid subscriptions. Currently, bundled users pay for music streaming services as part of the data pack charges levied by the telecom service provider. For the same purpose, the concept of 'Trial' bucket can be encouraged, where an audio OTT player offers 15 days or one month free on a paid platform to all free users, and subscriptions are charged after the free period, if user continues on the paid platform.

The overall number of music streams by Indian consumers is poised to grow further due to the improving smartphone as well as internet penetration in the country.

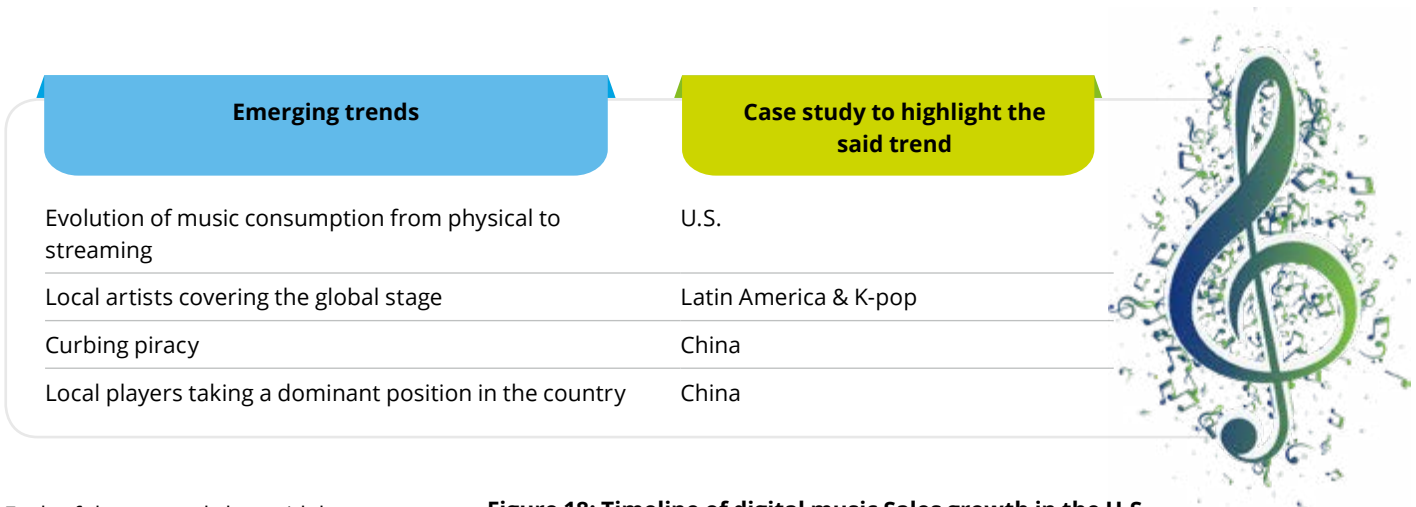
<sup>34</sup> Industry discussions

<sup>35</sup> <https://www.financialexpress.com/industry/music-streaming-apps-why-it-takes-a-telco-to-tango/1141906/>



Key trends emerging from the global recorded music market and their implications for the Indian recorded music market





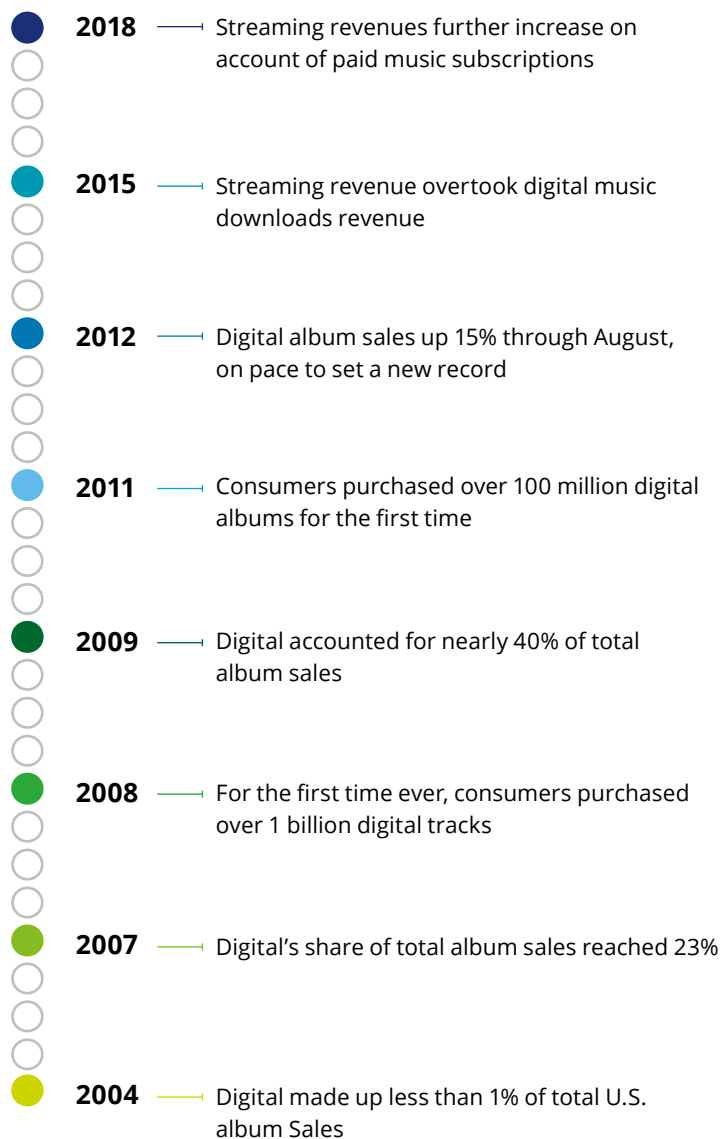
Each of these trends has widely influenced the way the global recorded music industry has evolved over recent years and are likely to further shape the industry. From these trends, it can also be inferred as to how the Indian recorded music market industry has evolved and continues to change under the effect of prevailing global trends.

**U.S. Case Study: Transition from physical to downloading to streaming**

For several decades now, the United States has been one of the largest and most influential music markets in the world. Despite a few other countries beginning to gain significant influence within the industry, the U.S. market currently remains the largest. The global recorded music industry generated around US\$17.3 billion, in 2017, with around US\$ 5.92 billion of that coming from the United States alone.<sup>36</sup>

Over the past few years, streaming has become a massive force in the music industry, especially among the younger consumers. Just as downloads displaced physical album sales around a decade ago, streaming has now replaced digital music downloads as the most common method of music consumption in the U.S. Streaming overtook downloads as the U.S. recorded music industry's primary revenue source back in 2015, and each year it has continued to account for a greater share of the industry's revenue.

**Figure 18: Timeline of digital music Sales growth in the U.S.**



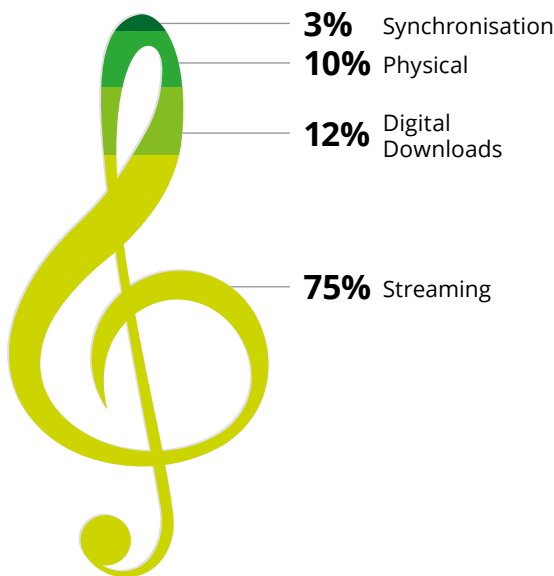
Source: Deloitte analysis, The Nielsen Company & Billboard's 2011 Music Industry Report

<sup>36</sup> IFPI Global Music Report 2018

The overall market trends in the H1 2018 consistently continued to reflect the U.S. music industry's rapid and dynamic transition from unit-based physical and digital sales to streaming music sources. Total revenues from recorded music in the U.S. grew by 10 percent reaching US\$ 4.6 billion at retail<sup>37</sup> and revenues from streaming music grew 28 percent

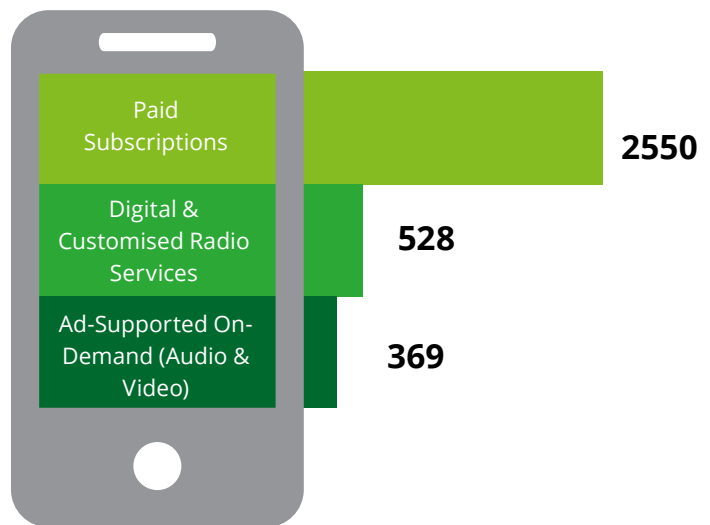
year-over-year to US\$ 3.4 billion<sup>38</sup>, during the H1 of 2018. Retail revenues refer to the total revenues collected by music labels inclusive of record labels', retailers' and digital service providers' respective revenue shares. Wholesale revenues refer to revenues collected by music labels after adjusting for retailer and digital service providers' shares.

Figure 19: U.S. music industry retail revenues (H1 2018)



Source: RIAA Music Revenues Report, Mid-Year 2018

Figure 20: U.S. streaming music retail revenues (H1 2018) (US\$ million)



Source: RIAA Music Revenues Report, Mid-Year 2018

**Ad-supported to paid audio OTT platforms – Spotify**

Launched in 2008, Spotify is one of the major audio OTT platforms available today in several countries across the globe. With more than 207 million<sup>39</sup> monthly active users in December 2018, the audio OTT platform provides music OTT services using the ad-supported as well as subscription business model. Similar to other music OTT platforms, the freemium model at Spotify allows users to access millions of soundtracks, curated playlists, artists-radio at no cost, with audio and display ads during music streaming. Spotify Premium allows users to subscribe for ad-free, offline and high quality music streaming at ~ US\$ 9.99<sup>40</sup> monthly subscription cost. As at December 2018, the audio OTT service had nearly 96 million<sup>41</sup> paid subscribers to its service. As seen for majority of the audio OTT platforms, the ad-supported version provides its users with free but ads-inclusive and low quality/ resolution access to its library of soundtracks. The ad supported model can act as a catalyst for users to sample the service and convert many to paid subscribers. Ad supported services have also been a lever in combating piracy as consumers get free access to vast libraries on demand.

<sup>37</sup> RIAA, RIAA Music Revenues Report, Mid-Year 2018”, September 20, 2018

<sup>38</sup> RIAA, “RIAA Music Revenues Report, Mid-Year 2018”, September 20, 2018

<sup>39</sup> <https://www.forbes.com/sites/monicamercuri/2019/02/06/spotify-reports-first-quarterly-operating-profit-reaches-96-million-paid-subscribers/#4fc141225dc9>

<sup>40</sup> <https://www.spotify.com/us/premium/> - Jan 2019

<sup>41</sup> <https://www.forbes.com/sites/monicamercuri/2019/02/06/spotify-reports-first-quarterly-operating-profit-reaches-96-million-paid-subscribers/#4fc141225dc9>

**Figure 21: Streaming Channels**

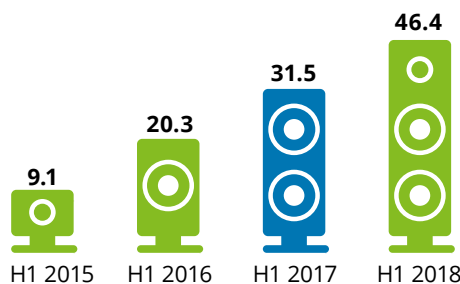


The U.S. music market has seen a substantial growth in subscription revenues over the years due to adoption of the latest technologies, continued user adoption, and changing revenue landscape from physical to digital. Paid subscriptions have become the largest format for music in revenue with a growth rate averaging an increase of more than 1 million subscriptions per month.<sup>42</sup>

While streaming revenues continue to increase; the gains were partly offset by a fall in sales of downloads and physical units. Revenues from downloads declined 27 percent in H1 of 2018 to US\$ 562 million, the lowest in more than a decade. Individual track sales revenues were down 28 percent year-over-year, and digital album revenues fell by 26 percent. Downloads accounted for a relatively small share of 12 percent of the total industry revenues in H1 of 2018.<sup>43</sup>

Shipments of physical products decreased steeply, in terms of revenue, by 25 percent to USD 462 million in H1 of 2018, a much larger rate of decline than in recent years. Revenues from CDs declined by 41 percent in the H1 of

**Figure 22: U.S. paid music subscriptions (H1 of the year average) (million subscribers)**



Source: RIAA Music Revenues Report, Mid-Year 2018

2018, offsetting a 13 percent increase in revenues from sales of vinyl albums. Revenues from shipments of physical products made up just 10 percent of the industry total in H1 of 2018.<sup>44</sup>

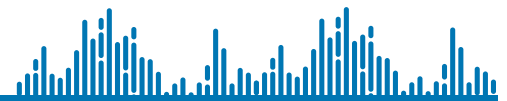
Overall, the U.S. music industry seems to be healthy and consistently growing. On average, Americans spend over 32 hours every week listening to music and this number has grown by over 35% in the last two years<sup>45</sup>. The developments and innovation in technology have also allowed music to be shared and discovered more easily through social media platforms.

<sup>42</sup> RIAA, "RIAA Music Revenues Report, Mid-Year 2018", September 20, 2018

<sup>43</sup> RIAA, "RIAA Music Revenues Report, Mid-Year 2018", September 20, 2018

<sup>44</sup> Statista, "U.S. Music – Statistics & Facts".

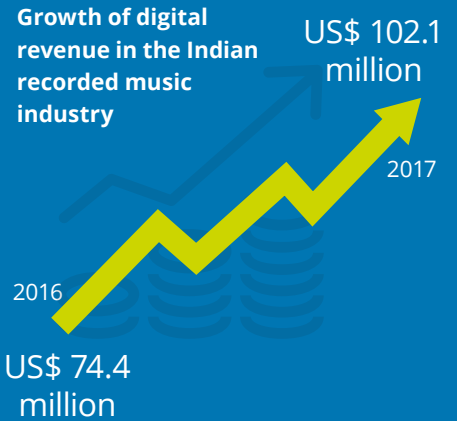
<sup>45</sup> <https://www.forbes.com/sites/hughmcintyre/2017/11/09/americans-are-spending-more-time-listening-to-music-than-ever-before/#a7eac0c2f7f8>



## Implications for the Indian recorded music industry

As an industry that has long been dominated by physical sales, the Indian recorded music industry is now well on the digital path. Physical sales of CDs has dropped steeply from 35.5 million in 2013 to 0.4 million units in 2017<sup>46</sup>. Audio OTT platforms have been a key driver of growth, with digital revenue increasing from US\$ 74.4 million in 2016 to US\$ 102.1 million in 2017<sup>47</sup>.

With nearly 374 million internet users currently, the industry is poised to grow further with continuously increasing smartphone and internet penetration across the country. Unique mobile subscribers in 2017 were reported as 53 percent of the population by GSMA intelligence in their report The Mobile Economy 2018, a figure which is expected to increase to 63 percent by 2025.<sup>48</sup>



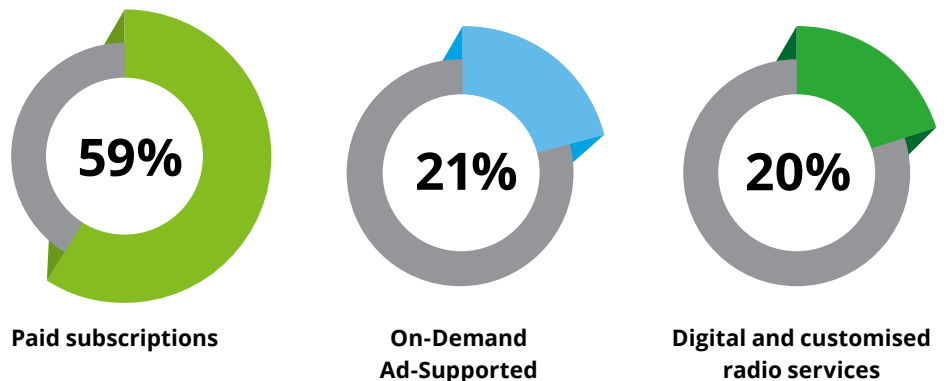
## Latin America case study: Local artists going global

The Latin music market has continued its outstanding transformation in the H1 of 2018. Latin music seems to have become a worldwide phenomenon, driven by a diverse streaming market and Latin labels making intelligent investments to support and promote their local artists' global ambitions.

The Latin music business consistently grew in the H1 of 2018, largely driven by paid streaming. Revenues grew 15 percent, totalling US\$ 135 million, while streaming represented a remarkable 91 percent of the entire market.<sup>49</sup> A 49 percent increase<sup>50</sup> in streaming revenues in Latin America and the worldwide success of 'Despacito', second only to Ed Sheeran's 'Shape of You' on the Global Top Ten Digital Singles List in 2017, made for a "double whammy".

Paid subscriptions (a category that includes services such as Apple Music, paid Spotify, Amazon Unlimited, Tidal,

Figure 23: U.S. Latin streaming music revenues (H1 2018)



Source: RIAA Mid-Year 2018 Latin Music Revenue Report

among others) were both, the largest segment of the Latin music, and the primary driver of revenue growth. Revenues from paid subscriptions grew at a fantastic 70 percent to US\$ 72 million, and consisted of 59 percent of the total streaming market by value.<sup>51</sup>

On demand ad-supported streams (a category that includes services such as

YouTube, Vevo, and the free version of Spotify) was up 30 percent year-over-year, contributing US\$ 26 million to revenue. For Latin music, revenues from ad-supported streaming sources made up a larger portion of the total, while those from unit-based sales such as digital downloads and physical product indexed lower relative to the overall US market.<sup>52</sup>

<sup>46</sup> IFPI Global Music Report 2018

<sup>47</sup> IFPI Global Music Report 2018

<sup>48</sup> The Mobile Economy 2018, GSMA intelligence.

<sup>49</sup> RIAA, "RIAA Mid-Year 2018 Latin Music Revenue Report", September 20, 2018

<sup>50</sup> IFPI, "Global Music Report 2018", March 2, 2018

<sup>51</sup> RIAA, "RIAA Mid-Year 2018 Latin Music Revenue Report", September 20, 2018

<sup>52</sup> RIAA, "RIAA Mid-Year 2018 Latin Music Revenue Report", September 20, 2018



Two of the most popular streaming platforms in Latin America are Spotify (46 percent of total Latin American users of streaming services) and Deezer (12 percent of total Latin American users of streaming services). Of its global 170 million active users, Spotify reports having, after the first quarter of 2018, a substantial 21 percent (25.7 million) as Latin American users.

Amidst the ecstatic tone of the IFPI report in reference to Latin America, music company executives cite continuing financial challenges, more specifically involving the problem of suitable payment solutions for subscription services in a region where phone ownership and internet access are still relatively limited, and many people do not have credit cards.

**Diminishing boundaries of language and region**

Music videos are transcending geographical and cultural boundaries because of factors like YouTube’s wide reach and efforts from music labels. In August 2017, the video of Spanish song 'Despacito' became the most watched video on YouTube with five billion views. It had set every single milestone in record time (viewed 28 million times per day<sup>53</sup>). The video of the song became the most viewed video in 45 countries,

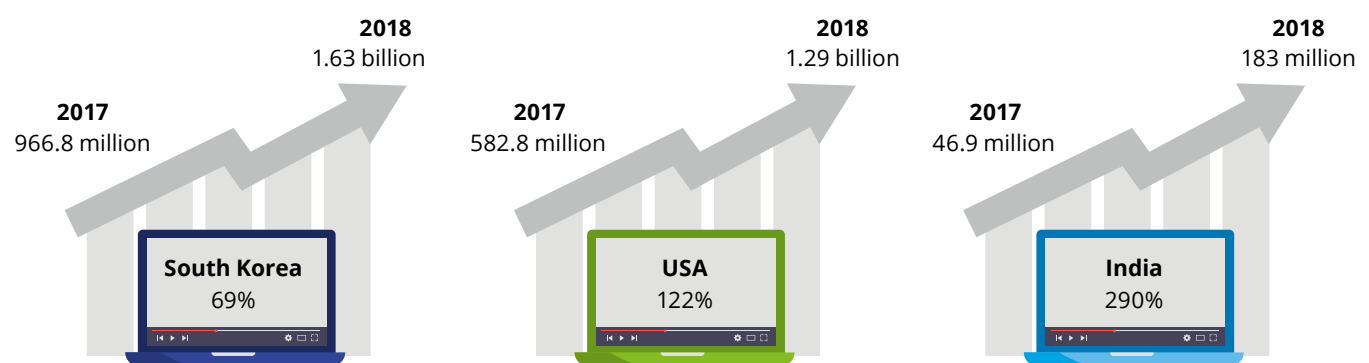
including India. Besides 'Despacito', several songs have also crossed barriers and are being consumed by people across different countries. A few examples include 'Gangnam Style', 'Mi Gente', and 'Kolaveri Di', which appeal to a variety of audience, inspiring each region to reproduce the songs in their local language. 'Despacito' inspired covers ranging from Indian classical to Bharatnatyam. There were many renditions of this song in Hindi, Marathi, Telugu, Tamil, Malayalam, and several of those videos have garnered millions of views of their own.

**Parallels with K-pop**

In 2018, K-pop won an increased audience not just in South Korea, but also in other parts of the world ;YouTube views of K-pop music videos are an indication of their popularity.

In India, Korean artists have not yet become household names, but their popularity is increasing daily. Some of the trends of K-pop are showcased via YouTube views of the popular K-pop artists from 2017 to 2018.

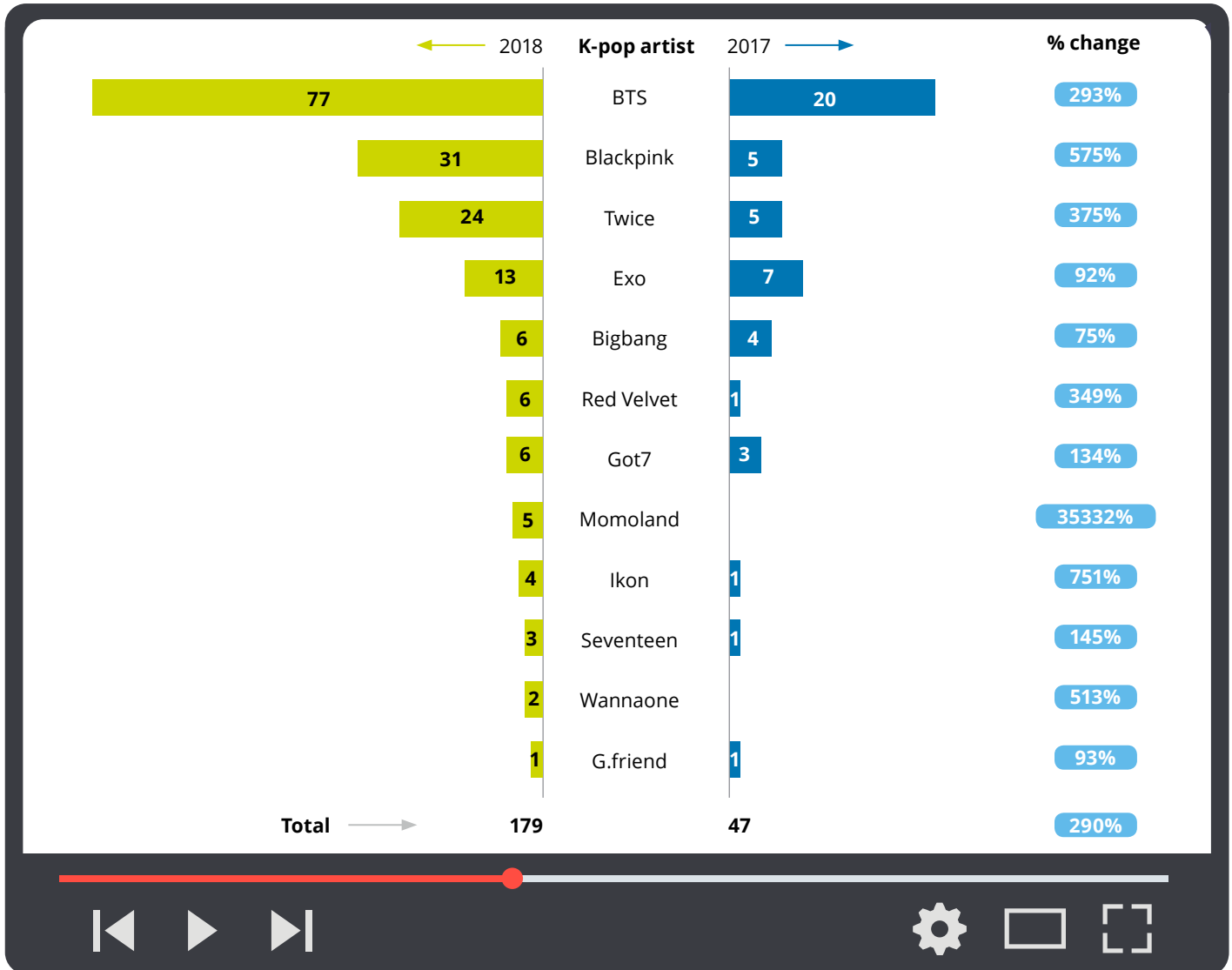
**Figure 24: K-pop – Country-wise growth in YouTube views**



Source : <https://www.allkpop.com/article/2019/01/which-k-pop-artists-received-the-most-views-on-youtube-in-2018>

<sup>53</sup> <https://www.news18.com/news/buzz/what-indians-have-been-watching-on-youtube-for-the-last-10-years-1699627.html>

Figure 25: YouTube views for Top Korean artists / channels in India (million views)



Source : <https://www.allkpop.com/article/2019/01/which-k-pop-artists-received-the-most-views-on-youtube-in-2018>

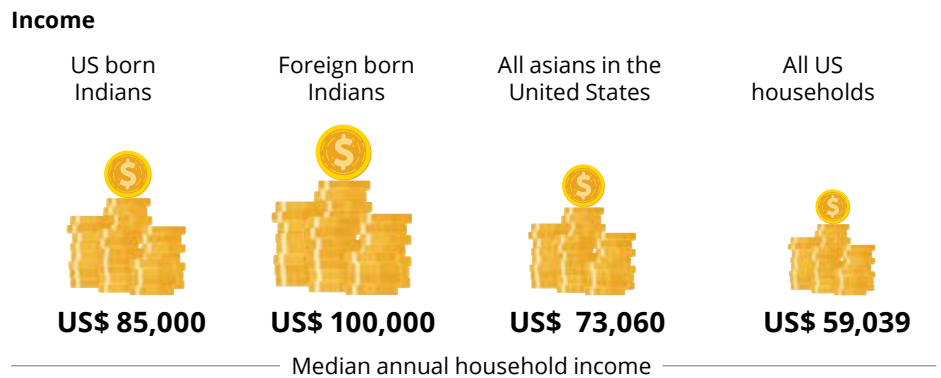
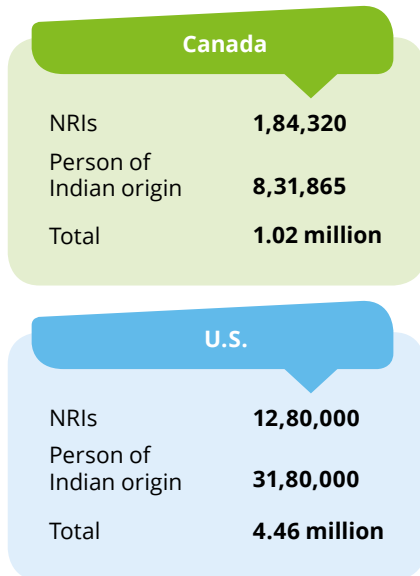
### Implications for the Indian recorded music industry

The recorded music industry in India has long been a film-dependent industry. Over the past few years, the industry has shown increasingly positive signs towards independent, and regional music. The steady rise of Punjabi music over the last 2-3 years is a testament to the changing music preferences in the country.

The Indian diaspora in the United States and Canada represents a major opportunity for growth of the Indian recorded music industry. With the advent of audio OTT platforms, rising global reach of Bollywood and traditional music streaming services, Indian music today has a far wider reach compared to few years ago. Nearly five million people, NRIs and people of Indian origin are currently settled in the United States and Canada.

The median annual household income for US born and foreign born Indians is nearly 44 percent and 69 percent higher as compared to that of all US households. The higher household income signals a prosperous Indian diaspora, especially in the United States, that forms a potentially attractive market for Indian audio content.

**Figure 26: Indian diaspora – trigger for significant growth**



Source: <http://www.pewsocialtrends.org/fact-sheet/asian-americans-indians-in-the-u-s/>

Source: [http://mea.gov.in/images/attach/NRIs-and-PIOs\\_1.pdf](http://mea.gov.in/images/attach/NRIs-and-PIOs_1.pdf)

Illustrative Scenario	Conservative estimate	Average estimate	Optimistic estimate
NRIs and persons of India origin in the USA	4.46 million		
Percentage of this population accessing Indian music using audio OTT platforms	10%	20%	30%
Number of people accessing Indian music using audio OTT platforms	0.45 million	0.89 million	1.34 million
Average monthly cost of audio OTT platforms	US\$ 10		
Total incremental revenues earned monthly (US\$)	US\$ 4.5 million	US\$ 8.9 million	US\$ 13.4 million
Total incremental revenues earned monthly (INR)*	INR 31.7 crores	INR 63.4 crores	INR 95.2 crores
Total incremental revenues earned year (INR)*	INR 380.6 crores	INR 761.2 crores	INR 1,141.7 crores
Average revenue share of music labels	38%		
Incremental yearly earnings for music labels	INR 144.6 crores	INR 289.24 crores	INR 433.9 crores

Exchange rate used: 1US\$ = 71.11 as on 15 January 2019  
 Source: Deloitte analysis, IMI estimates

The higher spending capacity of the Indian diaspora in the United States has the potential to generate an estimated INR 95 crore per month in revenues for audio OTT platforms that can potentially translate to nearly INR 433.9 crores in revenues in the form of royalty and licence fee for music labels.

**China case study: Curbing piracy to create large audio OTT entities**

China remains a music market of colossal potential, with an online user base of 730.7 million people<sup>54</sup>. However, a previously absent culture of paying for music and a history of piracy seems to have made the progress slow.

In 2017, recorded-music revenues in China grew by 35.3 percent to US\$ 292.3 million, and within that, streaming revenues grew by 26.5 percent to US\$ 204.5 million.<sup>55</sup>

The growth is largely driven by digital, primarily streaming, which contributes to nearly 70 percent of the music revenues in China<sup>56</sup>. While China is the 10th largest recorded music market globally, it's the seventh largest for streaming. This could be attributable to the higher population base of the country, large numbers of young and working-class adults who live away as a result of work migration.<sup>57</sup> China's per-capita recorded-music revenues are still just US\$ 0.21, compared to US\$ 19.98 in a developed music market like the United Kingdom. When surveyed, 90 percent of Chinese internet users reported that they use licenced audio-streaming services, which provides an explanation as to why piracy is no longer the main debate in the Chinese recorded music industry.<sup>58</sup>

**The Chinese market is dominated by three tech giants who handle a vast majority of the music streaming traffic:<sup>59</sup>**

**Tencent**

It owns 62 percent stake in Tencent Music Entertainment (TME), which was formed after it spun off its music unit and merged it with China Music Corporation in 2016. The merged company, which pulled the top streaming platforms, controls about 76-80 percent of the Chinese music streaming market with over 600 million monthly active users (MAUs).

**NetEase**

NetEase is best known for publishing PC and mobile games. It controls about 12-16 percent of the streaming music market with NetEase Cloud Music.

**Baidu**

Baidu Music only controls about 0.5-4.0 percent of the market, in contrast to Baidu's search which handles over 70 percent of all online queries in China. Back in 2008, Baidu was sued by several major record companies for allegedly linking its music search engine to pirated music. The record companies lost that case, but Baidu subsequently agreed to pay them compensation for each downloaded or streamed song. Baidu then attempted to recover those costs with ads. The Baidu deal was the milestone that changed the whole ecosystem. Since then the government has stated that it would step up its commitment to protect intellectual property rights, and that the development of the music industry is a major priority.



<sup>54</sup> IFPI Global Music Report 2018

<sup>55</sup> <https://musically.com/2018/05/22/chinas-music-potential-we-are-finally-getting-there/>

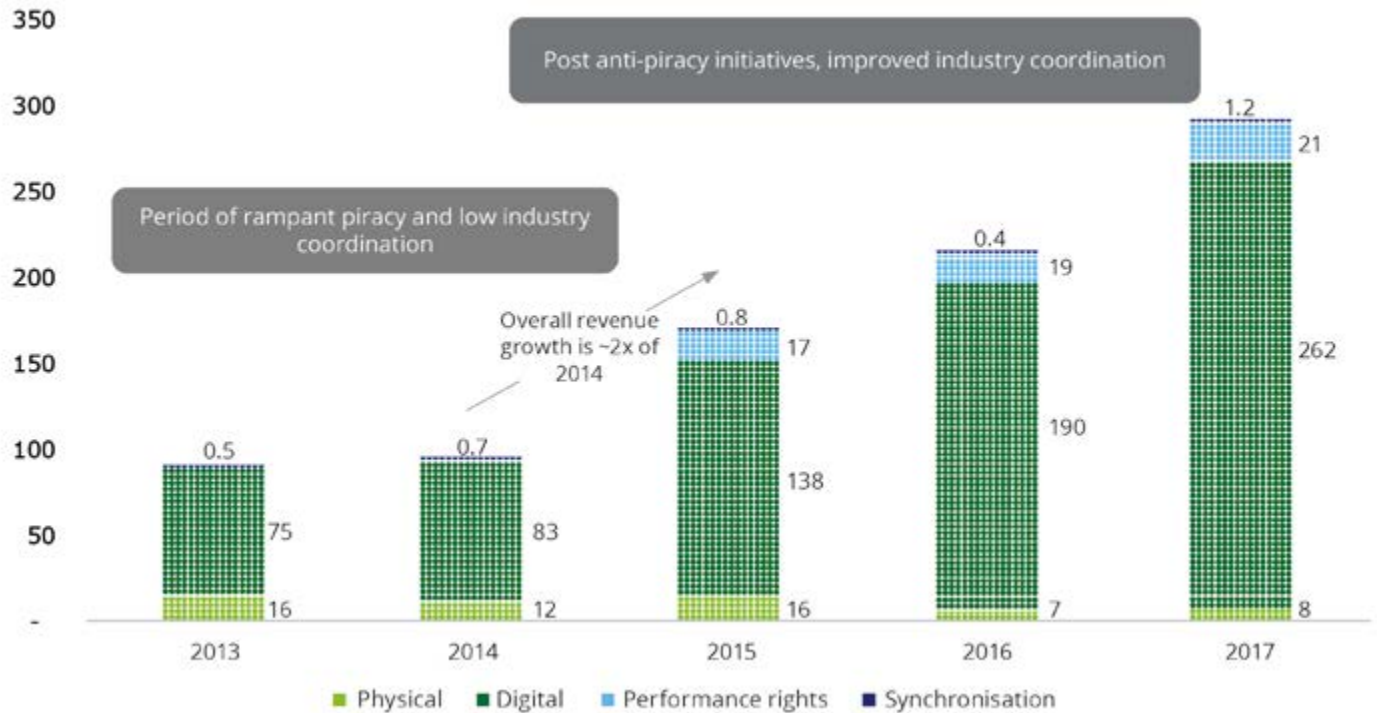
<sup>56</sup> IFPI Global Music Report 2018

<sup>57</sup> <https://www.techinasia.com/china-korea-digital-media>

<sup>58</sup> <https://musically.com/2018/05/22/chinas-music-potential-we-are-finally-getting-there/>

<sup>59</sup> <https://www.fool.com/investing/2018/02/02/meet-chinas-top-3-music-streaming-platforms.aspx>

Figure 27: Growth of recorded music industry revenues in China (US\$ million)



Source: IFPI Global Music Report 2018

Note : No revenues from performance rights prior to 2015

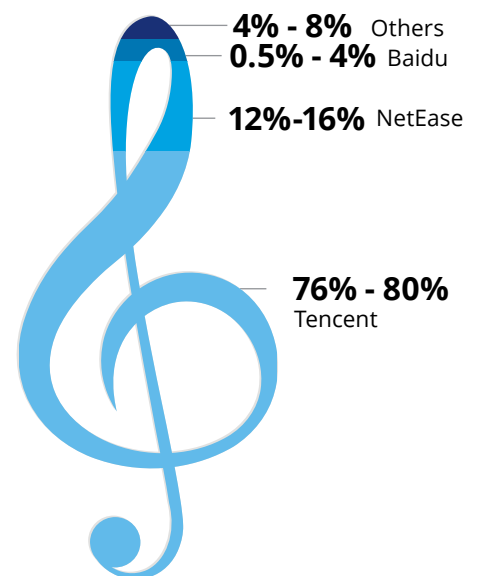
The industry witnessed this growth in part because of anti-piracy campaigns. This growth came after stringent actions by government on the issue of piracy and audio OTT players taking a decision to offer freemium plans for limited periods as opposed to only ad-supported streaming earlier. The decision resulted in some ad-supported users moving to paid models. These two initiatives helped the industry in China to significantly raise revenue.

China's streaming music industry could generate more revenue in 2019, as its user penetration rate is expected to rise from 46.3 percent to 50.6 percent between 2018 and 2022.<sup>60</sup>

Pandora and Spotify are the most popular streaming music services in the United States, but neither of the two companies has a meaningful presence in China's market of over 650 million streaming music users.<sup>61</sup>

Subsequent developments in the Chinese recorded music industry, including the emergence of Tencent with its wide range of music-streaming services, and exclusive deals with the western majors (which granted it the rights to sub-licence its catalogues to its rivals), helped promote anti-piracy efforts in China on behalf of the labels.<sup>62</sup>

Figure 28: Chinese music streaming market audio OTTs



Source: <https://www.fool.com/investing/2018/02/02/meet-chinas-top-3-music-streaming-platforms.aspx>

<sup>60</sup> <https://www.fool.com/investing/2018/02/02/meet-chinas-top-3-music-streaming-platforms.aspx>

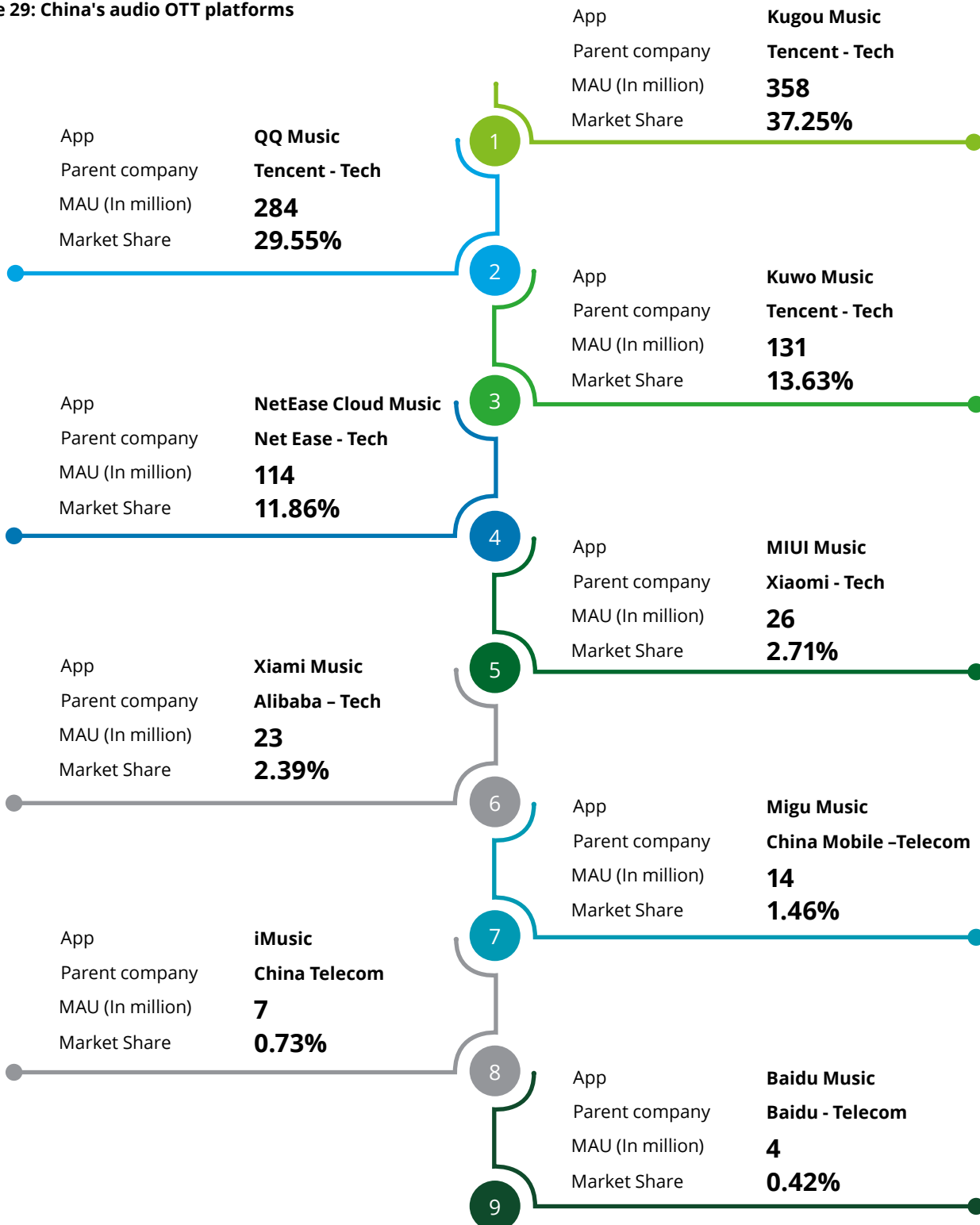
<sup>61</sup> <https://www.fool.com/investing/2018/02/02/meet-chinas-top-3-music-streaming-platforms.aspx>

<sup>62</sup> <https://musically.com/2018/05/22/chinas-music-potential-we-are-finally-getting-there/>

According to a survey of music listeners in China, the country generating ninth largest revenue in digital music consumption, about 96 percent consumers listen to licensed music and 89 percent listen

to music on licensed music streaming services. On an average, a consumer spends 15.4 hours in a week listening to music<sup>63</sup>. Some of the most popular music streaming apps in China include<sup>64</sup>:

Figure 29: China's audio OTT platforms



Source of this graph : Questmobile, Macquarie Research, July 2018

<sup>63</sup> <https://www.ifpi.org/downloads/Music-Consumer-Insight-Report-2018.pdf>

<sup>64</sup> <https://www.techinasia.com/chinas-massive-music-streaming-industry-differs-spotify>

**Strong Anti-piracy in China<sup>65</sup>**

The following factors had a pivotal role in driving down piracy:

- **Role of the Chinese Government:** Infringing social media links and cloud locker links were brought down in a few hours with help from Chinese Government and National Copyright Administration.
- **Technology companies:** Chinese tech giants Tencent and Alibaba began to licence content exclusively and used it as a differentiator on streaming services.
- **Role of IFPI:** With the help of legal recourse and out of court settlements, IFPI began taking legal action against the infringers. These infringers were required to set up anti-piracy accounts

and sign anti-piracy agreements with IFPI. The take down rate accounted for China and India is 99.9 percent and 27 percent, respectively.<sup>66</sup>

**Implications for the Indian recorded music industry**

Piracy has long been one of the major factors that has truly hindered the growth prospects of the recorded music industry in India. However there have been numerous anti-piracy efforts on part of music labels, regulatory bodies, government, and other stakeholders to curb this major source of money leakage. India's recent approval for accession and ratification of World Intellectual Property Organisation's (WIPO) internet treaties like WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT) to protect intellectual property rights of artists and content owners is testament to the IPR protection campaigns launched in the country. Per estimates, US\$ 250 million<sup>67</sup> is lost each year on account of piracy in India



<sup>65</sup> Vision 2022: Dialogue - IMI Convention 2018

<sup>66</sup> Vision 2022: Dialogue - IMI Convention 2018

<sup>67</sup> Vision 2022: Dialogue - IMI Convention 2018, Industry discussions



# Investments & Valuations in audio OTT

## **JioSaavn**

Saavn, a leading audio OTT service provider was acquired by India's leading digital services provider, Reliance Jio Infocomm, in March 2018. The combined valuation of the two services was pegged at US\$ 1 billion. More than 250 million subscribers of Reliance Jio were provided access to the JioSaavn application on a freemium model along with an extended trial period of JioSaavn Pro, JioSaavn's premium product. Prior to the acquisition, Saavn's revenue source was mostly external to India.<sup>68</sup>

## **Spotify**

Sweden based streaming service major Spotify, is reported to be preparing for an India launch, after reports that it has entered into a licence agreement with a major music label T-series. It is expected that Spotify will launch as a free service initially with a gradual shift to a paid service.<sup>69</sup> Spotify is the largest music streaming service in terms of global users.

<sup>68</sup> <https://www.news18.com/news/tech/jio-music-saavn-finally-merge-into-jiosaavn-now-get-free-subscription-to-music-service-for-90-days-1959795.html>

<sup>69</sup> <https://variety.com/2018/digital/news/spotify-india-launch-free-trial-1203032894/>, <https://www.forbes.com/sites/richardwindsoreurope/2018/11/27/spotify-in-india-will-be-99-9-free-rather-than-9-99-a-month/#61390343788b>



**Mi Music/Hungama Music**

In 2016, Chinese electronics company, Xiaomi, invested US\$ 25 million (INR 170 crore) in Hungama Digital Media Entertainment, an aggregator and publisher of entertainment content. In March 2018, Xiaomi, further leveraged its partnership with Hungama to integrate the music streaming service with its Mi Music app and offered free subscriptions to consumers who purchased identified handsets.<sup>70,71</sup> Given Xiaomi’s strong smartphone sales during the last few months in the Indian smartphone market, the Mi music app has the potential to become one of the most used applications for music streaming.

**Gaana**

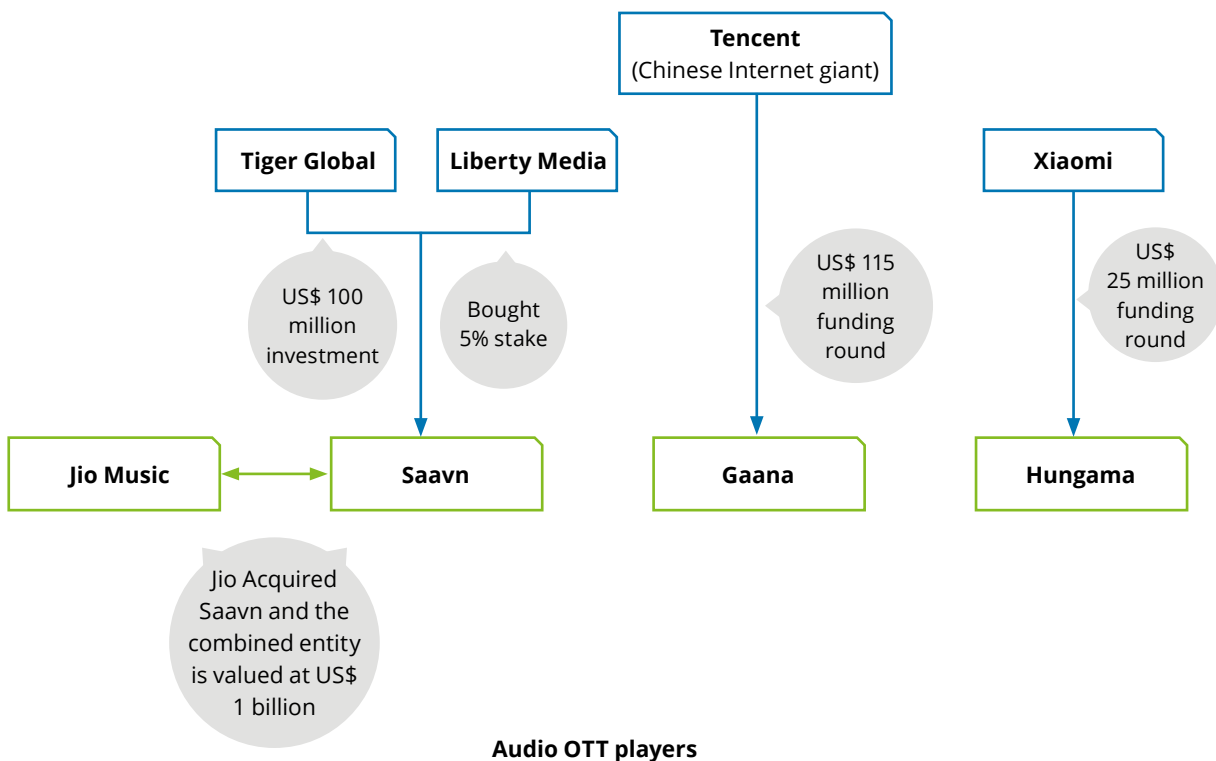
Gaana is a music streaming service set-up by a leading media conglomerate, The Times Group. Chinese internet giant Tencent recently led a US\$ 115 million

investment in India’s Gaana. It is reported that this investment would be used by Gaana to build Artificial Intelligence capabilities to enhance its personalised offerings and to develop its paid user base.<sup>72</sup>

**Prime Music**

Amazon had launched its music streaming service limited to Amazon Echo members initially and then extended the service over mobile applications and internet. Amazon provides the prime service at a bundle pricing of INR 999 per annum including benefits on its online retail service for free delivery and exclusive deals and access to its video streaming service carrying a formidable catalogue. In comparison to the pricing of other paid audio OTT service providers, prime music has a distinctive advantage in terms of the variety of benefits that a user gets.<sup>73</sup>

**Figure 30: FDI/FII in Indian recorded music industry**



<sup>70</sup> <https://economictimes.indiatimes.com/tech/software/xiaomi-makes-first-investment-in-india-leads-25-million-funding-in-hungama/articleshow/51682059.cms>  
<sup>71</sup> <https://www.fonearena.com/blog/248229/xiaomi-mi-music-hungama-music-integration.html>  
<sup>72</sup> <https://techcrunch.com/2018/02/27/gaana-raises-115m-led-by-tencent/>  
<sup>73</sup> <https://techcrunch.com/2018/02/28/amazon-prime-music-india/>



# Way forward for the Indian recorded music industry

## 01. Restricting Piracy

There is rampant piracy in the digital music industry, hampering the industry from realizing its true potential. While there has been an increase in the overall consumption of music, the revenue leakages have also increased. This is largely due to the P2P applications or sharing applications. Estimates point to a US\$ 250 million loss each year because of piracy in India.<sup>74</sup>

Therefore, there is a need for a strong anti-piracy programme, wherein all industry stakeholders come together to curb this burning issue. Collaboration with technology companies could help the industry manage copyright and safeguard content from infringement.

<sup>74</sup> Vision 2022: Dialogue - IMI Convention 2018



**02. Audio OTT boosts the regional industry**

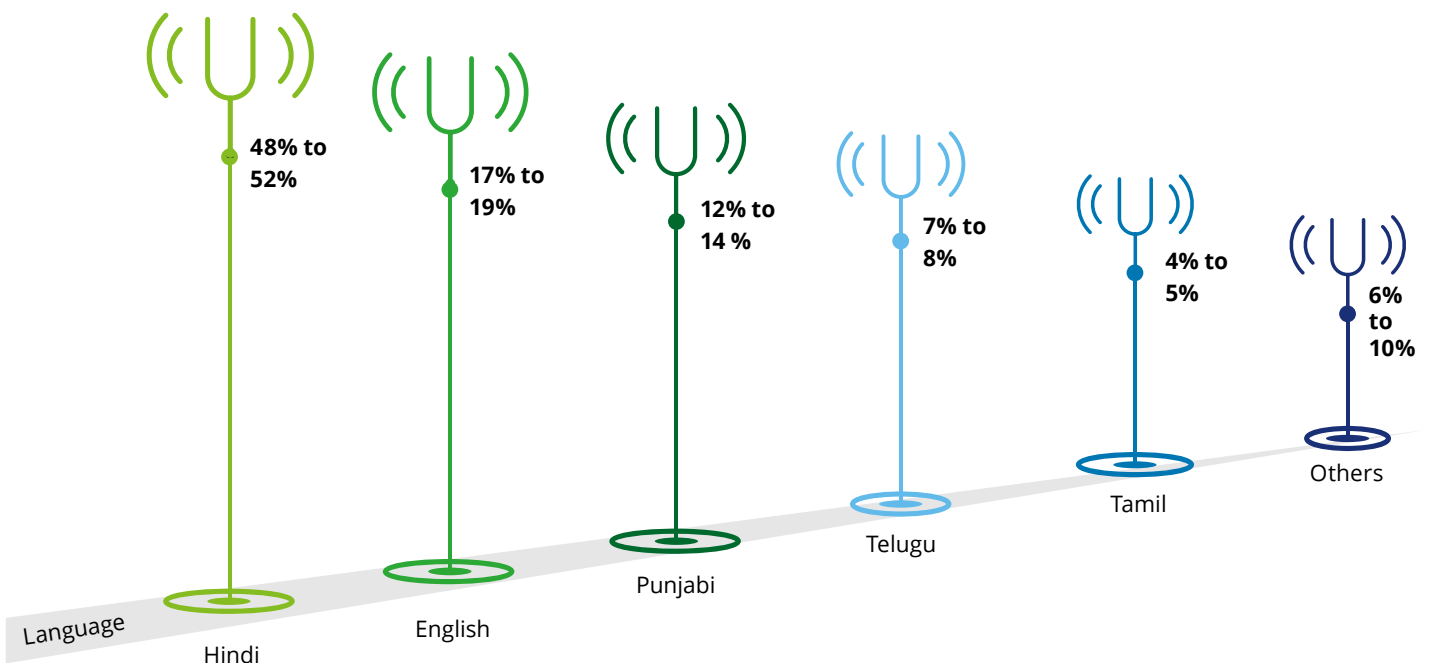
Bollywood has ruled the recorded music industry for decades, however, in the past couple of years, a new trend has emerged. In 2016, Hindi film music contributed to 70 percent of consumption on streaming services such as Gaana, JioSaavn, etc. However, about two years later, this figure has dropped to 50 percent. In the meantime, consumption of regional music has grown from 5 percent to 25 percent within the same timeframe of two years<sup>75</sup>.

The three major languages that produce content in significant numbers and have sizeable industry players that command significant

market share are Punjabi, Telugu, and Tamil. Punjabi singers have been engaged in many recent Bollywood movies and retro hits in Punjab are remixed to suit the taste and preferences of a younger demographic. Regional music such as Marathi and Gujarati has also had an influence on the latest music creations in Bollywood. Furthermore, initiatives such as Vyrl and Sofar Sounds have recently propelled the overall growth of independent music<sup>76</sup> in the country.

Per discussions with industry participants, the share of international music has decreased by half during this tenure. More penetration to tier 2 and tier 3 cities has led to this shift in consumption pattern.

**Figure 31: Language wise share of Indian recorded music industry**



Source: Industry discussion

<sup>75</sup> Industry discussions

<sup>76</sup> Industry discussions

**I-POP Consumption**

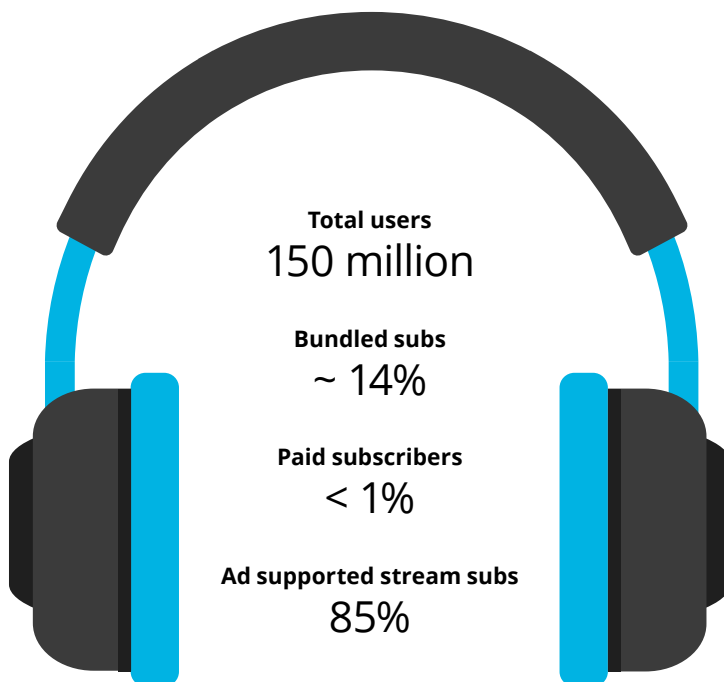
The greater outreach of audio OTT platforms has had a positive influence on independent music penetration in the traditionally film-dependent music scenario in India. Easy and affordable access to independent music on audio OTT platforms has been instrumental in bringing about this effect. In the past two years, the consumption of independent music in India increased marginally; however, if a comparison is made between the consumption (percent of overall stream) for the said two-year time period and the five-year period prior to that, the number has doubled<sup>77</sup>. According to industry participants, I-POP (singles from artists) contributes from 18 percent to 22 percent in Hindi music, based on the releases. Sources in industry analysed this number to be more than 90 percent in case of Punjabi music. Other regional languages, except Bengali and Assamese, have not seen a lot of I-POP consumption. One of

the major factors for this growth in production and consumption of independent music is the rise of platforms dedicated to independent content. During the last few months, platforms like Universal / EMI Records India's Vyrl and Sofar Sounds have emerged and exclusively promote independent singers, music producers, lyricists, and composers. These platforms are leveraging the vast talent pool available in the country to produce quality content for consumers that are increasingly becoming more receptive and accepting towards non-film music. These initiatives are also aimed at finding and nurturing talented artists across the country that only need a platform to showcase their talent<sup>78</sup>.

**03. Audio OTT audience moves towards paid streaming**

Paid subscription will be an important revenue driver. There has to be an effective anti-piracy mechanism,

Figure 32: Split of Subscribers<sup>79</sup>



Source : Industry discussions

<sup>77</sup> <https://www.livemint.com/Consumer/HHUyeyiiLQckTcg2D8vUyK/The-sound-of-music-is-increasingly-regional-on-apps.html>

<sup>78</sup> <http://www.radioandmusic.com/biz/music/artiste-management/180223-vyrl-originals-platform-promote-independent>

<sup>79</sup> Industry discussions

including the legal regulations, to ensure that the transition from pirated content to free subscriptions and then to paid platforms is steady.

However, paid subscribers contribute less than 1% of the total subscriber base of total streaming users as illustrated in figure 32. With higher adoption of paid subscriptions, the scope for higher revenue exists.

#### 04. Unlocking social media and blogs for music

Conversion of users can be driven through social media as once people are inside these applications, they generally dig deeper. Hence, the

longer the people stream on these platforms, the more music they are likely to listen to, and thus, the more the product becomes a ubiquitous part of their lives.

Further, curated and customised playlists are becoming increasingly popular with music listeners as these playlists provide users an important tool to sort, save and discover music. An example of this, the online music streaming service 'Mixcloud' allows listeners to access playlists and podcasts made by artists themselves<sup>80</sup>



<sup>80</sup> <https://itunes.apple.com/us/app/mixcloud-radio-dj-mixes/id401206431?mt=8>



# Challenges faced by the Indian recorded music industry

## 01. Curbing piracy

Given that in India 50 percent to 60 percent of revenues are lost on account of piracy<sup>81</sup>, by taking adequate measures drawn from copyright administrations like China, there is a potential to improve India's rank from 19th<sup>82</sup> to a top ten position in the global market. Legal recourse against pirate websites and ISPs provide short-term relief as websites like songs.pk resurface under different domain names, rendering expenditure on legal proceedings futile. While notices for take down are issued and many websites are pulled down, this process is not expected to

keep up with the influx of new pirated websites. While there are some positive developments in regional level the Government of India, together with the digital music stakeholders, should engage in a program to fight online piracy. The program should include both legislative action and joint operations. The legislative priorities include robust duties of care for online intermediaries (obligation to guarantee "stay down" instead of mere "take down") and effective website blocking procedures.

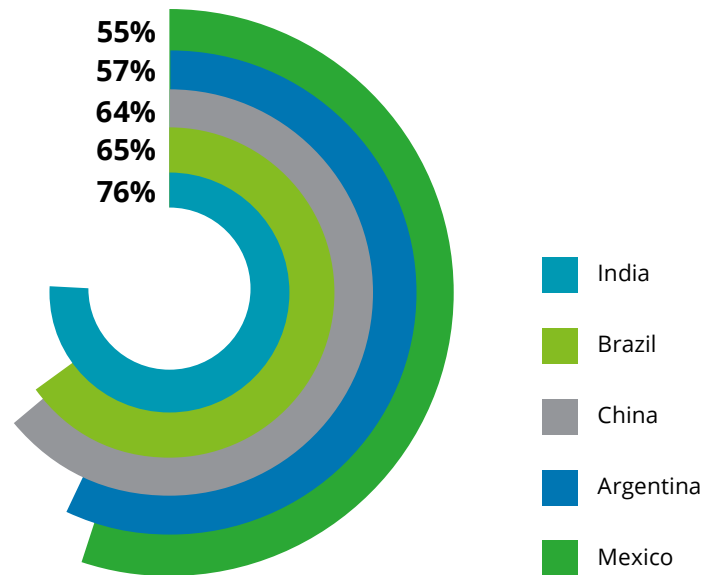
Piracy has long been one of the major factors that has truly hindered

<sup>81</sup> Vision 2022: Dialogue - IMI Convention 2018

<sup>82</sup> IFPI Global Music Report 2018

the growth prospects of the recorded music industry in India. Many of the consumers are using stream-ripping to access pirated content. However, there have been numerous anti-piracy efforts on part of music labels, regulatory bodies, government and other stakeholders to curb this major source of money leakage. India's recent approval for accession and ratification of World Intellectual Property Organisation's (WIPO) internet treaties namely WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT) to protect intellectual property rights of artists and content owners is a testament to the anti-piracy efforts launched in the country.

Figure 33: Piracy rates- Top 5 countries



Source: Music Consumer Study 2018, IFPI

Certain areas where audio OTT helps to curb piracy:

- **Better user experience:** by offering instant access to millions of tracks in an easy-to-use and attractive interface (as well as providing personalised recommendations, playlists, and multi-device listening), licensed streaming offers the best way to consume music.
- **Customer activity assessment:** The digital encryption of soundtracks gives audio OTT platforms the ability to monitor how the soundtracks are being accessed and used on consumers' smartphones. Potential attempts to illegally copy and distribute soundtracks can be prevented using the encryption.
- **Upgrading IP laws:** Specific plans to serve the digital era of content consumption, distribution should be on the agenda.

**02. Creating a free market**

Creating a free market with fair value to its investors in content, content owners and rights holder is imperative in India. Therefore, the government must consider not settling the licencing norms, which would result in restricting growth.

Free and fair market practice is expected to help India generate more revenue and more employment from this industry. There have been instances where music labels have lost money, in spite of:

- The movie being a hit,
- Music being appreciated, and
- The movie receiving a direct benefit from music.

In such a scenario and when a movie or single is a super-hit, everyone in the value chain must earn and receive adequate compensation for their effort. Therefore, the role of technological advancement in audio OTT streaming brings in industry improvements such as adequate pay-out to copyright holders (music composers, lyricists, owners of content), carried out based on number of times the music is streamed. Technology becomes very important here to prevent misuse. Examples include prevention of reproduction

of music outside of the consumers' device, keeping tab on the count of streams, and sending it to source systems when streaming is done online or offline.

For India to take a major position in the global recorded music space, the overall process of content creation and innovation needs to be fostered. An intervention-free process is likely to provide impetus to not only the future growth and outlook of the creative community but also for the country to showcase its talent, culture and its ability to develop unique art forms on the global stage.

# Glossary

3Q	Third Quarter
CAGR	Compound Annual Growth Rate
CD	Compact Disc
CPM	Cost Per Thousand Impressions
CY	Calendar Year
FDI	Foreign Direct Investment
FII	Foreign Institutional Investor
FICCI	Federation of Indian Chambers of Commerce and Industry
FY	Fiscal Year
GB	Gigabyte
GMR	IFPI Global Music Report
GSMA	Global System for Mobile Communications, originally Groupe Spécial Mobile
H1	First Half
IDC	Interactive Data Corporation
IFPI	International Federation of the Phonographic Industry
IMI	Indian Music Industry
INR	Indian Rupees
IP	Internet Protocol
IPR	Intellectual property rights
IPRS	Indian Performing Right Society
I-POP	Indie pop
ISP	Internet Service Provider
K-pop	Korean pop
M&E	Media and Entertainment
MAU	Monthly Active Users
MG	Minimum Guarantee
NRI	Non-Resident Indian
OTT	Over The Top
P2P	Peer to Peer
PC	Personal Computer
PIO	Person of Indian Origin
PPL	Phonographic Performance Limited
Q3	Quarter three
R&B	Rhythm and Blues
RIAA	Recording Industry Association of America
TME	Tencent Music Entertainment
TV	Television
U.S.	United States of America
UK	United Kingdom
USB	Universal Serial Bus
USD	United States Dollar
YoY	Year over Year

In the report, The Indian Music Industry (IMI) refers to the trust that represents the recorded music industry in India , Indian recorded music industry refers to the general recorded music market in India.



# Special Thanks

**Blaise Fernandes**

President and CEO,  
The Indian Music Industry (IMI)

**Hari Nair**

Chief Digital Officer  
The Indian Music Industry (IMI)

# Acknowledgements

**Jehil Thakkar**

**Vivek Ramakrishnan**

**Harshit Chehal**

**Siddhant Singh**

**Pooja Premkumar**

**Vidyasagar Prabakar**

**Saranathan Singam**

**Prashanth Rao**

**Kashyap Pathak**

**Nikhil Sachdeva**

**Abhimanyu Singh**

**Priyanka Gangadhara**

**Eesh Jindal**

**Mitali Jalan**

# Key contacts

**Deloitte Touche Tohmatsu India Pvt. Ltd.**

Indiabulls Finance Centre, Tower 3, 28th Floor  
Senapati Bapat Marg, Elphinstone Road (West)  
Mumbai - 400 013, Maharashtra, India  
Tel: +91 22 6185 4000  
Website: [www.deloitte.com/in](http://www.deloitte.com/in)

**Jehil Thakkar**

Partner, Deloitte India  
[jehilthakkar@deloitte.com](mailto:jehilthakkar@deloitte.com)

**Prashanth Rao**

Partner, Deloitte India  
[prashanthrao@deloitte.com](mailto:prashanthrao@deloitte.com)

**The Indian Music Industry (IMI)**

Email: [info@indianmi.org](mailto:info@indianmi.org)  
Tel: +91 22 24367864  
Website: <https://www.indianmi.org/>

**Blaise Fernandes**

President and CEO, IMI  
[blaisefernandes@indianmi.org](mailto:blaisefernandes@indianmi.org)





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

This material is prepared by Deloitte Touche Tohmatsu India LLP (DTTILLP). This material (including any information contained in it) is intended to provide general information on a particular subject(s) and is not an exhaustive treatment of such subject(s) or a substitute to obtaining professional services or advice. This material may contain information sourced from publicly available information or other third party sources. DTTILLP does not independently verify any such sources and is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such sources. None of DTTILLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this material, rendering any kind of investment, legal or other professional advice or services. You should seek specific advice of the relevant professional(s) for these kind of services. This material or information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person or entity by reason of access to, use of or reliance on, this material. By using this material or any information contained in it, the user accepts this entire notice and terms of use.