

# THE GERMAN MUSIC INDUSTRY: INVESTMENTS AND PAYMENTS TO ARTISTS

A STUDY FOR THE GERMAN MUSIC INDUSTRY  
ASSOCIATION (BVMI)

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# GLOSSARY

## ***Overarching concepts in the music industry:***

**Artists & Repertoire (A&R):** A&R services relate to the discovery, engagement, and development of artists and the recording of their music (e.g., financing and providing artistic and creative support for sound and video recordings).

**Marketing & Promotion (M&P):** The aim of M&P services is to market and promote the artists they support, for example by financing and implementing digital marketing, advertising, public relations, and product management.

**Advances:** A payment made by music labels to artists to cover creative costs for music production (if not covered by the music label) or to secure artist income, regardless of the success of a song/album. Advances are amortised by the music labels by offsetting them against future royalty payments. They can therefore only be recouped if the product is successful.

**Royalties:** Represent payments made by a music label to artists for the sale or exploitation of a copyrighted work. Royalties are generally paid only after the advances have been amortised (i.e., artists are not paid again until enough revenue has been generated to cover the advances).

## ***Definition of the variables examined in the study:***

The definitions of the *International Federation of the Phonographic Industry (IFPI)* are used in order to ensure the most consistent view possible at an international level:

**Total investments:** Defined as the sum of investments in A&R and investments in M&P and thus cover the main areas of activity of the music labels.

$$\text{Total investments} = \text{Investments in A\&R} + \text{Investments in M\&P}$$

**Investments in A&R:** Consist of classic investments in A&R (e.g., investments for the discovery and development of artists or for music recordings), personnel expenses for employees in the A&R area, and advances.

$$\text{Investments in A\&R} = \text{Traditional investments in A\&R} + \text{Personnel expenses in A\&R} + \text{Advances}$$

**Investments in M&P, including internal agency & digital services:** Consist of classic investments in M&P (e.g., investments for marketing campaigns or advertising) and personnel expenses for employees in the M&P area (thus investments for internal agency & digital services are also included).

$$\text{Investments in M\&P} = \text{Traditional investments in M\&P} + \text{Personnel expenses in M\&P}$$

**Investment rate:** The investment rate is calculated as the proportion of industry revenue that has been reinvested, i.e.,:

$$\text{Investment rate} = \text{Total investment} / \text{Industry revenue}$$

**Research & Development (R&D):** The research and development of music labels is synonymous with their investments in A&R, as these represent investments in the future "products" and artists of the music industry.

Research & Development = Investments in A&R

**R&D intensity:** R&D intensity is the proportion of industry revenue reinvested in A&R, i.e., the ratio of investment in A&R to industry revenue:

$$\text{R\&D intensity} = \text{Investment in A\&R} / \text{Industry revenue}$$

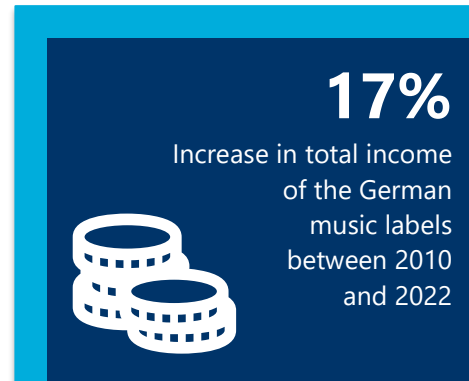
**Payments to artists (from music labels):** Payments to artists consist of royalties paid by music labels and advances paid.

$$\text{Payments to artists (from music labels)} = \text{Royalty payments} + \text{Advances}$$

# SUMMARY

## BACKGROUND INFORMATION AND AIM OF THE STUDY

The German music industry has undergone significant change over the last two decades. Advancing digitalisation and the associated transformation process from physical to digital products has not only changed how consumers listen to music, but also the tasks of companies within the music industry, especially music labels. In addition to new opportunities, digitalisation has also brought new challenges for music labels, which initially led to a decline in sales for many years. It is only in the last four years that the revenue of German music labels has risen continuously again, so that in 2020 the revenue level of 2010 was reached again for the first time. In 2022, industry revenue amounted to EUR 1.15 billion and was around 17% above the 2010 level.



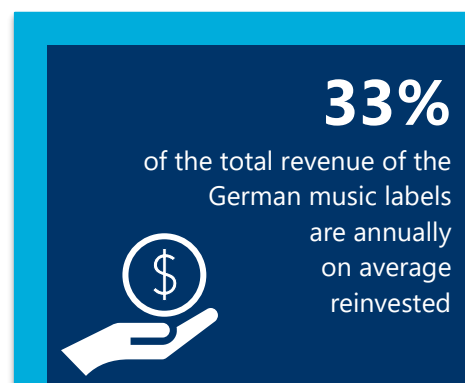
As the media mainly communicates the revenues of music labels, there has so far been a lack of information on the extent to which artists have also benefited from the economic recovery of music labels. This study therefore analyses the extent to which German music labels have reinvested their increased revenues of recent years in the development of new talent and existing artists and passed them on to their artists in the form of payments. To this end, we look at the following developments in this study:

- Investments in Artists & Repertoire and Marketing & Promotion
- Payments to artists by music labels

For the calculation, a survey on investment and payment behaviour was conducted with the largest music labels in Germany. The investment and payment statistics surveyed were then extrapolated to the rest of the market on the basis of the official market coverage of the BVMI market statistics. The music labels surveyed covered around 66% of the market in 2022. The results of this study therefore reflect around 65%-70% of German music labels in the period under review (2010-2022) and are mainly representative for music labels with comparable investment and payment dynamics.

## THE INCREASE IN EXPENDITURE ON ARTISTS & REPERTOIRE IN PARTICULAR LED TO A RISE IN INVESTMENTS

German music labels invested around EUR 342 million in 2022. This corresponds to an increase in total investment of 28.2% since 2010 and is therefore higher than the 17% growth in industry revenue over the same period. Overall, German music labels invest an average of 33.3% of their revenues (not profits) annually in the development and discovery of new artists (=Investments in Artists & Repertoire (A&R)) as well as their marketing and the

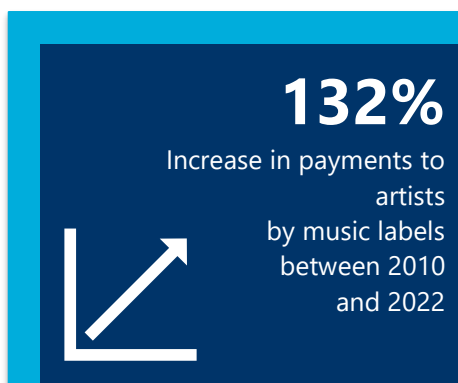


distribution of their music (=Investments in Marketing & Promotion, including internal agency & digital services (M&P)).

The main reason for the increase in total investment is rising investment in A&R, which has more than doubled since 2010. Investment in A&R can also be understood as the music industry's research and development (R&D) expenditure, as this is an investment in its future "products." The German music industry's R&D intensity in 2022 is relatively high at 13.2%. By comparison, the research-intensive pharmaceutical and electrical industries each had an R&D intensity of just under 10% in 2022 (Michelsen & Junker, 2023). The music industry therefore invests above average in the future compared to other industries. Artists benefit from this, as cost-intensive production and recording costs are increasingly covered by music labels.

While investments in A&R have increased, investments in M&P have fallen slightly by 6% overall since 2010 but have risen again in the last two years. The main reason for this is the reallocation of external marketing costs (e.g., TV advertising) to internal costs such as the expansion of internal structures and expertise (e.g., personnel in the areas of data analytics, social media, and search engine optimisation) as well as increased, more effective, and listener-oriented online marketing.

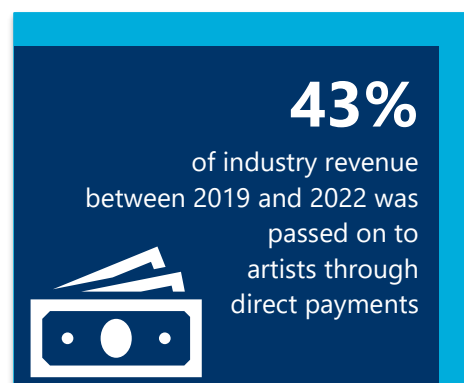
### ARTISTS BENEFIT FROM HIGHER PAYMENTS FROM THE MUSIC LABELS—ESPECIALLY THROUGH INCREASED ADVANCES



In addition to higher investments, the increase in revenue also led to rising payments to artists. While industry revenues increased by 17% between 2010 and 2022, payments to artists more than doubled in the same period (an increase of 132%). It is worth noting that advances in particular have more than tripled since 2010 (+273%). Although advances represent amortisable payments from music labels to artists, they are paid regardless of the success of the work produced. As a result, they always represent an investment risk for the music labels. The music labels

therefore increasingly bear the entrepreneurial risk for the success of musical works. In addition to the advances, the royalties paid by the music labels to the artists have also doubled.

Taken together, artists have thus participated in around 43% of industry revenue in the last three years through advances or royalty payments. In comparison: between 2010 and 2013, this share was only slightly over 20%. Despite the increasing importance of advances, royalties remain the most important payment component from music labels to artists, accounting for around 75%. The remaining 25% is accounted for by advances paid by music labels to artists.<sup>1</sup>



<sup>1</sup> The data represent an average of all existing contract types.

# 1. INTRODUCTION

## 1.1 THE STATUS QUO OF THE GERMAN MUSIC INDUSTRY

The music industry in Germany plays a central role in the creative and cultural context. It promotes artistic diversity, enables the individual development of artists, and contributes to cultural exchange on a national and international level. At the same time, the music industry is also an important part of the German economy, creating jobs and generating income through the sale of music and fan merchandise as well as the organisation of concerts (Girard et al., 2020). In particular, the promotion and development of new talent and the support of established artists are key to maintaining the diversity and quality of the German music scene.

Music labels therefore play a crucial role in the music industry, especially for value creation in the sub-sector of recorded music (i.e., in the production, reproduction, and distribution of physical and digital music formats) and thus in the central area for the development of new music (Seufert et al., 2015).<sup>2</sup> They provide artists with the necessary infrastructure and resources to produce, publish, and market music (for a more detailed description of the cooperation between music labels and artists, see chapter 1.2).

Over the past 20 years, digitalisation and the associated shift in demand from physical to digital music formats has had a significant impact on the activities of the music industry, especially music labels. Digitalisation has not only opened up opportunities for music labels through new distribution and business models (e.g., via digital platforms and streaming services), but has also presented the industry with new challenges. On the one hand, digitalisation requires the continuous (further) development of copyright, licensing, and remuneration models for artists as well as the integration of disruptive technologies into business activities (e.g., artificial intelligence). A challenge combined with new opportunities to make traditional business models fit for the future. On the other hand, illegal and commercially-operated platforms for downloading music as well as streaming manipulation and streaming fraud present the music industry with difficult tasks. Although new offerings (such as online streaming) were able to mitigate this development, the illegal distribution of music is still a key challenge for the music industry and its music labels today.

This dynamic development is also reflected in the revenues of the music labels (see Figure 1).<sup>3</sup> Between 2010 and 2018, music label revenues fell by around 18% to EUR 815 million. This represents almost a halving of the market since its peak in the late 1990s. From 2018 to 2022, revenues rose steadily again with an average annual growth rate of 9.2%, reaching the 2010 level again in 2020. In 2022, German music labels generated revenues of EUR 1.15 billion.<sup>4</sup>

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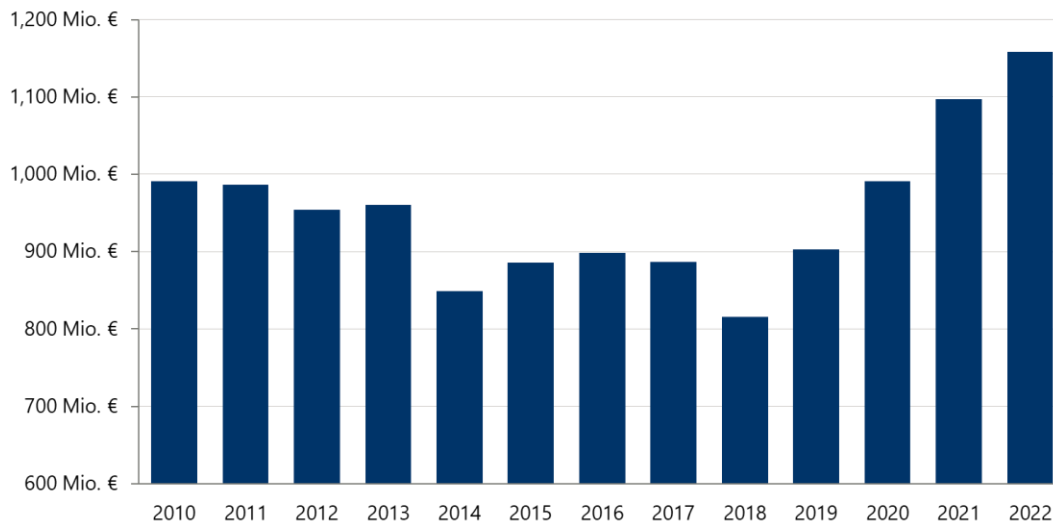
<sup>2</sup> Music labels are also active in many other areas of the music industry, such as music publishing or artist management (Girard et al., 2020).

<sup>3</sup> The label revenues considered here are made up of sales of physical (e.g., CDs, vinyl LPs) and digital products (e.g., music downloads) as well as licensing income (e.g., from streaming deals) (BVMI, 2023).

<sup>4</sup> In this study, only nominal values are considered, which are not adjusted for inflation. If real, i.e., inflation-adjusted values are considered, music industry revenues have not yet reached the historical values of pre-digitalisation.



**FIG. 1: DEVELOPMENT OF THE MUSIC INDUSTRY REVENUES IN GERMANY**



Source: Own representation based on data from the Bundesverband Musikindustrie e.V.

Note: The values shown here are nominal values that have not been adjusted for inflation. They are also industry revenues at producer prices. In contrast, the music industry revenues in the publication "Musikindustrie in Zahlen" published by the Bundesverband Musikindustrie e.V. are end-consumer prices (including VAT).

## 1.2 MUSIC LABELS—A CREATIVE PARTNER AT THE SIDE OF ARTISTS

An important question that arises in this context is whether artists have also benefitted from the economic recovery of music labels. The first step is to understand what role music labels play for artists and which agreements influence collaboration and direct payments to artists.

The core task of music labels is to discover new talent, sign them, and promote their development. This business area is generally referred to as "Artists & Repertoire (A&R)." In addition to new talent, the A&R department also supports existing artists in their career development. This includes shaping the music content and style, as well as providing support with music and video production and tour planning. The second main area of activity for music labels is the marketing and promotion of the artists they support, also known as "Marketing & Promotion (M&P)." The M&P department is responsible for the product management and marketing of an artist's music. For example, it handles digital marketing, public relations, and promotion via radio and television. Furthermore, M&P departments support their artists, for example with effective data analysis of consumers' listening habits in order to identify new trends and build the largest possible fan base. As a result of digitalisation, a more demanding legal environment and the globalisation of the music market, cooperation between labels and artists has intensified again in recent years (see Figure 2).

**FIG. 2: THE COLLABORATION BETWEEN MUSIC LABELS AND ARTISTS**



Source: Own representation based on IFPI (2023a) and Bundesverband Musikindustrie e.V. (2023)

The degree of cooperation between music labels and artists depends significantly on the extent of the desired support. In general, the more services, e.g., in the form of advances and A&R investments as well as investments in marketing and promotion for the artist, the greater the participation of the music labels in the potential revenue of a song (BVMI, 2023).

### 1.3 AIM AND CLASSIFICATION OF THE STUDY

This study examines the extent to which German music labels are reinvesting the increased revenues of recent years in the development of new talent and existing artists and passing them on to their artists

in the form of payments. Have artists benefited from this development? If so, how is this reflected in the labels' investments and to what extent does the music industry benefit or lose from these developments? To answer these questions, the following section takes a closer look at the investments made by music labels and their payments to artists since 2010.<sup>5</sup>

To ensure consistency with international results, such as global investment and R&D intensities, the methodology of the International Federation of the Phonographic Industry (IFPI) is used. For the calculation, a survey was conducted on the investment in, and payment dynamics to artists of the largest music labels in Germany. The surveyed data were then extrapolated to the rest of the market using the official market coverage of the BVMI market statistics (see Box 1 and Appendix 6.1 for a description of the method and the data surveyed).<sup>6</sup> This methodology makes it possible to analyse the development of the entire German music industry at industry-level between 2010 and 2022. However, this methodology also assumes that the music labels not surveyed have comparable investment and payment dynamics to the music labels surveyed. The results of the extrapolation therefore reflect around 65%-70% of the market share in the 2010-2022 study period.

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<sup>5</sup> This study only examines the temporal development of the music labels' investments and their payments to artists and not a possible causal relationship (i.e., it is not possible to say whether there is a real or causal effect of revenues on investments and payments).

<sup>6</sup> The BVMI's market statistics show the income of music companies from the sale of physical and digital audio and video media (CDs, vinyl records, DVDs, downloads, etc.), from the use of paid and ad-financed music streaming and other income from digital business areas. The licensing income of music companies from the use of music in TV, film, advertising, games, or radio is not included.

**BOX 1: NOTE ON THE INTERPRETATION AND REPRESENTATIVENESS OF THE RESULTS**

As described above, the results presented are an extrapolation of the investment and payment dynamics of Germany's largest music labels to the entire music industry in Germany. As the survey only covers the larger music labels and thus a market share of 65%-70%, the interpretation and representativeness of the results for the entire market is subject to uncertainty.

The extrapolation method assumes that music labels not included in the survey have similar investment and payment dynamics to the music labels surveyed. If this is not the case and the payments and investments of the remaining music labels are lower on average—for example if smaller music labels invest and pay less to artists relative to revenues—the reported temporal developments and ratios tend to be overestimated. However, if the remaining music labels have higher payment and investment dynamics—for example to expand their market position or to retain artists in the long term—the reported temporal developments and quotas are underestimated. The direction of the distortion is therefore unclear.

Furthermore, the BVMI's official market statistics for calculating the official market shares of music labels do not take all sales into account. For example, licence revenues of the music companies from the use of music in TV, film, advertising, games, or radio are not included in the calculation of the official market shares. Here too, it is unclear to what extent these missing sales in the calculation of market shares influence the results.

It should be noted that the interpretation of the results for the entire German music industry is subject to uncertainty. The results presented reflect around 65%-70% of the overall market. The representativeness of the results increases if the music labels not surveyed have similar investment and payment dynamics.

## 2. INVESTMENTS BY THE GERMAN MUSIC INDUSTRY

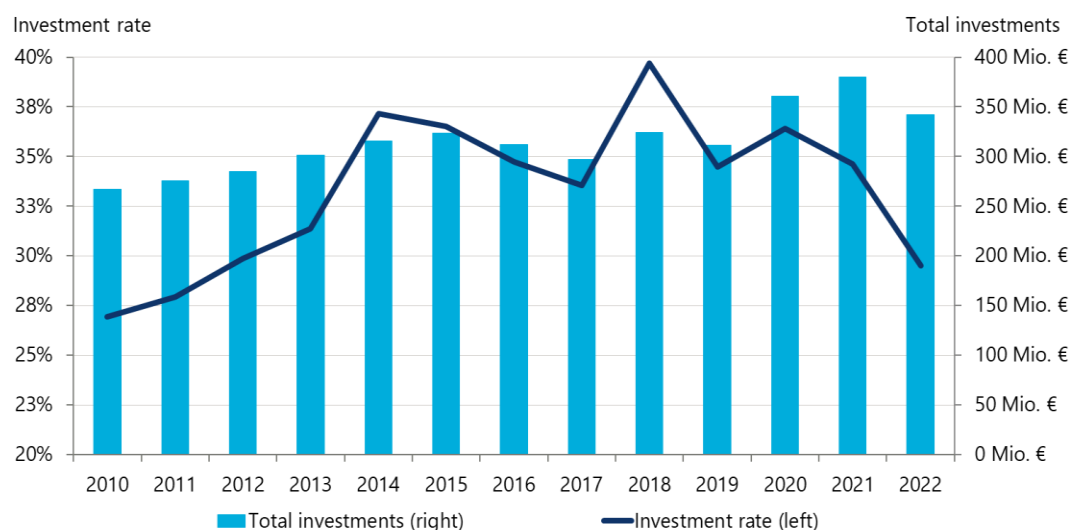
This chapter examines the development of investments made by the German music industry between 2010 and 2022. Section 2.1 examines the development of overall investments. In order to understand more precisely whether the investment activities of music labels in artists have changed over time and to what this development in investment can be attributed, Section 2.2 shows the development of the various investment categories over time.

### 2.1 DEVELOPMENT OF TOTAL INVESTMENTS IN THE GERMAN MUSIC INDUSTRY

Investments are a central task of music labels in their collaboration with artists. Investments are the basis for discovering new artists and supporting them in the development of new music. Investments in the discovery and marketing of artists and their music are particularly important because revenue can often only be generated if the general public is aware of their existence. Artists therefore only benefit from the higher revenues of music labels if these are also reinvested in them in order to bring new music to the market and distribute it.

Figure 3 shows the development of total investments and the investment rate—i.e., the proportion of revenue that is reinvested—in the German music industry between 2010 and 2022. Overall, investments increased over the entire period, from an estimated EUR 267 million in 2010 to EUR 342 million in 2022. This represents an increase of around 28.2% and an average annual growth rate of 2.1%. Despite the noticeable decline in industry revenues between 2010 and 2015, total investment by German music labels increased slightly over the same period. In the following years, the low revenue in the years 2015 to 2018 was reflected in rather stagnating investments. Only the strong revenue growth after 2019 again had a positive impact on music labels' investment activity.

**FIG. 3: DEVELOPMENT OF TOTAL INVESTMENTS IN THE GERMAN MUSIC INDUSTRY**



Source: Own extrapolation based on data from the Bundesverband Musikindustrie e.V. and the company survey.

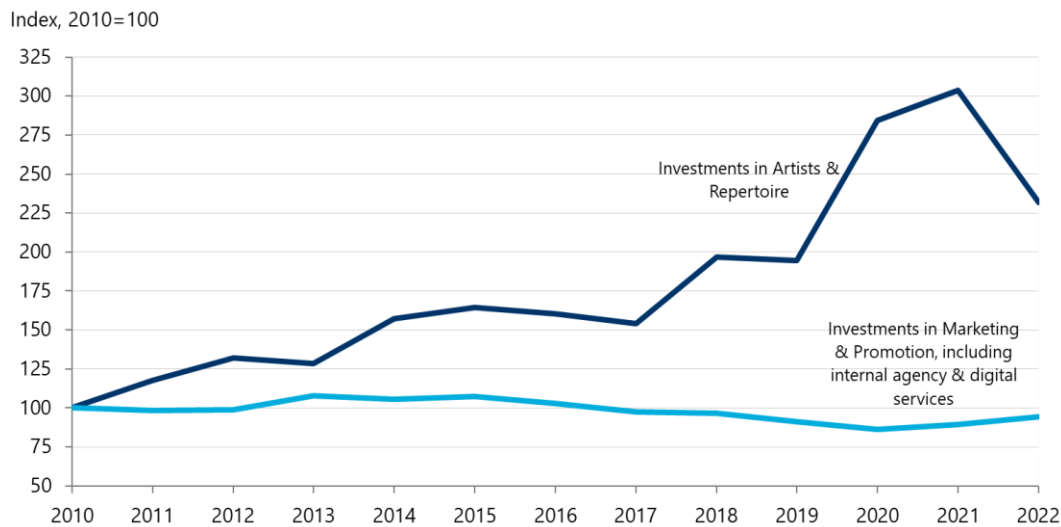
Generally speaking, rising industry revenues are likely to have a positive impact on music labels' investments. This relationship does not necessarily only run in one direction. It is more likely that investments and revenues influence each other. On the one hand, an increase in industry revenues is likely to increase the ability of music labels to invest. Conversely, increased investment by music labels will enable the development of more artists and new music.

Investments by music labels have not only increased in absolute terms, but also in relative terms. On average, music labels reinvested a third of their income from music recordings in artists between 2010 and 2022, with an upward trend also evident here in the years before the Covid-19 pandemic. In the last three years, the investment rate fell slightly despite rising investments due to the high relative growth in industry revenue. In 2022, the investment rate in Germany amounted to 29.5% and was therefore comparable to the global average for the same period, which was 29.7%, according to the latest IFPI estimate (2023b).

## 2.2 THE DEVELOPMENT OF THE VARIOUS TYPES OF INVESTMENT IN DETAIL

The music labels' annual investments can be broken down into two main components: (i) Investments in A&R and (ii) Investments in M&P, including internal agency & digital services (referred to simply as investments in M&P from now on for the sake of clarity). Of the EUR 342 million invested by music labels in 2022, EUR 153 million was invested in A&R and EUR 189 million in M&P. However, the ratio of the components has changed significantly in the last 12 years. The rising revenues were increasingly invested in the discovery and development of new artists (see relative development of A&R investments Figure 4). Since 2010, investments in A&R have grown by around 7.3% annually and have more than doubled. The main reason for the high increase in A&R investments is an increase in advances of more than 270%.

**FIG. 4: DEVELOPMENT OF INVESTMENTS BY CATEGORY**



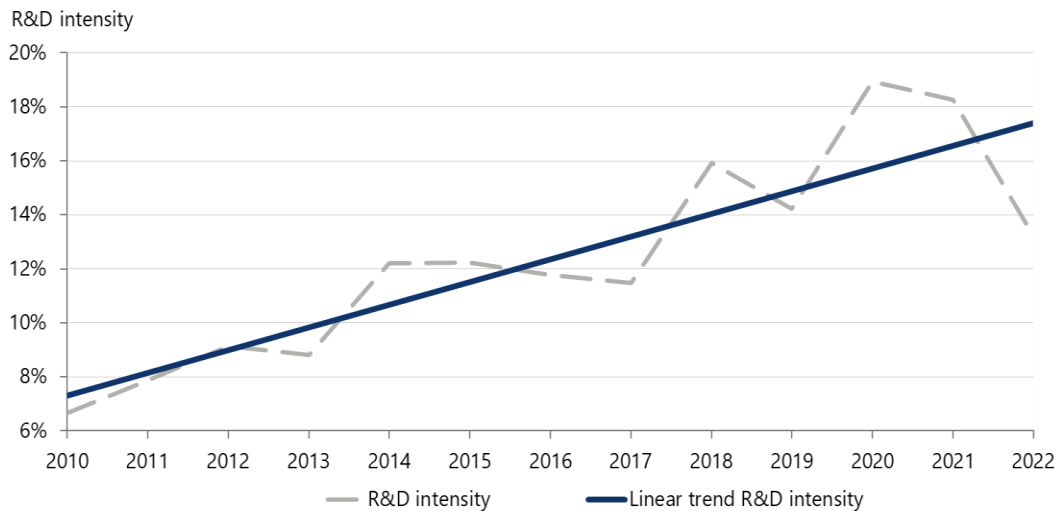
Source: Own extrapolation based on data from the Bundesverband Musikindustrie e.V. and the company survey.

Artists benefited from the increased investment in A&R in various ways. On the one hand, the increased expenditure led to a rise in the number of artists under contract, meaning that more artists were able to benefit from the support of the music labels. On the other hand, the high increase in A&R investments, especially advances, represented increased security and planning certainty for the artists; all the more so as a large part of the production and recording costs are also covered by the music labels.<sup>7</sup> This is particularly relevant because many recordings do not achieve commercial success and therefore royalty payments can often be low.

<sup>7</sup> Investments in A&R are largely offset, i.e., music labels pay advances and production costs for the artists and offset these costs against the royalties to be paid. This means that royalties are often only paid to artists by music labels once they have generated enough income with their music to cover the original advance payment. The risk of commercial success therefore remains with the music labels.

Investment in A&R has also risen sharply relative to revenue since 2010. Overall, music labels invested 13.2% of their revenues in the discovery and development of artists in 2022 (see Figure 5). The investments in A&R can also be interpreted as the music industry's research and development (R&D) expenditure, as these are investments in the future "products" of the music industry. Across both the whole country and all sectors, the German music industry's R&D intensity is very high at 13.2%. By comparison, the research-intensive pharmaceutical and electrical industries each had an R&D intensity of just under 10% in 2022 (Michelsen & Junker, 2023). The music industry is therefore investing above average in the future.

**FIG. 5: DEVELOPMENT OF THE R&D INTENSITY IN THE GERMAN MUSIC INDUSTRY (% OF INDUSTRY REVENUES)**

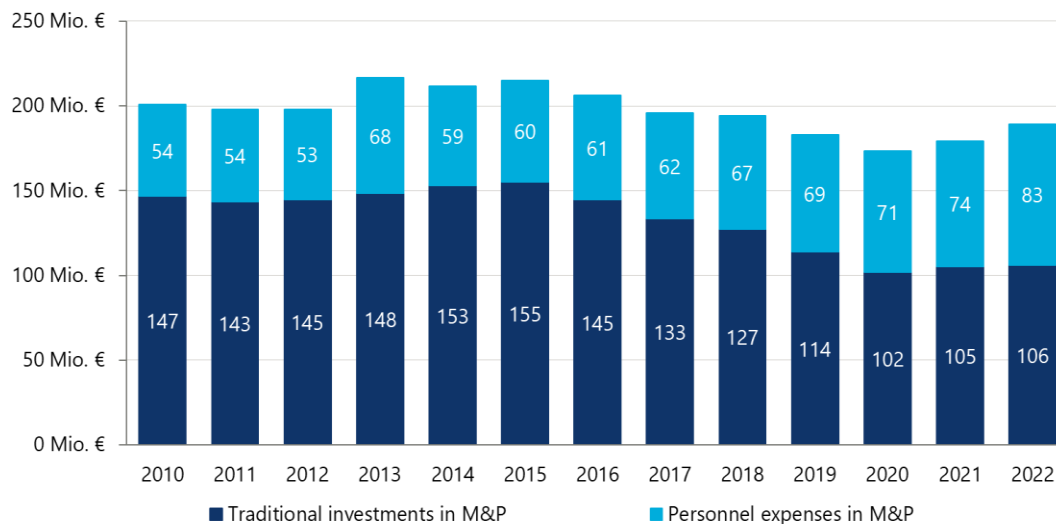


Source: Own extrapolation based on data from the Bundesverband Musikindustrie e.V. and the company survey.



While investment in A&R has risen, investment in M&P initially stagnated from 2010 to 2020 and then fell slightly, but has risen again overall in the past two years (see Figure 4 & Figure 6). The main reason for this is presumably the transformation process from physical to digital products, which has led to the development of in-house expertise, structures, and tools in the area of online marketing, among other things. As a result, direct M&P investments for external marketing measures (e.g., very cost-intensive TV advertising, which sometimes leads to considerable wastage) have increasingly been replaced by the expansion of internal structures and expertise (e.g., personnel in the areas of data analytics, social media, search engine optimisation) as well as more effective and listener-oriented online marketing (e.g., via social media). This development is illustrated in Figure 6. Since 2020, expenditure on personnel in M&P and thus in-house expertise and structures has risen steadily. This supports the hypothesis that music labels are evolving towards internal marketing structures in order to make their M&P support for artists as contemporary and listener-oriented as possible.

**FIG. 6: DEVELOPMENT OF MARKETING & PROMOTION INVESTMENTS BETWEEN 2010 AND 2022**



Source: Own extrapolation based on data from the Bundesverband Musikindustrie e.V. and the company survey.

Note: See the glossary for an overview of the exact definitions of terms.

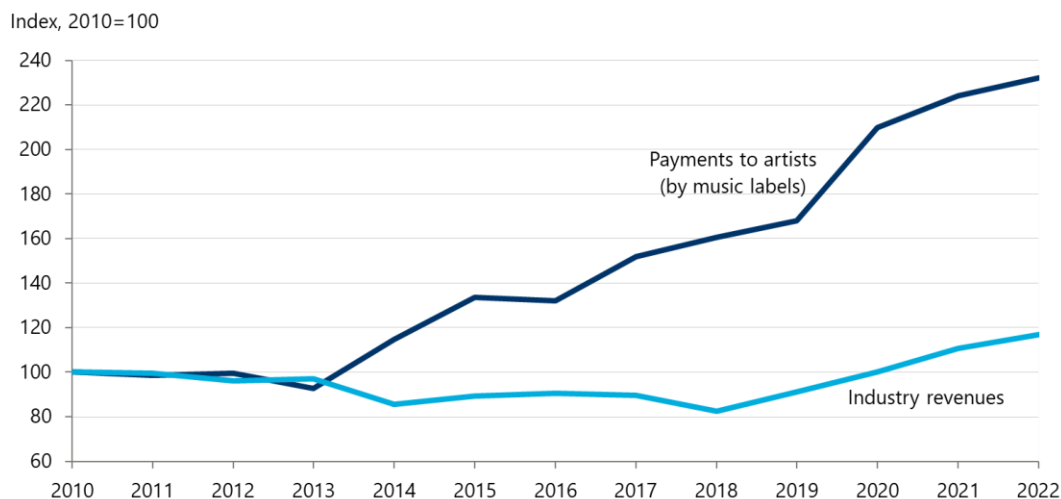
## 3. PAYMENTS BY MUSIC LABELS TO ARTISTS

The increase in income for music labels raises the question of the extent to which artists also participate in this additional income. The study shows that the payments made by music labels to their artists more than doubled in the period under review between 2010 and 2022 (see chapter 3.1). However, as certain forms of income are associated with risks for the artists, we also examine the development of the different forms of payment (advances vs. royalties). It turns out that the increase in payments to artists is due in particular to a tripling of advances, which are riskier for music labels (see chapter 3.2). Since the entrepreneurial risk (of recouping investments and generating income) is distributed between the artist and the music label in the case of a licence agreement, whereas it lies increasingly with the music label in the case of an advance payment, there is an increasing shift of risk towards the music labels.

### 3.1 PAYMENTS TO ARTISTS BY MUSIC LABELS

Looking at the relative development of industry revenues of music labels and the payments they make to artists,<sup>8</sup> it is noticeable that payments to artists have increased significantly more than the revenues of music labels. While payments to artists more than doubled between 2010 and 2022 (i.e., grew by more than 100%), music industry revenues increased by only 17% over the same period (see Figure 7). It is also striking that payments to artists by music labels also increased during the period of falling industry revenues, particularly between 2013 and 2018.

**FIG. 7: DEVELOPMENT OF INDUSTRY REVENUES AND PAYMENTS TO ARTISTS**

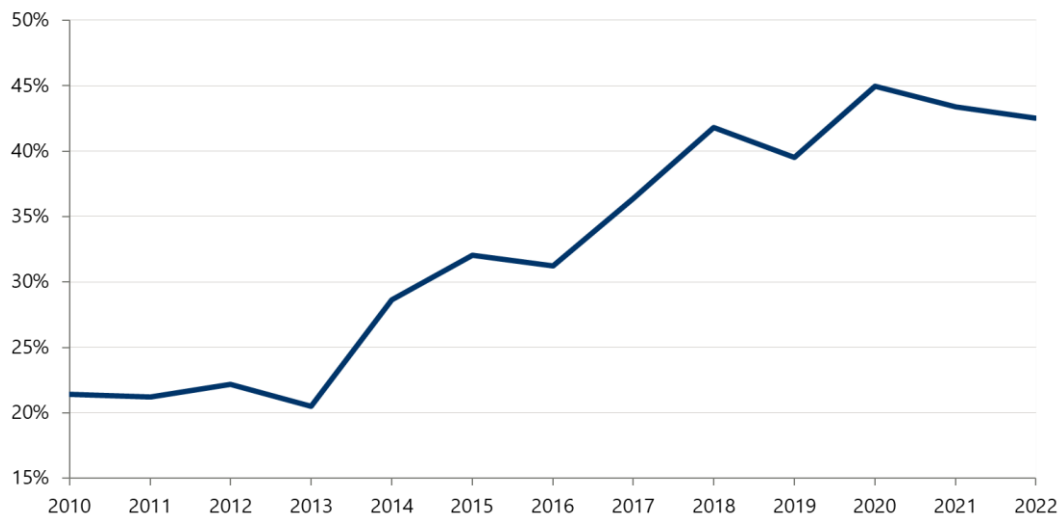


Source: Own extrapolation based on data from the Bundesverband Musikindustrie e.V. and the company survey.

<sup>8</sup> Payments to artists only include royalties and advances from music labels and not direct payments from collecting societies to artists.

This means that the relative share of revenue passed on to artists through payments from music labels is higher today than in the past. While in 2010 artists received around 21% of music label revenues, in 2022 around 43% of revenues were passed on to artists through direct payments (see Figure 8).

**FIG. 8: DEVELOPMENT OF THE RATIO OF PAYMENTS TO ARTISTS TO INCOME**



Source: Own extrapolation based on data from the Bundesverband Musikindustrie e.V. and the company survey.

It should be emphasized that payments to artists have not only increased in absolute terms, for example because more artists have been signed. Rather, payments *per* artist have also risen by 74% since 2011. As described in chapter 1.2 it should be emphasized here that the chosen form of collaboration has a direct influence on the relative remuneration of artists and labels - the more services the music labels provide in the form of investments, the more they share in the income, and the direct payments to the artist can decrease accordingly if they use more services from the music label (BVMI, 2023).

### 3.2 THE DEVELOPMENT OF THE VARIOUS PAYMENT METHODS IN DETAIL

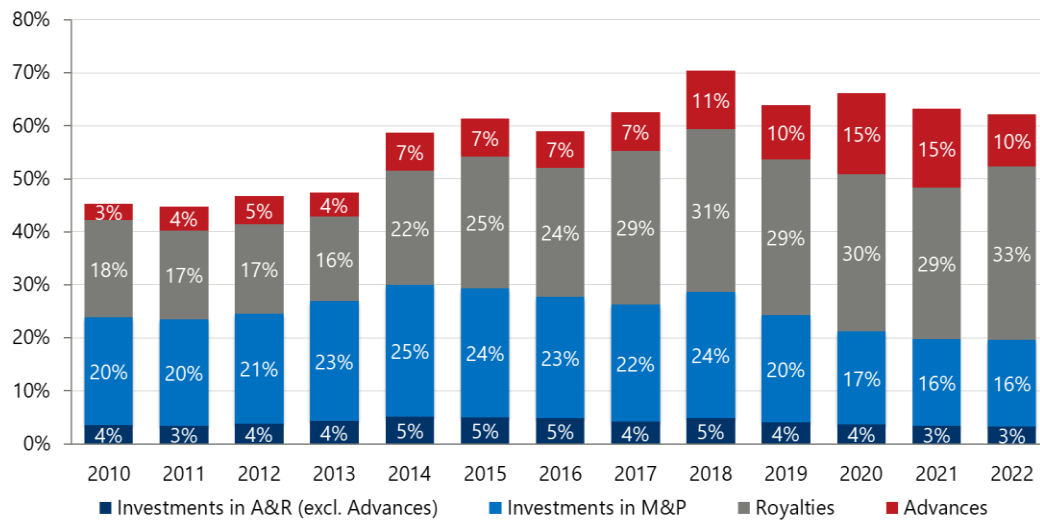
In general, a distinction is made between two forms of payments to artists: advances and royalties. Advances are a fixed payment made by music labels to artists, for example to cover creative costs for music production (if not covered by the music label) or to secure artist income, regardless of the success of a song/album. It should be noted that the higher the artist's performance, the higher the advance payments. If, for example, the artist provides the sound recordings entirely themselves (band transfer agreement), the advance and the royalty share are correspondingly higher.

With the payment of advances, the entrepreneurial risk is increasingly transferred from the artists to the music labels, as the artists do not share in the losses in the event of failure. Instead, the music labels offset their advances against the income generated. If enough revenue is generated to cover the advances, the artists also receive royalty payments (i.e., pro rata payments for the sale or exploitation of a music recording) based on a contractually agreed participation rate.<sup>9</sup> In addition to direct payments,

<sup>9</sup> Here, too, the chosen support from music labels has a significant influence on the final royalty payments and the amount of the advances.

artists receive further indirect benefits from working with labels. On the one hand, they benefit from the music labels' investments in A&R. In addition to discovering and signing artists, these investments also lead to the further development of their musical style. Artists also benefit from the marketing and support provided by M&P departments, as this increases their level of recognition. Artists also benefit from other more indirect investments, such as the provision and expansion of music labels' online marketing and data analytics departments to enable more effective marketing. Figure 9 looks at the share of industry revenue that was used directly via payments (direct benefits) or more indirectly via investments (Investments in A&R and M&P, excluding advances but including personnel expenses) for the artists and can therefore be regarded as an overall benefit.

**FIG. 9: DIRECT AND INDIRECT BENEFITS FOR ARTISTS**



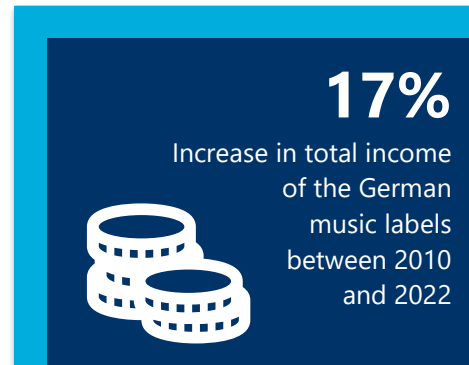
Source: Own extrapolation based on data from the Bundesverband Musikindustrie e.V. and the company survey.

In total, around 62% of industry revenue was used directly or indirectly for artists in 2022. Of particular relevance here are not the indirect benefits, but the direct payments (advances and royalties) to artists, which have risen from 21% in 2010 to almost 43% in 2022. If we take a closer look at the payments to artists, it is primarily the advances that have seen above-average growth relative to the royalty payments. Between 2010 and 2022, advances paid to artists more than tripled (an increase of 273%).<sup>10</sup> However, royalties paid by music labels to artists also increased significantly between 2010 and 2022, doubling. Overall, royalty payments represent around 33% of the total benefits for artists and, with a share of 75%, are also the most important source of direct payments to artists (the remaining 25% is accounted for by advances paid). This means that artists are increasingly benefiting directly from the music industry's increased revenues through increased remuneration in the form of advances and royalties. However, indirect benefits from investments in A&R (excluding advances) and M&P also continue to play an important role in the collaboration between music labels and artists.

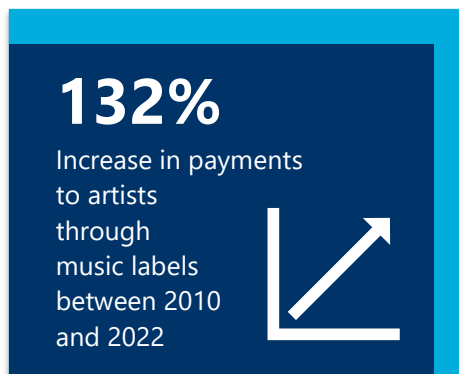
<sup>10</sup> The decline in advances in 2022 is attributable to above-average advances due to a large number of major projects/contracts in 2020 and 2021. The decline in 2022 therefore represents a return to the sustainable growth trend.

## 4. CONCLUSION

Digitalisation has not only revolutionized the music industry but has also had a significant impact on the business activities and revenues of music labels. After many years of negative growth, music label revenues have increased continuously over the last four years, reaching the 2010 level for the first time in 2020. Overall, revenues grew by around 17% between 2010 and 2022, but are still below the historic highs of the late 1990s.



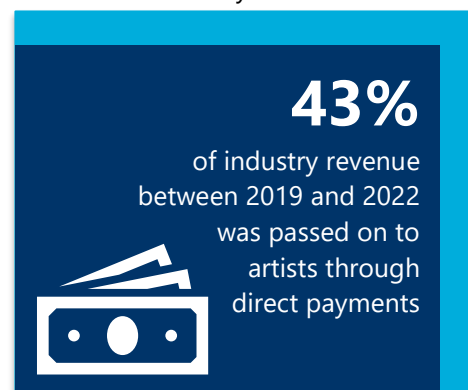
This study shows that artists have also benefited from the rising income in recent years. On the one hand, total investments by music labels rose in absolute terms, reaching around 340 million euros in 2022. This corresponds to an increase of 28.2% since 2010. This was due to rising investments in A&R—the music industry's R&D expenditure. This increased investment ensured the discovery of new artists and increased the number of artists signed by music labels. In addition to artists, consumers also benefitted from the increased investment, as the investment contributed to the development of new music and a wider offering for the industry as a whole.



Secondly, payments to artists by music labels grew in comparison to revenues during the period under review. While industry revenues rose by 17% between 2010 and 2022, payments to artists doubled (+132%) in the same period. Advances in particular, which are riskier for music labels, have risen sharply. As a result, around 43% of industry revenue has gone directly to artists in the last three years. If M&P and other A&R expenses are included, slightly more than 60% of

industry revenues were spent directly or indirectly on artists or invested in artists.

The results of the study thus indicate that the rising revenues of the music labels were accompanied by significantly increasing payments to, and investments in artists.



## 5. LITERATURE

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## 6. APPENDIX

### 6.1 DATA QUERY AND EXTRAPOLATION

This study examines whether German music labels have reinvested the increased revenues of recent years in artists and passed them on to their artists in the form of payments. As part of the study, a data survey of the largest member companies was conducted with the support of the Bundesverband Musikindustrie e.V. (BVMI). The participating music labels were asked about the following content:

- Music label revenues
- Income from exports (Overseas Income)
- Classic investments in A&R
- Personnel expenses for employees in A&R
- Number of employees in A&R
- Classic investments in M&P
- Personnel expenses for employees in M&P
- Number of employees in M&P
- Advances paid to artists
- Royalties paid (by music labels) to artists
- Number of artists under contract

In addition, the German Music Industry Association provided information on the industry revenues and market shares of all music labels in Germany from its market statistics.

The data requested from the music labels were aggregated for all variables. The market share covered was taken from the BVMI's official market statistics on the music industry for the years 2010 to 2022. To quantify the overall market, the aggregated data of the music labels surveyed were extrapolated to the overall market using the official market shares of the BVMI market statistics per year.

$$\text{Overall market} = \frac{\text{Sum of surveyed music labels}}{\text{Official market share of surveyed labels}}$$

All values shown are therefore to be understood at industry level. This assumes that music labels not surveyed have the same investment and payment dynamics as the music labels surveyed. This methodology allows the analysis to show the development of the entire music industry between 2010 and 2022. Overall, however, the study is most representative of the current market coverage of the largest labels, which, according to BVMI data, will amount to around 66% of the total German market in 2022.



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