The Impact and Challenges of the Development of China's Digital Music Industry

Yueming Zhao[1,*]

[1]Qingdao Academy, Qingdao, 266213, China

*Corresponding author. Email:zym15621019295@163.com

Abstract. With the development of the digital economy, the digital music market has entered a period of prosperity, presenting new opportunities and challenges for the digital music industry. This article analyzes the impact and challenges associated with developing China's digital music industry. The findings reveal that China's digital music industry can generate significant cultural, economic, and social impacts. However, there are numerous issues in its development, including copyright protection, copyright competition, content creation quality, user willingness to pay, and effective monetization strategies. Accordingly, this paper formulates strategies for developing China's digital music industry, including perfecting the copyright protection mechanism, creating a favorable competitive environment, improving the quality of music works, cultivating users' paying habits, and fostering effective ways to make profits.

Keywords: Digital economy, Digital music industry, Strategy research, Willingness to pay, Copyright protection

1 Introduction

The music industry is an important component of the cultural industry and a significant force in promoting cultural development and prosperity. Against the backdrop of rapidly advancing internet technology, the traditional music industry has been impacted, giving rise to the new digital music industry.[12] The digital music

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industry is a product of the integration of digital technology and traditional music resources. It has established new modes of production and consumption, gradually amassing a large audience[1].The Chinese digital music market is continuously expanding, with an increasingly stable and clear industrial structure. Capital markets and internet companies are venturing into the digital music industry. With the support of digital technology, the dissemination of music culture no longer relies on physical records; it has significantly increased the efficiency and breadth of music culture dissemination through online and wireless platforms. Currently, digital music is revolutionizing the traditional record industry, forming a new trend in the development of the music industry [2].

The digital music industry chain consists of three segments: upstream is creation, midstream is distribution, and downstream is consumption. Figure 1 illustrates the main structure of the digital music industry chain and the relationships between its main entities. The main entities in the upstream creation segment are artists, record companies, and producers, who together form the music content providers. The music products created are transformed from physical records into digital formats, distributed through midstream service providers and telecommunications operators via the internet or mobile communication networks, ultimately reaching the downstream users.

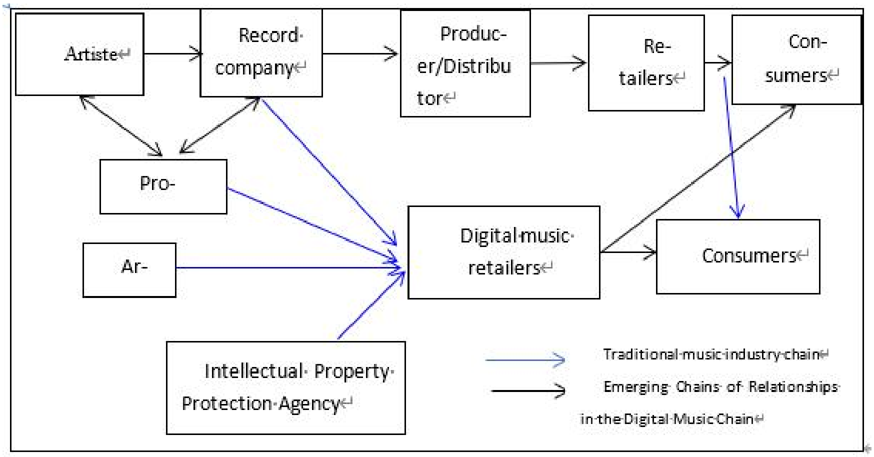

Fig. 1. The main structure and relationships of entities in the digital music industry chain

2 The Impact of China's Digital Music Industry

2.1 Cultural Aspect

Music, as a form of social culture, is not only an important component of national culture but also a crucial vehicle for cultural inheritance and development. In today's diverse consumer era, various musical products such as digital albums, live music streaming, online concerts, and music festivals have greatly enhanced their aesthetic and entertainment functions. These products have enriched the spiritual and cultural lives of the people and hold special significance in fostering individuals' aesthetic tastes and abilities.At the same time, the social function of music is increasingly evident [1]. Music communities have become places for users to share emotions and regulate moods. In contrast, karaoke rooms and live-streaming platforms have allowed users to showcase their talents and seek recognition. This has made music one of the most popular cultural entertainment forms among the public.

2.2 Economic Aspects

Music not only bears rich cultural connotations but also holds immense economic value as a unique commodity. As a green industry, the music industry relies on non-material factors such as creativity and inspiration, transitioning human development from the exploitation of material resources to the realm of spiritual production. This allows the development of the music industry to proceed without relying on resource consumption, making its sustainable development possible.After 40 years of development, China's music industry has established a fairly comprehensive system. The core sectors of the music industry include music recording production and sales, music performances, and digital music production and promotion. The related sectors encompass music education, musical instrument manufacturing, and sound equipment manufacturing. The extended sectors also cover various cultural forms such as karaoke, film and television music, and anime music.Currently, China's economy is in a crucial phase of stable growth and structural adjustment. In the course of implementing new development concepts and building a new dual-circulation development pattern, the digital music industry offers vast development potential for the music industry and has become a positive force in promoting high-quality economic growth.

2.3 Social Dimension

As China's international exchanges become increasingly frequent, music creation has moved beyond singular revolutionary songs to embrace more diverse themes, though main theme works remain a significant component. Particularly with the rapid development of digital music platforms, the music industry has unleashed a broad value-guiding function.Secondly, music, as an art form that expresses people's thoughts and emotions and reflects real life, has a subtle influence on social ethos and the formation of moral character. Excellent musical works resonate with the intrinsic spirit of mainstream values, gradually making them an important vehicle for disseminating core socialist values in the course of their development.

3 Challenges Facing the Development of China's Digital Music Industry

3.1 Copyright Protection

Due to the characteristics of digital music, such as its ability to be copied, easily modified, and plagiarized, the phenomenon of streaming piracy has become increasingly severe [3]. Since 2006, the Chinese government has started to pay attention to the issue of copyright protection for online music and has introduced various laws and regulations, including the "Copyright Law," the "Administrative Protection Measures for Internet Copyright," the "Regulations on the Protection of the Right to Network Dissemination of Information," and the "National Intellectual Property Strategy Outline," to protect the copyrights of digital music works.However, these laws and regulations cannot determine the rights holders, authorization mechanisms, and rights protection for digital music works, resulting in inadequate protection of online music copyrights[4]. In terms of income distribution, the proportion of copyright revenue sharing in China's digital music industry is low, which is a significant reason for the relatively low income of creators.

3.2 Copyright Competition

The increase in the protection of music copyrights has, to a certain extent, pulled up the value of copyrights, but it has also indirectly spawned vicious competition around music copyrights [5]. Currently, Tencent Music Entertainment Group, which owns three major mobile music platforms in China, holds copyrights to 17 million songs. Many well-known streaming music services, such as NetEase Cloud Music, TTpod, and Xiami Music, need to sign copyright-sharing agreements with Tencent Music. Driven by commercial interests, such copyright-sharing agreements contain many potential risks. For instance, NetEase Cloud Music has repeatedly taken down tracks from popular artists due to copyright competition and other issues, which is very detrimental to maintaining user engagement and expanding the platform's influence. As competition intensifies, the cost of music copyrights continues to rise, causing some small and medium-sized mobile music apps to become casualties due to their inability to bear these costs.[8]

3.3 Problems with the Quality of Content Creation

Creation is the starting point of the entire industry chain and the most crucial link; the quality of content determines the market's success or decline. With the advancement of network technology, the functions of mobile music applications have become increasingly diverse.[10] As a result, each mobile music app is actively exploring original music works.Leading music platforms in China are investing substantial resources to support independent musicians and invite well-known singers to join, aiming to launch high-quality original works. However, due to competitive pressures, the signing thresholds for these music platforms are not stringent, and there are lapses in content quality control. As a result, many original works on streaming music services have issues, such as negative themes and low artistic standards.The creation model of China's music industry is still predominantly centered around professional musicians, with very high entry barriers and a lack of public participation. This model prevents many imaginative and talented ordinary individuals from bringing their work to the public eye, which is detrimental to the improvement of the quality of digital music content creation.

3.4 User Willingness to Pay

For the digital music industry, the overall consumption level of users is not high[6][7], which is evident in two aspects. First, the per capita consumption level is relatively low. The "China Digital Music Industry Development Report" shows that per capita digital music consumption in China is only about 0.7% of that in Norway and Japan, and 0.91% of that in the United States, indicating that the consumption level needs to be improved.Second, the proportion of paying users is relatively low. In terms of total numbers, the number of paying users for streaming music in China is rapidly growing, but in terms of proportion, the overall user payment level remains low. For example, Tencent Music has a total user base of nearly 700 million, with 17 million paying users, which constitutes just 2.4% of the total. This gap is quite significant when compared to major mobile music apps in Europe and the United States.

3.5 Effective Means of Profitability

Although the profitability models for digital music are becoming increasingly diverse, there are still few reliable ways to achieve substantial revenue. According to relevant data, advertisements remain the primary source of income for mobile music apps. Approximately 50% of the revenue for most mobile music apps comes from commercial advertisements, and this proportion can be as high as 90% for some streaming music services.In contrast, advertising revenue accounts for only about 10% of Spotify's income and as low as 3.7% for Deezer.[9] The lack of effective monetization approaches leads directly to insufficient competitiveness in streaming music. For example, though Duomi Music, which focuses on offline live performances, experienced a surge in users for a while, its over-reliance on advertising revenue and low-profit margins caused it to lose out in the intense competition for copyrights.[11] For long-term development, exploring practical and effective diversified monetization models is a problem that streaming music must resolve.

4 Strategic Research on the Development of China's Digital Music Industry

4.1 Improvement of Copyright Protection Mechanism

The development of music copyright should adhere to the principles of continuous innovation and mutually beneficial cooperation, strengthening the ties between copyright holders and streaming music services to foster a win-win situation. Specifically, the value of music copyright can be linked to the performance of music works on mobile music platforms, meaning that in addition to paying basic copyright fees, if the performance of the music works is outstanding, the copyright fees can increase; conversely, if the performance is not as strong, the copyright fees can be relatively reduced.This approach differs from a one-time buyout of music copyrights; it not only fully reflects the value of high-quality music works but also prevents streaming music services from bearing excessively high copyright fees. An innovative method of settling music copyright fees can inspire the creative enthusiasm of musicians[3]and promote the further prosperity of the digital music market.

4.2 Creating a Healthy Competitive Environment

The strengthening of copyright protection has continuously highlighted the value of music copyrights, leading to increasingly intense competition, and even occurrences of vicious competition. Due to the dual effects of early-stage planning and capital operations, other platforms need to sign copyright-sharing agreements with leading platforms. As previously mentioned, these copyright-sharing agreements are not stable and may change with the shifts in corporate interests [4].The result is that copyright costs are increasing, and the party holding more copyright resources is almost invincible. To avoid malicious competition surrounding copyrights in the streaming music industry, government regulatory authorities must not be absent, and relevant policy regulations urgently need to be introduced, to create a favorable environment for the overall development of the digital music industry. Therefore, an absolute monopoly on copyrights does not necessarily lead to greater profits for any stakeholder, and in the future, there should be a greater focus on establishing a resource-sharing mechanism.

4.3 Improve the Quality of Music Works

Signing independent musicians and actively developing the original music market is a potential way for some music platforms burdened by high copyright costs to "overtake on the curve." From the perspective of transforming music production methods and thriving the digital music market, the original music works of mobile music platforms have a positive significance. However, the scrutiny of original music works needs to be strengthened to avoid negative and vulgar music works flooding mobile music platforms and impacting the healthy development of the digital music industry. The creation of works is of utmost importance, and the cultivation of original talent is an unshakable foundation. Support plans for original musicians are a core manifestation of the self-sustaining capability theory, primarily addressing the issue of content production scarcity. When searching for new original musicians, most companies adopt the strategy of "Cast a wide net and focus on catching fish," which can both discover new stars from the grassroots and improve the overall musical literacy of the public, while gaining insights into popular preferences.Support programs for original musicians provide comprehensive, innovative, and systematic assistance to independent musicians, guiding them to reach the market actively and helping them gain more exposure and revenue from their music. The platform incurs a relatively low marginal cost at the source but can cultivate high-quality content.

4.4 Cultivating User Payment Habits

Users' habits of paying for music are gradually forming, and it is necessary to cultivate their awareness of spending effectively. First, the recognition of the value of music products by users should be enhanced. The premise for users to pay is to realize the value of music works. However, long-term access to free music resources has hindered users' understanding of this value. Streaming music platforms need to abandon the outdated notion that "free is the value of the internet," and fully respect the value of music copyrights, thereby influencing and cultivating users' awareness of paying. To cultivate users' habits of spending, streaming music platforms must provide equivalent products that make users feel that their payments will yield corresponding returns.In an era where public spending on the cultural industry is continually increasing, the issue for users of digital music platforms is not a lack of spending power, but a lack of spending motivation. Rich content resources and a good content experience are the main drivers for users to pay. According to surveys, the most common types of payments by listeners are purchasing memberships, digital albums or singles, and music data bundles. In the future, with the diversified exploration of digital music payment products and services, there will be more possibilities for pricing.Adopting a diverse payment system based on the consumption preferences, spending power, and payment awareness of different consumer groups, and providing users with more precise content services to meet their actual needs, maximizes personalization and makes consumers feel their autonomy is respected, thereby stimulating user spending.

4.5 Cultivating Effective Profitability Methods

The existence of a sustainable profitability model is the fundamental prerequisite for the long-term survival of mobile music platforms. The past few years, which have been the golden development period for streaming music, have also been crucial for exploring diverse profitability models. Although profitability models are becoming increasingly varied, there are still few methods that can bring substantial revenue to mobile music platforms, with many of them having to rely on commercial advertising for profit.Cultivating effective profitability models requires starting from two aspects: First, combining unique characteristics to explore diverse profit-making methods. There are significant differences in resource endowment, fan base, and platform features between leading music platforms and small to medium-sized ones. Each mobile music platform should fully recognize its characteristics and advantages to specifically identify potential profitability methods.Second, explore and retain effective profitability methods. If a certain profitability model proves to be ineffective, music platforms need to cease investment promptly to avoid wasting resources. For instance, many mobile music apps have recently been actively building online stores, but the e-commerce model demands significant financial reserves and user base. Mobile music platforms should promptly recognize the current situation to avoid unnecessary resource waste.

5 Conclusion

With the widespread adoption of mobile internet, the digital music market has entered a period of prosperous development. To some extent, the digital music industry represents the future direction of the music sector and is an important component of the entertainment industry. China's digital music industry has vast development potential, and if guided appropriately, its prospects are very promising.In summary, the current digital music industry in China has many new development opportunities. For instance, music copyright protection is becoming more mature, digital music revenue models are diversifying, users are gradually developing the habit of paying for music, and the "Music +" model is continually expanding the new boundaries of digital music. However, it is also important to have a clear understanding of the many difficulties and challenges faced by the digital music industry. This article, based on practical circumstances, proposes strategies to promote the development of the digital music industry from five aspects: deeply exploring the value of copyrights, avoiding malicious competition in music copyrights, actively cultivating effective revenue models, fostering user payment habits, and improving the quality of original works.

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