

A Note on Classification of Streaming Services in ISIC and CPC

32nd Meeting of the Voorburg Group on Service Statistics
New Delhi, India
October 23-27, 2017

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A Note on Streaming Services

At the 31st Meeting of the Voorburg Group on Service Statistics, 19-23 September 2016 in Zagreb, Croatia, a classification question regarding streaming services in ISIC and the CPC was raised but not resolved.

Excerpts from the official meeting notes:

A question about the classification of streaming services came up during the discussion. Sweden excludes streaming services but will add them in the future. France includes the services.

The session ended with the streaming question unresolved.

After the meeting, a series of emails with the classification area at UNSD resulted in an answer but also some questions about the appropriateness of the current treatment.

Units that are providing the IT portion of streaming on a fee basis (do not control the content, only provide the infrastructure) are classified to CPC 83159, Other hosting and IT infrastructure provisioning services. That links to ISIC 6311, Data processing, hosting, and related services. This appears to be an appropriate classification for both the product and the industry.

Streamed audio content is in CPC 84322, Streamed audio content. This CPC subclass links to ISIC 5920, Sound recording and music publishing activities. Streamed content is not specifically identified in the ISIC definition or related inclusions, it is not clear that this is the most appropriate location on an industry basis for these audio streaming services. The units are not publishers; they pay publishers to use content just as broadcasters do. The units do not generate new or unique content, they provide on-demand access to audio content.

In the United States, audio streaming services (content) are classified to NAICS 519130, Internet Publishing and Broadcasting and Web Search Portals. A comparable category does not exist in ISIC but ISIC does include broadcasting on the Internet in 6010 and 6020. Specifically, ISIC Rev 4 includes video-on-demand in 6020, Television programming and broadcasting activities and radio broadcasting over the Internet in 6010, Radio broadcasting. The key question is should audio streaming services be considered re-publishing and remain in 5920 or should audio streaming services be treated as "audio-on-demand" and classified consistently with video-on-demand in broadcasting?

The general business model for a publisher is to develop or acquire content and then earn revenue by licensing the use of that content to others on a limited basis. Publishing presents works for use by others in return for payment of a royalty or licensing fee. Broadcasting on the other hand pays royalties to publishers to use the work. The revenue streams for broadcasters can be advertising, subscription, pay per use, etc. For broadcasters, royalties or licensing fees are an expense rather than a revenue category.

Recent developments in the United States indicate that streaming revenues have now overtaken revenues from CDs and downloads. In a Washington Post article on June 23, 2017, the business models and relative importance of revenue sources was presented in detail.

http://www.washingtonpost.com/sf/business/2017/06/24/meet-the-orwells-trying-to-make-it-big-in-a-music-industry-turned-upside-down/?utm_term=.434c28fc1169

The business model for steaming music involves the payment of royalties per stream back to the music publisher (record company) and is very similar to the model for radio broadcasting. The streaming service can be advertising supported, pay per use, subscription based, or some combination of the three. According to the Washington Post,

“Subscription and ad-supported streaming services such as Spotify, Pandora and Apple Music — which work like digital jukeboxes with unlimited repositories of songs — are the new industry gatekeepers. They contributed the majority of U.S. music sales for the first time last year, outpacing the money coming from CDs, vinyl and digital downloads.”

“Music fans can choose from a range of streaming services that allow people to listen to songs while not owning the music. The services were a response to the early-2000s explosion in digital music piracy. The services pay fractions of a penny each time a song is played, supported by ads or monthly subscriptions. Last year, that added up to just under \$4 billion of the \$7.7 billion in U.S. music revenue.”

The classification of streaming services in Publishing creates a situation where the revenue for one unit in an industry is an expense for another unit within the same industry. While this can be addressed through net output ratios or adjustments for output consumed within the industry, it can still cause problems or confusion in measurement. Businesses such as radio broadcasting that use the same model of paying royalties to air audio content are in a different industry. The infrastructure exists for Internet broadcasting already in broadcasting. If an internet radio broadcaster changed from advertising supported to a pay per use or subscription model, they would essentially become a publisher under the current ISIC treatment.

Question:

Does the Voorburg Group recommend a reconsideration of the classification of streaming services in ISIC Rev.4?

The existing structure for broadcasting arguably includes very similar activities if they are being done via hard wire or transmission over the air. As noted previously, television broadcasting includes on-demand viewing. Radio broadcasting includes broadcasting over the Internet in ISIC currently.

If there is agreement to classify audio streaming services in radio broadcasting, will a change to the ISIC/CPC concordance be sufficient – i.e., linking CPC 84322 to ISIC 6010 instead of ISIC 5920?

Does such a recommendation make sense when considering the classification, output measurement, and price measurement that are the focus of the Voorburg Group?

5920 Sound recording and music publishing activities

This class includes:

- production of original (sound) master recordings, such as tapes, CDs
- sound recording service activities in a studio or elsewhere, including the production of taped (i.e. non-live) radio programming, audio for film, television etc.
- music publishing, i.e. activities of:
 - acquiring and registering copyrights for musical compositions
 - promoting, authorizing and using these compositions in recordings, radio, television, motion pictures, live performances, print and other media
 - distributing sound recordings to wholesalers, retailers or directly to the public

Units engaged in these activities may own the copyright or act as administrator of the music copyrights on behalf of the copyright owners.

This class also includes:

- publishing of music and sheet books

This class excludes:

- reproduction from master copies of music or other sound recordings, see 1820
- wholesale of recorded audio tapes and disks, see 4649

6010 Radio broadcasting

This class includes:

- broadcasting audio signals through radio broadcasting studios and facilities for the transmission of aural programming to the public, to affiliates or to subscribers

This class also includes:

- activities of radio networks, i.e. assembling and transmitting aural programming to the affiliates or subscribers via over-the-air broadcasts, cable or satellite

—***radio broadcasting activities over the Internet (Internet radio stations)***

- data broadcasting integrated with radio broadcasting

This class excludes:

—production of taped radio programming, see 5920

6020 Television programming and broadcasting activities

This class includes:

—creation of a complete television channel programme, from purchased programme components (e.g. movies, documentaries etc.), self produced programme components (e.g. local news, live reports) or a combination thereof

This complete television programme can be either broadcast by the producing unit or produced for transmission by third party distributors, such as cable companies or satellite television providers.

The programming may be of a general or specialized nature (e.g. limited formats such as news, sports, education or youth oriented programming), may be made freely available to users or may be available only on a subscription basis.

This class also includes:

—***programming of video-on-demand channels***

—data broadcasting integrated with television broadcasting

This class excludes:

—production of television programme elements (e.g. movies, documentaries, commercials), see 5911

—assembly of a package of channels and distribution of that package via cable or satellite to viewers, see division 61

Source: ISIC Revision 4, Statistical Papers Series M, No.4/Rev.4, United Nations, 2008 (emphasis added)