Taking into account digital and physical sales, album sales were down 11% year-on-year from 289.4m in 2013 to 257m in 2014. Digital songs were also down 12% to 1.1bn in 2014. Despite the drop in sales, Sherman says the industry will continue to support the album as a format. “We are not ready to give up on the album format,” he says. After all, he adds, “This industry constantly surprises you in terms of trends: Who would have thought about vinyl making such a come back?”

Indeed, according to statistics supplied by Nielsen, vinyl album sales were up 52% in 2014, to 9.2m from 6.1m in 2013, the highest sales level since 1991. It accounted for more than 6% of all physical album sales. But the main concern for the industry is the significant drop in digital downloads of albums, from 117.6m in 2013 to 106.5m in 2014 (41% of all albums sold in 2014 were downloads).

The soundtrack to the movie Frozen was the leading album for overall consumption in 2014 (this
category regroups album sales, Track Equivalent Albums and Streaming Equivalent Albums) with over 4.47 million album equivalent units. Taylor Swift’s 1989 came second with 4.40 million units. These two albums were also the only that sold over 3.5 million units during the calendar year. “This is the first time since 2005 that two albums have sold over 3.5 million albums in a calendar year,” says Nielsen.

On the plus side, Nielsen analysts noted that Americans are huge music fans both in their consumption habits (93% of the US population listens to music, spending more than 25 hours each week listening to music) and in their expenditure, with an average of $309 spent annually on music activity, with live music events accounting for just over half of total music activity spending. Among the interesting trends highlighted by Nielsen is the fact that “festivals are gaining steam” with 32 million people having attended at least one festival a year. “Consumers might not be buying as many CDs, but they are still spending on music,” notes Nielsen.

However, the issue in the US was less about how much consumers are ready to spend than how they are consuming music. RIAA’s Sherman is one of the many executives in the industry who considers 2014 the year “streaming came to the forefront of the industry. This has become the dominant model – consumers have told us how they want music, and we have to make sure this is the way they get it, while maximising the revenue streams.”

Highlighting the rise in the volume of streaming, Nielsen Music reports that it tracked 164 billion on-demand streams in 2014, up from 106 billion in 2013 (up 54%). Interestingly, video streams exceeded audio streams, with 85.3bn for the former and 78.6bn for the latter, but audio streams grew year-on-year more than video streams (+60.5% vs. +49.3%). “Music fans continue to consume music through on-demand streaming services at record levels, helping to offset some of the weakness that we see in sales,” says David Bakula, SVP industry insights at Nielsen.

Another sign of the growing importance of streaming for the US industry can be found in the performances of SoundExchange, the Washington, DC-based society collecting performance rights on sound recordings on behalf of performers and labels since 2005 that two albums have sold over 3.5 million albums in a calendar year,” says Nielsen.

SoundExchange will have collected over $750m, up 29% on 2013. “We all know that digital is the future but now more and more, for consumer, the experience is about access, not acquisition,” Michael Huppe, CEO of SoundExchange. “It used to be that the industry was funded at the sales point and now it is more and more funded through these listening models, where people own less but have access to a wider range of content. We are right in the middle of all of that. So when you combine the new business models and the explosion of streaming, we had a really great year.”

If the cursor has now shifted towards streaming rather than downloads, this is partly to do with a better recognition of the streaming services by consumers and more aggressive marketing from such services as Spotify, which has been pushing its premium service, offering its ad-free tier for a three month trial at the rate of $0.99. Amazon and YouTube have also made their move in this market with moderate success, and the whole industry awaits to see how Apple will eventually roll out its streaming service following the acquisition of Beats in 2014.

Meanwhile, French service Deezer, until recently absent from the US market has chosen a soft approach. It launched in September 2014 via a partnership with audio service Sonos and has at the beginning of the year acquired Move Music from Cricket Wireless, a subsidiary of telecoms giant AT&T. Deezer will be available to Cricket customers for $6 per month.

However, the debate is no longer about when streaming will become a major force, but when it will deliver the revenues that the industry is expecting. Tyler Goldman, North American chief executive officer of Deezer, is convinced that there is significant room in the US market for subscription services. He points out that satellite
service Sirius/Xm has 25 million subscribers paying up to $15 per month for music services.

"The reason Sirius/Xm is so successful is that they have delivered a good experience to customers in cars at $15," he says. This shows, according to Goldman, that when presented with the right product, customers are ready to pay for a music service. "It is more a question of delivering value rather than rates," he explains. "If you are able to get 25m subscribers to pay for music, it shows that there is a future for music if you offer the right experience."

However, Laurent Hubert, president, creative and marketing at BMG Chrysalis in New York, considers that if 2014 was "a pivotal year for streaming" with Spotify "starting to be the killer app both on the US and European markets," he questions their strategy, which does not seem to be in the best interests of the music industry. "My problem with Spotify," he elaborates, "is that although they have been very aggressive promoting the service, I do think they could have several pricing points, and that they could charge more for the premium service and sell more advertising on the free-tier, which also would be a good way to increase the conversion to premium."

Hubert continues: "As a publisher, our revenues from Spotify are very low. If they were more aggressive on their ad-supported model and their headline price, we would all gain. Let's assume they'd rise their rates by $5 per month, I doubt they'd lose 50% of their clients. But their strategy is more that of an IPO, in order to increase their adoption rate, but in the short term, this takes out value out of the business."

Marty Bandier, chairman and CEO of music publishing market leader Sony/ATV, concurs. He considers it important to achieve a better balance between free and premium services. "In the case of Spotify too much consumer activity is at the moment concentrated at the free end and there are not enough incentives for people to upgrade to the paid-for service," he says. "This is unsustainable going forward and needs to be addressed."

RIAA's Sherman pleads for a bit more time, and suggests that "scale will make enormous difference." After all, he adds, "the same could have been said of iTunes," which grossed $190m in its first year, and is now making $3bn. "We are moving more and more in the direction of subscriptions," says Sherman. "When most music fans have subscribed to music services, there will be a great deal more money. It is too soon to be complaining about royalty cheques. We need to give time for the model to evolve."

His bet is that music consumers who currently spend on average $25–40 a year on recorded music will eventually spend $120 a year on subscription to music services. "When this happens, it could make a huge difference in what everybody earns in the food chain," he says.

Others, like SoundExchange's Hubpe, consider that subscription services are not going to be the only dominant players and that advertising-based free services still have space for action. "There is a mantra that subscription is the way to go," he explains. "There is no doubt that subscription is a great model, and we have subscription services that pay a lot of royalties, but I think that it is a mistake to presume that ad-supported models cannot make it. We are in the early stages of this business and it led to a debate about value."

For Bandier, what Taylor Swift has highlighted is the need for artists "to be given the flexibility to choose where their songs reside, rather than being dictated to by Spotify's current all or nothing model where you have to be in the free service or pull out altogether. This has to change."

What also has to change, according to Bandier, is the US copyright legislation. He made in 2013 the controversial decision to withdraw Sony/ATV's digital repertoire from the two leading PROs, ASCAP and BMI, which are ruled by the consent decrees system, by which rates are set by a Copyright Tribunal. The move was seen as a means to negotiate better rates from streaming services such as Pandora.

He explains, "As we move to a world where streaming becomes the dominant force of distribution we have to put ourselves in a position to be able to achieve fair market rates for our songwriters from the interactive and non-interactive streaming services operating in the U.S. This will remain the case going into 2015. These streaming services are rapidly growing in popularity and are a great way for fans to listen to music, but as a consequence of the antiquated ASCAP and BMI consent decrees our songwriters are being short-changed in terms of the royalties they receive."

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CARY SHERMAN, RIAA

companies are just starting to get a handle on targeted advertising, local advertising, so I do not think that ad-supported is a dead model."

Publishers and labels were not the only ones who had issues with the value of music. If Taylor Swift also caught the attention of the public, the media and the industry, it was not simply through her creative and sales achievements, but also because she was the one who took the issue of streaming to the mainstream, through her decision, or her label's, to withdraw her repertoire from Spotify. "What Taylor Swift did was controversial," says RIAA's Sherman, because it could undermine Spotify's model, but he sees a lot of relevance in the fact that it led to a debate about value."

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