IFPI DIGITAL MUSIC REPORT 2009: SUMMARY

INTRODUCTION FROM JOHN KENNEDY

- The industry is reinventing its business model in response to the dramatic transformation in the way music is consumed. Like others, the industry goes into 2009 under the uncertain cloud of a global downturn. However, it is no stranger to the need to reform, restructure and reinvent. Labels began this process many years ago and are better placed than many others to weather the downturn.
- There are positive stories about the state of today's music business, with new services offering consumers diverse ways to enjoy music. Labels continue to bring to market the vast majority of acts that music fans will ever enjoy.
- There is also a momentous debate going on about the future of the environment on which not just music, but all creative industries, depend in an era where the very principle of getting paid for creative work is under threat. Governments are now pushing forward ISP cooperation, aware that doing nothing is not an option. But real results are needed in 2009

SECTION ONE: SHAPING A NEW ERA IN DIGITAL MUSIC

- The music industry is reinventing itself to meet new forms of consumer demand in an environment that has been revolutionised by new technology.
- In 2008 the digital music business internationally grew by around 25% to US$3.7 billion. Digital platforms now account for around 20% of recorded music sales, up from 15% in 2007.
- The recorded music industry generates a greater proportion of its revenues through digital sales than the film, magazine and newspaper industries combined.
- Consumer demand for music is higher than ever. NPD research found that total music consumption in the US rose by one third between 2003 and 2007. Nielsen Soundscan reported overall sales at an all-time high in the US in 2008.
- Fans have the opportunity to consume music in a huge variety of new ways including DRM-free online stores and music access services. Music companies are moving from selling products to monetising consumer activity.
- Single track downloads, up 24% in 2008 to 1.4 billion units globally, continue to drive the online market, but digital albums are also growing steadily (up 36%). The top selling single of 2008 was Lil Wayne's *Lollipop*.

Key markets:

- The US is the world leader in digital music sales, accounting for some 50 per cent of the global digital music market value. Single track downloads crossed the one billion mark for the first time in 2008, totalling 1.1 billion, up 27 per cent on 2007. Digital album sales totalled 66 million, an increase of 32 per cent (Nielsen SoundScan).
- Japan, a predominantly mobile music market, continues to be one of the digital industry's greatest success stories, with digital sales helping the overall trade revenues grow in the first half of 2008. 140 million mobile singles were sold in 2008, an increase of 26 per cent on the prior year (RIAJ).

- The UK saw the biggest increase in digital sales in the first half of 2008 among the top markets, with sales up by 45 per cent. 110 million single tracks were downloaded in 2008, up 42 per cent on 2007. Digital album sales also rose sharply, by 65 per cent to 10.3 million now accounting for 7.7 per cent of the albums market (OCC/BPI).
- France is also seeing strong digital growth, with sales up 49 per cent in 2008. 14.5 million online single tracks were downloaded in 2008, up 20 per cent on 2007, while 1.4 million digital albums were sold, up 27 per cent (SNEP).
- Digital music sales in Germany are showing steady growth. PC and mobile full track download sales increased by 36 per cent year-on-year to almost €66 million in the first three quarters of 2008. Digital album sales increased by 55 per cent in value and single track downloads grew by 13 per cent (GfK, Jan-Sept 2008).

The shift to "music access":

- The music business is moving from a model based only on sales to one of "monetising" access to music. The introduction of "access" services is the single most important current development in the business. While the services differ in detail, they all operate on the same principle of offering consumers access to music, either bundled with other services or as an additional subscription.
- Nokia's *Comes With Music* bundles music into a premium paid for purchasing a handset as does Sony Ericsson's PlayNow plus. TDC in Denmark and DNA in Finland bundle access to music in with broadband and mobile subscriptions, BSkyB is set to offer a similar service in the UK. In France, Neuf Cegetel, Orange and SFR all bundle degrees of music access with mobile or broadband subscriptions.

More choice in music downloads:

- Record companies responded to interoperability problems between devices and services by increasingly offering DRM-free tracks.
- iTunes remains the dominant player in the a-la-carte market, crossing the six billion sales threshold in January 2009, when the service announced it was making eight million DRM-free tracks available. AmazonMP3 has seen healthy growth in the US which NPD research suggested has not happened at the expense of iTunes sales. It launched in the UK in December 2008.
- Music companies have licensed DRM-free tracks to several other online retailers in Europe including 7Digital, Tesco, Dada, HMV and Play.com. 7Digital reports that sales leapt when DRM was removed and that album sales in particular climbed.

Social networks and ad-supported services deliver:

- New revenue streams are being opened up by the licensing of services that are free-to-use, but which reward artists, composers and music companies through licensing fees or share of advertising revenues.
- MySpace Music partnered with all the majors to launch in the US in September 2008. It offers streaming from a huge catalogue of tracks and allows users to purchase tracks from AmazonMP3.
- YouTube is the market leader in the video streaming sector. It is licensed by three of the major international music companies. Half of the most popular videos ever streamed on YouTube are music videos.
- Advertising-funded services are an alternative to P2P networks. Research in the US found 45 million consumers were willing to listen to adverts to access free songs. We7 became the latest high-profile service to launch in November 2008.

New frontiers: games, brands and merchandising:

- New revenue streams are emerging as music companies look for additional ways to monetise their product. Generating value from the links between artists and brands is a key area of focus for music companies.
- Synchronisation rights are increasingly important, helping break new acts in some countries. Paul Potts became a mainstream artist in Germany following the use of his music in Deutsche Telecom adverts.
- Synch revenue from games has grown. Universal reports it has overtaken films and is now second only to advertising. Music games represent 15% of the US market.
- The music-games partnership has great potential, but raises concerns over the fair valuation of the music being licensed.
- Music companies increasingly sell merchandise as part of an integrated package for consumers. Sony Music sold AC/DC's most recent album with an exclusive t-shirt for US$20 through Walmart and achieved huge sales.

Public performance – getting fair value for music:

- Huge numbers of commercial third parties use music to attract and retain customers, drive productivity and improve employee morale. Artists and record producers need to receive a fair payment for the use of their music.
- A PWC report suggested music in public performance is being undervalued: the methodology for setting royalty rates often lacks robustness. There are several case studies showing how music is driving third party business, in restaurants, nightclubs and on the radio.
- Two of the world's major music markets, the US and Japan, do not grant rights for broadcast and China has no broadcast or public performance rights. These are high priorities for IFPI.

SECTION TWO: THE CORE MISSION: INVESTING IN MUSIC TALENT

- Music companies invest up to 20% of their revenues in discovering and nurturing new talent. The success of big acts underpins the virtuous cycle of investment, by which revenues are ploughed back into artist development.

Cutting through the digital noise:

- Technology has made it possible for artists to record their own work and distribute it online without the aid of record companies, but no new acts have developed a viable career this way.
- One of the problems for artists attempting this approach is the sheer volume of music that exists online – there are more than 2.5 million hip hop artists and 1.8 million rock acts on MySpace alone.

Adding creative value:

- Record companies help artists reach music fans in a world of multiplicity and complexity, securing deals with a wide range of partners.
- Music companies can add creative value to artists and act as quality control. They can put artists in contact with the best songwriters and producers in the business.
- There are creative teams at labels that can construct campaigns that an artist working alone and struggling for money could not.

Broadening services:

- Music companies are broadening the work they undertake for artists, often running direct to consumer channels such as websites or social networking pages.
- They are also signing a new generation of deals, increasing upfront payments and tour support in exchange for a share of the profits from more diverse revenue streams, including live ticket sales and merchandising.

SECTION THREE: MONETISING MUSIC IN AN ERA OF FREE – GOVERNMENTS AND ISPS HOLD THE KEY

- The music industry's challenge is to generate commercial value in an environment dominated by the availability of unlicensed, free music. IFPI estimates over 40 billion files were illegally file-shared in 2008, giving a piracy rate of around 95%

The cost of "free" music:

- Independent research shows music piracy costs the industry huge amounts of revenue. Jupiter Research estimates the figure at £180m in 2008 in the UK alone.
- Overall 16% of internet users in Europe regularly swap infringing music on file-sharing services according to Jupiter Research.
- Further independent research indicated that the availability of music for free was the overwhelming driver of online copyright infringement, with EMR finding that 71% of those file-sharing giving "free music" as their main reason for doing so.
- The number of new albums released in France fell by 8% in the first half of 2008, new artist releases tumbled by 30% and the French share of newly-released albums fell from 15 to 10% 2005-08.
- The graduated response approach may work without large numbers of disconnections. According to EMR, 72% of consumers would stop illegally file-sharing if told to do so by their ISP.

From concept to reality: governments take up ISP cooperation:

- The principle that Internet Service Providers should play a greater role in protecting content online is moving from concept to implementation.
- In France, the government backed a graduated response programme in the summer of 2008 and the National Assembly is set to vote on it in early 2009. The move owes much to the economist Olivier Bomsel, who argued that while respect of copyright took a secondary role to the necessity of rolling out broadband networks in the first phase of the creative internet economy, the time has come for ISPs to become fair distributors who respect the law.
- In July 2008 the UK government brokered a memorandum of understanding between six leading ISPs and the music and film sectors. It commits all parties to reducing piracy and in a trial period starting in October 2008 ISPs wrote warning letters to infringing customers.
- In December 2008, the US recording industry announced it was working with the Attorney General of New York State and leading ISPs on anti-piracy initiatives.
- In February 2009, New Zealand will become the first country in the world to implement a graduated response system, following a law passed in April 2008. The Australian government has made it clear that it is watching events in France and the UK closely, with a view to taking action. There has also been important progress in Japan, Hong Kong and Korea

- Judgments in courts have clarified the obligations of ISPs to assist with combating piracy on their networks. A court in Belgium upheld an earlier ruling that the ISP Scarlet should act to prohibit infringement on its network, a court in Denmark ordered an ISP to block access to The Pirate Bay and a court in Finland ordered an ISP to suspend a user's account for uploading infringing material.

SECTION FOUR: EDUCATION – THE BATTLE FOR HEARTS AND MINDS

- Public education on copyright issues is critical to the future survival and success of the music industry. The recording industry launched or was active in more than 70 programmes worldwide in 2008, including: television advertising, documentary production, letter-writing campaigns, school band tours, education packs for teachers, online advice and information to support parents.
- *Young People, Music and the Internet* is a simple guide, published in partnership with the children's online charity Childnet, advising parents on how to keep their children safe and legal while getting music online and or via a mobile.
- www.pro-music.org is a website backed by an international alliance of music sector groups that aims to raise awareness of legitimate sources of digital music. It offers the world's largest listing of legal online stores, monthly digital charts from around the world, education tools and information on how to succeed in the music business.

SECTION FIVE: CREATIVE VOICES SPEAK OUT

Music managers speak out:

- Arthur Spivak, the manager of acts from Tori Amos to We Are Scientists, Bertis Downs, manager of REM, David Holmes, manager of Coldplay and Paul McGuinness, manager of U2, all say that creative work should be treated with respect and that ISPs should play their part in protecting artists' rights.

A common challenge for the creative industries:

- Music was often seen as the "canary in the coalmine" in its transition to digital, but other creative industries – film, newspapers, books, television – are increasingly facing their digital future.
- Online infringement is becoming a big issue for the film industry. Ipsos research found three million people in the UK download films illegally, with the number of internet users finding the process "too much effort" falling from 30 to 11% 2006-07.
- Rick Cotton, the general counsel of NBC Universal, says technology can be used to address digital theft and help the internet ecosystem to evolve in ways that are beneficial for intellectual property, while at the same time delivering convenient, high quality content to consumers.
- Tracy Chevalier, author of *Girl with a Pearl Earring* and former chair of the UK Society of Authors, says that the publishing industry should take onboard what has happened to music and worries about future payment for authors should unlicensed copies of books be widely available online.

SECTION SIX: PRE-RELEASE PIRACY: INDUSTRY STEPS-UP ACTION

IFPI anti-piracy team shows huge increase in pre-release takedowns:

- IFPI’s dedicated internet anti-piracy team has an excellent track record in taking down unlicensed material online and investigating those who make it available, run the servers that store it and the indexers and trackers that alert users to it.
- Their success has helped contain the level of internet piracy, with the proportion of online users in Europe regularly illegally file-sharing remaining at around 18%, while broadband penetration has risen from five to 42%.
- The team increased the number of links to infringing music that it removed from 550,000 in 2007 to nearly three million in 2008. The team focuses on pre-release piracy that hits albums at the most damaging time of their release cycle.

Action on campus in the US:

- RIAA is focusing on illegal uploading by college students, with a large education and deterrence campaign. Many universities have implemented new technological solutions that have seen the level of infringement on their networks fall dramatically.