

DIGITAL MUSIC REPORT 2009

NEW BUSINESS MODELS FOR A CHANGING ENVIRONMENT.



Contents

- p3 ■ Introduction: Music has embraced the future with new business models**
 - Will governments secure a future for digital content?

- p4 ■ Section 1: Shaping a new era in digital music**
 - Digital music: key facts and figures

- p8 ■ Section 2: New business models for a changing environment**
 - The shift to ‘music access’
 - More choice in music downloads
 - Social networks and ad-supported services deliver
 - New frontiers: brands, games and merchandising
 - Public performance: getting fair value for music
 - Digital music goes global – three countries in focus

- p18 ■ Section 3: The core mission – investing in talent**
 - Cutting through the digital noise
 - Adding value to artists
 - Broadening services
 - Marketing an album in the digital world
 - A team sharing the same vision: The manager’s view

- p22 ■ Section 4: Monetising music in an era of free – the role of ISPs and governments**
 - A future for local music and film? France and Spain in focus
 - From concept to reality: governments start to move on ISP cooperation

- p26 ■ Section 5: Education – the campaign for hearts and minds**
 - Young People, Music and the Internet
 - Pro-music.org
 - National campaigns

- p28 ■ Section 6: Creative voices speak out**
 - When did intellectual property become free? – music managers speak out
 - Commerce in the era of “free” – a common challenge for creative industries

- p30 ■ Section 7: Pre-release piracy: industry steps-up action**

Music has embraced the future with new business models – will governments secure a future for digital content?

By John Kennedy, chairman and chief executive, IFPI.

The recorded music industry is reinventing itself and its business models. Our world in 2009 looks fundamentally different from how it looked five years ago. Record companies have changed their whole approach to doing business, reshaped their operations and responded to the dramatic transformation in the way music is distributed and consumed.

The music business, like others, goes into 2009 under the uncertain cloud of the global economic downturn. However, we are no stranger to the need to reform, restructure and reinvent. Record companies began this process many years ago. They are, I believe, as a result, better placed than many other sectors to manage through more difficult times.

There are some very positive stories in this report about innovation and change inside today's music business. First, record companies are building an economic future based not just on selling music but on "monetising" consumer access to it. Nokia's Comes With Music service, launched in October 2008, embodies that concept, with music free and unlimited, bundled into the cost of a mobile phone. So do the new link-ups between music companies and ISPs, from Sky in the UK to TDC in Denmark and other European ISPs. These are just tasters of the enormous potential for licensing and generating commercial value from music at every point where the consumer is likely to want it. Meanwhile, as this report goes to press Apple announced it had signed deals with leading record companies to offer eight million DRM-free tracks at flexible price points.

Increasingly our partners in these ventures, grappling with consumer demand problems of their own, are seeing the opportunity of adding music to the value of their offering. One impressive statistic in this report is the confirmation by Danish telecoms company TDC that its music service has produced a very significant and measurable impact in retaining its broadband and mobile phone customers. That is a powerful

testimony to the commercial value of music and it will strike a chord among ISPs and mobile operators elsewhere.

The second dominant theme of this report is the part that record companies – also referred to in this report as "music" companies to reflect their expanding role – continue to play in bringing to market the vast majority of acts that music fans enjoy. The idea that the digital world somehow diminishes the importance of music companies is simply a myth. On the contrary, in a world where a multitude of aspiring artists are competing for visibility among millions of consumers, the music company role can only become more important in the digital future. The investment, skills, services and creative advice that labels provide remain as core a function of the music business as ever.

"Governments are beginning to accept that, in the debate over 'free content' and engaging ISPs in protecting intellectual property rights, 'doing nothing' is not an option."

John Kennedy, Chairman and Chief Executive of IFPI

Finally, there is a momentous debate going on about the environment on which our business, and all the people working in it, depends. This is a debate about the future not just of music but of all creative industries in a digital era where the very principle of getting rewarded for creative work is at risk.

The vast growth of unlawful file-sharing quite simply threatens to put the whole music sector out of business. This report reflects the wide consensus, from major and independent record companies to managers and politicians, that a new approach is needed to protect copyright – one that involves sharing responsibility across the value chain.



The debate has a huge way to go, but the campaign for ISPs to act as proper partners in helping protect intellectual property is making progress. Governments are beginning to understand the scale of the challenge of trying to monetise content in an environment where around 95 per cent of all music is downloaded without payment to artists or producers. France is leading the drive towards ISP cooperation, understanding that it is the future of French creative industries that are at stake. The UK and a growing number of countries have progressed along a similar route in 2008 and momentum will build further in 2009.

This report tells the story of the music business as it is developing today. Music is the engine and heart of a large number of diverse businesses and demand for the product is growing year-by-year. Music companies are changing their business models and refining their skills in bringing artists to an ever more complex and sophisticated marketplace.

Governments are beginning to accept that, in the debate over "free content" and engaging ISPs in protecting intellectual property rights, doing nothing is not an option if there is to be a future for commercial digital content. The big question for 2009 – with the focus in particular on France and the UK – is what real action will result and how quick and how effective it will be in reversing the devaluation of recorded music and helping return the industry to growth.

Shaping a new era in digital music.

The music industry is reinventing itself

and its business models to meet new forms of consumer demand in an environment that has been revolutionised by new technology. In 2008 the digital music business internationally saw a sixth year of expansion, growing by an estimated 25 per cent to US\$3.7 billion in trade value.

Digital platforms now account for around 20 per cent of recorded music sales, up from 15 per cent in 2007. Recorded music is at the forefront of the online and mobile revolution, generating more revenue in percentage terms through digital platforms than the newspaper, magazine and film industries combined. Music consumption is becoming far more ubiquitous and revenue streams for music companies are expanding and diversifying.

Global digital revenues by industry (2008)	
	Digital share
Games	35%
Recorded music	20%
Newspapers	4%
Films	4%
Magazines	1%

Sources: PWC Global Entertainment and Media Report (2008), IFPI

A number of key themes underpin these changes. First is the unflagging consumer demand for music. In the US, research by NPD Group found that total music consumption (both licensed and unlicensed) increased by one third between 2003 and 2007. Nielsen SoundScan reports overall sales in the US hit an all time high in 2008, with music purchases across all formats totalling 1.5 billion, up 10.5 per cent.

“A big album worldwide will sell about seven million units but many more people will enjoy the album. This is about lighting up all these other consumers.”

Rob Wells, Senior Vice President, Digital, Universal Music Group International

“Music has never been more important to the consumer than today. Every year we are seeing increased use of music and what we are doing as music companies is finding new ways of playing into that interest,” says Thomas Hesse, president, global digital business, Sony Music Entertainment.

Another key change is the explosion of consumer choice as music companies work to offer music in as many ways as possible. These approaches range from à-la-carte download stores like iTunes and AmazonMP3 to subscription services, licensing of music in games and films, merchandising, brand partnerships, ad-supported streaming sites like YouTube and MySpace as well as collecting revenue generated by broadcast and public performance rights. In 2008 a plethora of new channels continued to emerge, reflecting a far more complex and sophisticated commercial landscape in which consumers are being given the opportunity to acquire music legally in many new ways.

New business models

A pre-eminent example of the shifting business model is the growth of commerce around “music access”, with music being bundled with other services or devices. Nokia’s Comes With Music phone and TDC’s PLAY are examples of music access services launched in 2008. Others, rolled out mainly in Europe, involve partnerships with ISPs and mobile operators. Record labels see music access models as a big opportunity. “A big album worldwide will sell about seven million units but during the course of a year many more people will listen to and enjoy the album,” says Rob Wells, senior vice president, digital, Universal Music Group International: “This is about lighting up all these other consumers.”

Partnerships with technology companies are integral to the changing business model. Music industry revenues in the next few years are likely to come increasingly from revenue-sharing deals with Internet Service Providers (ISPs), hardware manufacturers, handset makers and other technology companies. Technology companies look to music to add value to their services and enhance their own business model while music companies look to these partners for their enormous reach into consumers’ homes and lifestyles.

“With the advent of the access model, the music industry’s economic model is at last aligned with the mobile industry’s. Both will view the world through the same lens - average revenue per user, commonly known as ARPU.”

Edgar Bronfman, Chairman & Chief Executive Officer, Warner Music Group



“The campaign against illegal file-sharing is a fight against the perverse idea that music has no cost. That illusion of “music for free” is disastrous, particularly for independent record companies producing specialised repertoire.”

**Yves Riesel, President,
Abeille Musique France
(independent label)**

Michael Nash, executive vice president, digital strategy and business development, Warner Music Group, believes these partnerships will play an important role in returning the music industry to growth: “There is a multi-trillion dollar economy of digital connectivity, made up of digital networks, wireless, broadband and hardware. Music is extremely important to this economy and is also the driver of a wide range of larger industries. These industries are thinking about how to partner with the music industry in new ways. The health of the music industry is going to contribute significantly to the health of this trillion-dollar economy.”

Music downloads continue to grow healthily, with AmazonMP3 joining the European market broadening consumer choice. An important development in 2008 was the licensing of more online stores to sell downloads without digital rights management (DRM), meaning consumers can play the music they acquire on any portable device. In January 2009, Apple announced it had signed deals with leading record companies to offer eight million DRM-free tracks at flexible price points. The move is expected to significantly boost download sales.

Music companies are, meanwhile, commercially licensing many of the most popular channels of music discovery. One of the top brands in social networking, MySpace, extended from the world of music discovery into a commercial music service. Video-streaming sites like YouTube are hugely popular with consumers in search of music. Music companies are working on licensing arrangements to make these sites part of the legitimate music economy which respects content owners’ rights, recompenses creators for their work and incentivises the creation of new music.

Record labels are transforming themselves in this new environment, marrying traditional skills of artist development with new expertise in reaching consumers. Elio Leoni Sceti, chief executive of EMI Music, says this has fundamentally changed the role, though not the value, of the music company: “We don’t just sell records any more, we act wherever people experience music, from digital and physical formats to all the other ‘touchpoints’ of the

music experience; from being part of the discovery process, to music in games like *Rock Band* and *Guitar Hero* or recording and selling music at live events and so on. Our role is not to put physical discs on a shelf but to reach consumers wherever they are.”

This is also reflected in the new expertise music companies are bringing into their businesses. For example, Douglas Merrill, president, digital business at EMI Music, joined the company from Google in April 2008. He says that one of the big lessons from Google is to focus not on consumers’ destination sites but on the ways they discover music: “Social networks have been terrific for fans looking for bands they know, but far more challenging as a way of finding new bands. We have to help fans find music wherever they are and at the moment they want it. If we can do that we will find ways to monetise it.”

Nurturing and investing in talent

Along with all the dramatic changes of the digital music revolution, however, there is continuity as well. Music companies, large and small, believe their primary role in all these new business partnerships is to remain the main investors in new talent and developers of artists’ careers. The skills, expertise, investment capacity, creative understanding and, above all, the ability to connect the artists’ work with their audience will remain the music company’s role well into the future.

“The record company has two fundamental roles and both are from time to time undervalued and misunderstood - one as an investor, the other as a provider of skills and services,” says Martin Mills, chairman of Beggars Group, one of the UK’s largest independent record companies: “These roles are always going to be required.”

The role of ISPs and government

Music’s digital reinvention is happening in an environment where the vast majority – IFPI estimates around 95 per cent – of tracks are downloaded without payment to rights holders. Online piracy is swamping the legitimate music business, harming sales, innovation, artists’ careers and investment in repertoire. Government regulation holds the key to addressing this critical issue. In 2008, France led the way internationally with draft legislation requiring ISPs to be effective partners in addressing large-scale copyright theft on their networks.

Digital music: key facts and figures.

Music companies' digital revenues

internationally grew by an estimated 25 per cent in 2008 to US\$3.7 billion. Digital platforms now account for around 20 per cent of recorded music sales, up from 15 per cent in 2007. The continued growth in digital sales has helped slow down the rate of decline in the overall market for recorded music.

Single track downloads, up 24 per cent in 2008 to 1.4 billion units globally, continue to drive the online market, but digital albums are also growing healthily (up 37%). The top-selling digital single of 2008 was Lil Wayne's *Lollipop*.

A few major markets are spearheading the digital music revolution:

■ 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). Digital albums now account for 15 per cent of total album sales, compared to 10 per cent in 2007. Atlantic Records became the first sizeable label to report that the majority of its revenue is now coming through digital channels.

■ **Japan**, a predominantly mobile market, continues to be a notable success story, with digital sales helping overall trade revenues to growth 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). The country hosted the first launch of Nokia's Comes With Music service and Amazon MP3 also expanded its service to British consumers in 2008.

■ **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). In addition, 12 million tracks were downloaded in 2008. France is at the forefront of experiments with new "music access" models such as the revenue-sharing ventures with Neuf Cegetel, SFR and Orange. The country is leading the world in terms of government action intended to curb internet piracy.

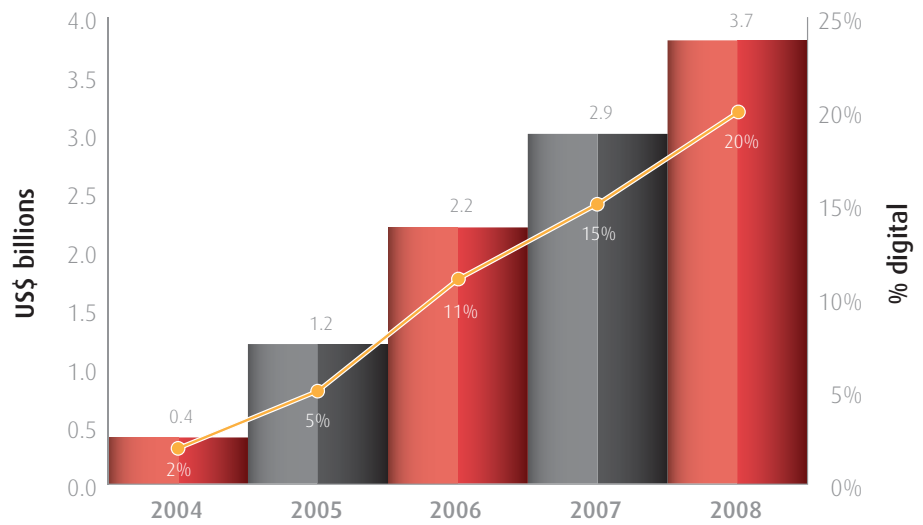
■ Digital music sales in **Germany** are showing steady growth. Online single track downloads totalled 37.4 million in 2008, a 22 per cent growth on 2007. Digital album sales increased by 57 per cent, totalling 4.4 million (Media Control GfK International).

Digital growth rates vary sharply between the US, Japan and the rest of the world. Digital accounted for 39 per cent of recorded music sales in the US in the first half of 2008 – more than four times higher than in Germany (9%). Meanwhile the proportion of US consumers' disposable income spent on digital music is more than five times higher than in Europe. Online, US broadband users spent an average of US\$12.5 on music compared to US\$7.8 in the UK and just US\$0.6 in Spain (2007).

Many factors account for these variations. They include the different levels of mobile and broadband adoption in the different markets and variations in the use and ownership of technology. The differing strength of the physical retail sectors are also a factor, as well as piracy levels, credit card penetration and payment methods available to consumers. There are also sharp contrasts in the marketing efforts by digital services in different countries. Consumer trust in online buying also differs from country to country.



Digital music revenues (2008).



Source: IFPI. Figures include online, mobile and subscription trade revenues. 2008 figures are estimates. Figures rounded and expressed on a fixed exchange rate.

Top five digital music markets (2008)	
Country	Digital share
US	39%
Japan	19%
UK	16%
France	12%
Germany	9%

Source: IFPI. Figures reflect digital shares for the period of Jan-Jun 2008.

Top 10 Digital Single Tracks 2008			
No.	Artist	Title	Sales (m units)
1	Lil Wayne	Lollipop	9.1
2	Thelma Aoyama	Sobaniirune	8.2
3	Flo Rida feat. T-Pain	Low	8.0
4	Leona Lewis	Bleeding Love	7.7
5	Timbaland	Apologize	6.2
6	Greeeen	Kiseki	6.2
7	Katy Perry	I Kissed A Girl	5.7
8	Alicia Keys	No One	5.6
9	Usher feat. Young Jeezy	Love In This Club	5.6
10	Chris Brown	With You	5.5

Source: IFPI. Chart includes online single tracks, audio and video mastertones, ringback tones and full track downloads to mobile. Period of 12 months to November 2008. Sales figures are rounded. Combines all versions of the same song.

Some top digital selling artists of 2008.



Lil Wayne



Alicia Keys



Katy Perry



Flo Rida

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 music 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 option.

Nokia launched its Comes With Music service in the UK in the run-up to Christmas 2008. It is expected to be rolled out to other key markets in 2009. When consumers buy a Nokia Comes With Music phone, they gain unlimited music access for a year and can download songs at no additional charge.

Users access the service by downloading a PC application which they can use to download from the Nokia Music Store and subsequently transfer music to their handset. At the end of the year consumers can keep all the tracks they have downloaded and continue to update their collection with à-la-carte purchases at the Nokia Music Store or upgrade to another Comes With Music handset.

It is believed that the new service can grow the whole music market, not merely replace

existing sales. In the UK, for example, research by TNS shows that total annual music spend averages £65, but there are huge variations above and below that average. Francis Keeling, commercial director, digital, Universal Music Group International, says this suggests the new model will complement others: "We want to convert people at the lower end of the spending spectrum through deals like Comes With Music, without cannibalising the top end of the market."

Key to Comes With Music is the offer of limitless music and the combination of subscription and ownership. "Our research shows that consumers will pay extra for a handset if they can see the benefit of gaining unlimited access to music," says Ulrich Jaerkel, senior vice president, digital and new business development EMEA, at Sony Music Entertainment, "Some shy back if there is no ownership, which is why the Comes With Music concept is so popular. It's about music discovery as well as keeping songs and that is popular across all demographics."

Sony Ericsson is also advancing the model of "music access". Its PlayNow™ plus service was first launched in Sweden with operator Telenor on a special edition of Sony Ericsson Walkman phone. The service is expected to launch in other markets in early 2009. PlayNow™ plus allows users to download, play and recommend music wherever they are and whenever they like, directly over the mobile network. It offers

"Ultimately, we will see all sorts of products come with music – home stereos, cars and potentially televisions. Music can become an important element that enhances the value of consumer electronics devices, providing consumers with a very complete and satisfying experience."

**Thomas Hesse, President,
Global Digital Business,
Sony Music Entertainment**

high-quality audio and access to a huge music catalogue, providing 1,000 pre-loaded popular tracks on the handset and a PC player. At the end of their six to 18 month contract, users can keep up to 300 of their most played tracks on any device.

Lennard Hoornik, corporate vice president and head of marketing at Sony Ericsson, says: "All mobile consumers want to have content on their phone, but many find the experience difficult, slow and time consuming. With PlayNow™ plus, there will be no more barriers, we're giving consumers the freedom to instantly discover, download, play and recommend all the music they want - anytime, anywhere."

PlayNow™ plus is powered by Omnifone, which provides music services for use internationally by device vendors, mobile network operators and broadband providers such as Vodafone, Telenor, 3 Hong Kong and Vodacom. Omnifone chief executive Rob Lewis says: "We believe there is an increasing emphasis on services that are delivered in cooperation with device makers and we are in talks with a wide range of vendors from in-car audio providers to personal computer and set-top box manufacturers that will be delivering unlimited music services globally."

"We believe that Comes With Music will transform the way people enjoy music. With unlimited music access for a year, fans can enjoy their favourite artists or delve into new genres without having to worry about individual track or album purchases."

**Tero Ojanpera, Head of
Entertainment, Nokia**





Some Internet Service Providers (ISPs) have also begun to operate music services, bundling access to libraries of repertoire for their customers as part of their broadband and telephony packages.

Denmark's **TDC** launched a bundled music subscription service in April 2008. PLAY provides unlimited access to 2.2 million tracks for the company's mobile and broadband customers that sign up to the service, without additional charge while their subscription is ongoing. Uptake for the service has been very positive, with a reported 7.2 million downloads per month and 54 million by November 2008. Average monthly users of the service now top 92,000 and the service has captured a significant share of the Danish digital market.

TDC is seeing benefits from PLAY which will have caught the attention of ISPs around the world. In a very significant indication of how the music service is helping TDC retain its customers, senior executive vice president and chief strategy officer Eva Berneke observes that the "churn" – the rate at which subscribers drop the service in favour of a competitor – has fallen very substantially since the launch of TDC PLAY. The churn in mobile customers had dropped by 30 to 40 per cent and in broadband customers by some 60 per cent.

In October 2008, TDC PLAY 10 was launched, allowing TDC PLAY users that are broadband subscribers to download and keep 10 tracks per month for a DKK 50 monthly fee (approximately US\$9) – some 37 per cent below the average price per track in Denmark. Most of the tracks are in MP3 format. TDC also offers an à-la-carte service, TDC Play Music.

"The mobile and broadband markets in Denmark are highly mature, hence focus is more on customer retention than customer acquisition. TDC PLAY is vital for us in our aim to keep our customers and stabilise our turnover."

Eva Berneke, Senior Executive Vice President & Chief Strategy Officer, TDC

In another landmark deal, media giant **BSkyB** has partnered with Universal Music to offer a music service in the UK and Ireland. The service, expected to go live in 2009, will provide users with unlimited on-demand music listening and the opportunity to download tracks for playback at any time for a monthly fee. Songs will be playable on any device, including iPods and mobile phones. A range of subscription options is expected to be announced, offering different download packages tailored to consumers' needs. At the time of publication, Sky is in talks with other labels about licensing their catalogues.

Universal sees the Sky venture as opening up a key new market. Beth Appleton, head of digital of Universal Music Group UK, says: "Sky's new music offering reflects the evolution we will see in the UK in 2009 as we move from a digital landscape dominated by solely owning music to hybrid models where customers will access and own music as part of an existing and familiar service with millions of potential consumers."

Eric Daugan, senior vice president, digital business, at Warner Music EMEA, compares variable pricing models to the way the consumption of films is priced in the home. He explains: "A movie is free if a consumer watches it when it is scheduled on TV, they pay a little more for a 'video on demand' service and a premium if they buy it on DVD to watch when they want for as many times as they want. It's a classic trade-off between payment and control."

Neuf Cegetel, the French ISP, has been running a "music access" service since 2007, offering unlimited downloads from 150,000 tracks from Universal Music. Consumers are offered two options: Neuf Music Initial, which is available for no extra cost and offers unlimited downloads from one of nine music genres, or Neuf Music Optimal which costs an additional €4.99 and offers unlimited downloads of all Universal Music tracks. Its operators say the service has been a great success at attracting new broadband subscribers.

France has other models vying for consumer interest. Musique Max from **Orange** is an unlimited download service. Orange internet and mobile customers can subscribe to it for an additional €12 per month. The service offers more than one million songs from major and independent labels, which are also available for permanent purchase and can be transferred to five other digital music players or compatible mobile phones. Thierry Chassagne, president of Warner Music France, explains: "Beyond charging for individual downloads, Orange's offer represents a turning point in the development of new modes of consumption in France. It is an innovative alternative, which meets music fans' needs for more flexibility, mobility and a richer music offering, while respecting artists' rights."

France's second largest mobile operator, **SFR**, launched a similar offering in November 2008. As part of a three-tiered service, ranging from €22.90 to €56.90 per month, SFR customers can download music on an unlimited basis. Files are DRM-free when downloaded to a PC and, so far, limited to Universal Music's catalogue.

Other European ISPs are now offering similar music services. Finnish ISP **DNA** launched a bundled music service in December 2008 and Swedish telecom company **TeliaSonera** introduced Telia Musik in six countries.

More choice in music downloads.

Music downloading continues to grow

strongly internationally, with track sales up 24 per cent to 1.4 billion in 2008. Consumer choice has widened with increasing sales of downloads without digital rights management (DRM), allowing consumers to freely transfer legally acquired songs onto any device. Interoperability between platforms and devices was previously prevented by technology companies' proprietary DRM systems.

iTunes continues to be the leading player in the online à-la-carte download market. It announced in January 2009 that it had sold six billion downloads since launch and it now has a presence in 22 countries worldwide. In February 2008, it became the largest music retailer in the US, according to NPD's MusicWatch survey. The online store carries more than eight million DRM-free licensed music tracks, as well as 20,000 TV episodes and more than 2,000 films. In January 2009 the store announced it was introducing flexible pricing for its eight million DRM-free tracks at 69 cents, 99 cents and US\$1.29. Users of the third generation iPhone are able to download tracks, including ringtones, over the air.

iTunes works closely with labels to market albums and premium content. The 'complete my album' function allows fans to redeem the price of the songs they have already downloaded from an album from the price of the complete album if they go on to purchase it. US soul singer John Legend, signed to Columbia, became the first artist to launch a global 'complete my album' marketing campaign with iTunes.

It is clear fans place a high value on the deeper connection with artists that exclusive or additional premium content can provide.



Warner Music released four singles and two EPs by Jason Mraz using a "windowing strategy" to build anticipation for the release of his album *We Sing. We Dance. We Steal Things*. All this extra content was included in the premium album bundle, which outsold the standard version by three to one and became the top 'complete my album' offering on iTunes in the US. Further evidence was provided by Madonna's *Hard Candy* album, which was made available for pre-release order on iTunes in the US in April, when the premium US\$13.99 version outsold the standard US\$11.99 version eight to one.

Amazon, one of the biggest brand names in online retail, launched its AmazonMP3 DRM-free download service in the US back in 2007. AmazonMP3 offers more than six million DRM-free MP3 tracks from all the major labels and thousands of independents. Research from NPD Group, published in April 2008, suggested Amazon's growth in the US has not come at the expense of iTunes sales, with just 10 per cent of the store's customers having previously bought music through iTunes. Amazon has a stronger bias to male users (64%) than iTunes (44%) and is weaker among the teen audience (3%) than iTunes (18%) in part due to iTunes gift voucher payment system. The service launched in the UK in December 2008, offering consumers selected digital albums from £3 and singles from 59 pence.

Online stores are having a particular impact on music consumption in the US. Beggars Banquet, a leading independent label, reports that it regularly has new releases that sell more than 50 per cent of their copies through digital platforms in the US during the first week of release. The album *Ear Park*, by American indie rock band Department of Eagles, sold 66 per cent of its copies through digital channels in the first week, a record high for the label.

Other download services in Europe such as **7digital**, **Tesco**, **HMV** and **Play.com** have launched non-DRM offerings. 7digital reports that sales of tracks produced by major labels have tripled since they were made available in a DRM-free format. Some services, such as Italian-based **Dada**, offer a blend of subscription services and DRM-free tracks to download.

Download services are spreading geographically. In Latin America, established music retail store **Mixup** will enter the download market in Mexico in 2009, offering DRM-free downloads for the first time in the region.

There have also been stepped-up efforts to improve consumer awareness of legitimate DRM-free sites. In November 2008, seven UK digital music retailers launched a new 'MP3 compatible' logo, in partnership with ERA (Entertainment Retailers Association) Digital, designed to help consumers identify legal DRM-free download services.



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 a share of advertising revenues. One of the highest profile moves to monetise social networking to date is News Corporation's MySpace, which partnered with all the major labels in a joint venture to launch **MySpace Music** in the US in September 2008. The service is expected to roll out internationally in 2009.

MySpace Music offers its users the opportunity to listen to unlimited audio and music video streams from a catalogue of hundreds of thousands of tracks. Users can create their own playlists and post up to ten songs on their profile page for others to listen to. An important feature of the service is a 'buy button' that directs users to AmazonMP3 for DRM-free downloads and Jamster for ringtones.

"Twenty to thirty per cent of MySpace US monthly traffic in 2007 was made up of music destination unique visitors."

Michael Nash, Executive Vice President, Digital Strategy & Business Development, Warner Music Group

This move into open music sampling represents a significant expansion of MySpace from a simple social networking site to "a place for music" using its core community features as its foundation. In the first few days of operation the service generated more than one billion streams and in the first month more than 80 million playlists were created.

Video streaming has dramatically increased in popularity, with 83 per cent of active internet users worldwide watching a video clip online in 2008 compared to 31 per cent in 2006 (Universal McCann). **YouTube** is the overwhelming global market leader in the video streaming sector. While user-generated content is still crucial to the site's appeal, it now carries licensed music, movies and television programmes. Half the most popular streams ever viewed on YouTube are licensed music videos from artists such as Alicia Keys, Avril Lavigne, Chris Brown, Leona Lewis and Rihanna. No other content category delivers as much permanent value as music. A vast catalogue of music videos is watched repeatedly by consumers and keeps them coming back.



Rihanna

YouTube has equivalents from many countries with similar video streaming platforms including MyVideo and Daily Motion.

Advertising-supported services are a potential way to wean habitual non-payers on to legitimate music services. Research in the US suggests that at least 45 million US consumers are willing to view adverts as the price of listening to music (NPD Group). Younger consumers are the most likely to want to use such services. Existing ad-supported services include Last.fm and We7 in the UK, QTrax internationally, Imeem in the US, Deezer and Spotify in Europe.

We7, supported by Peter Gabriel, launched in November 2008 and offers a combination of advertising-supported downloads and music streaming. It has a catalogue of around four million tracks. **Deezer** is a French-based service with membership of more than three million users and a catalogue of 3.7 million tracks. **Spotify**, launched in October 2008, offers users free-to-consumer streamed music supported by advertising.

"We have to help fans find music wherever they are at the moment they want it. If we can do that we will find ways to monetise it."

Douglas Merrill, President, Digital Business, EMI Music



Leona Lewis

New frontiers: games, brands and merchandising.

As the music business evolves away from a single format environment to one of multiple channels for monetising music new opportunities and revenue streams are emerging. Synchronisation (the use of music in films, adverts and games), brand partnerships, merchandising and performance rights income are key areas of music licensing.

Generating value from the links between artists and brands is a key area of focus for music companies. In 2008 Sony Music Entertainment teamed up with communications agency Exposure to launch a pan-European creative agency called SBX that will develop marketing partnerships between music artists and brands. "Our job is to match the right artist with the right brand for the right campaign," says Richard Story, chief operating officer of Sony Music Continental Europe.

Companies have introduced specialised synchronisation departments as the sector becomes more sophisticated and its revenues grow. In some markets synchronisation helps break new acts. In Germany, Deutsche Telecom ran online adverts taking footage from the TV talent show *Britain's Got Talent* which featured the artist Paul Potts. They used it as an inspirational story and it connected with fans. Paul Potts went on to sell more than 800,000 albums in Germany in the following six months. Paolo Nutini, signed to Warner Music, featured in PUMA's global 'Sportlifestyle' campaign performing his track *New Shoes*. Additional and exclusive content was used to extend the campaign into the online space.

"Games are an increasingly popular way for new acts to reach new audiences. As the games get more sophisticated, the opportunities for in-game advertising, product placement and personalisation of the experience will increase. The possibilities are endless."

Greg Turner, Creative Licensing Manager, Film & Computer Games, Universal Music UK

Music boosts the games sector

As the games sector rapidly changes with new technology, it is becoming an increasingly significant source of demand for music. The games industry globally was worth an estimated US\$48.3 billion in 2008 and is projected to grow to US\$68.3 billion by 2012 (PWC, Global Entertainment and Media Outlook).

The use of music is driving a significant proportion of that revenue. A report by NPD Group noted that music games were responsible for 15 per cent of all games sales in the first half of 2008 and 32 per cent of the industry's year-on-year growth in the US. The original *Guitar Hero* and its sequels have sold more than 23 million copies across all platforms in less than three years (Reuters), grossing more than US\$1 billion in North America alone (PWC).



Universal Music UK reports that synchronisation revenue from games has now overtaken that from films and is second only to advertising. Greg Turner, creative licensing manager for film and computer games at Universal Music UK, says: "Many younger bands who have grown up in the games culture ask their label if their music can be played on games. They play interactive games themselves and a game console is an essential part of the tour bus." Titles such as *Rock Band* and *Guitar Hero* also offer music downloads through the game console – and gamers have proven to have a healthy appetite for premium music downloads. Microsoft reported sales of 3.8 million songs a month through Xbox Live, which includes downloads from both games.

Music games were responsible for 15 per cent of all games sales in the first half of 2008 and 32 per cent of the industry's year-on-year growth (NPD Group).

Many artists have been receptive to releasing music through video games. In 2008 Metallica released their latest album *Death Magnetic* as a game premium download on the same day as the general release of the album. Mötley Crüe released the single *Saints of Los Angeles* through *Rock Band* as a download on the same day as its commercial release. The single generated 50,000 sales through the game, compared to 14,000 downloads from iTunes during its first week of release. It was announced in late 2008 that The Beatles will be making their catalogue available digitally for the first time through a video game in partnership with EMI Music and Harmonix.

The music-games partnership has great potential, but raises concerns over the fair valuation of the music being licensed. Francis Keeling commercial director, digital, Universal Music Group International says music is helping drive the games market: "People consume music in different ways. Music fans love interactive experiences like *Guitar Hero* and *Singstar* and as people are more likely to stay at home in an economic downturn, the popularity of such platforms could grow. But there needs to be a fair partnership that recognises that it is music that makes people want to play these games in the first place."

Merchandising – towards an integrated approach

Music companies are increasingly selling bundles of products; combining digital downloads with merchandising or live tickets to create what is in effect an "unpiratable" product. Labels have become more involved in selling artist merchandise, either by acquiring specialist firms or by partnering with existing suppliers. Traditionally, merchandising product was placed separately in retail display areas with no link to recorded music

release dates. By including the merchandising in the core digital and physical marketing campaign of a new album and enabling music companies to work more closely with specialist retailers, artists can more effectively reach and broaden their audiences. Warner Music, for example, sold a branded t-shirt for Esser, an up and coming act, which had a code sewn into it that enabled fans to download a track at no extra charge.

Sony Music Entertainment teamed with retailers and AC/DC's merchandising partners to offer the band's new album *Black Ice* alongside other related products. Wal-Mart, the exclusive distributor for *Black Ice* in the US, positioned the band's album within an AC/DC Rock Again Store, a mini-department that also featured DVDs, merchandise and the video game *AC/DC Live: Rock Band Track Pack*. In addition, fans were able to go to either the band's website or walmart.com/acdc to preview tracks from the album, watch videos and pre-order the CD. *Black Ice* became Wal-Mart's fastest selling album of the year. The campaign was aimed at reaching not only the band's core fan base, but also connecting them with a new, younger audience.

Outside the US, *Black Ice*-branded merchandise was similarly presented alongside the CD in many stores and online. In the UK, consumer insight was used to inform the marketing campaign messages and tools. Sony Music looked at the lifestyle of AC/DC fans and what the band mean to them to shape their TV advertising. The UK campaign also saw the world's first ever music video created as an Excel spreadsheet. Released virally, it received 1.1 million views on YouTube and 650,000 direct downloads, penetrated company firewalls to reach AC/DC fans at work and was critically acclaimed by the blogosphere receiving multiple awards.

In the summer of 2008, Universal Music acquired the global merchandising company Bravado, which develops and markets licensed merchandise that is sold on live tours and through selected retail outlets and web-based stores. The company also licenses rights to an extensive network of third-party licensees around the world. Bravado artists include Kanye West, Gwen Stefani, Metallica, Guns N' Roses and Led Zeppelin.

"We did extensive research into AC/DC's customer base – not just their relationship with the band, but their jobs, their lifestyles, where they shop, what they read. We discovered that for the typical fan AC/DC's music provides escapism from their daily grind. As a result, we came up with the 'release the rock n' roll within' campaign and produced our own TV advert focused around a day in the life of an AC/DC fan."

**Mike Smith, Managing Director,
Columbia Records**



AC/DC retail campaign in US



Kanye West Picture credit: Willy Vanderperre

Public performance: getting fair value for music.

A huge economy of third-party businesses use music to attract and retain customers, drive productivity and improve employee morale. One such sector is restaurants and hotels, valued at US\$2.3 trillion internationally (Datamonitor). Another is radio, a US\$32.5 billion global business (PWC) underpinned by recorded music. Public performance and broadcast income are important areas of revenue growth for the music industry, but artists and producers face hurdles in getting fair payment for the use of their music.

In August 2008, PriceWaterhouseCoopers published a study on this issue finding that historical methods for setting royalties for performance licenses were “inconsistent and lacked robustness”, resulting in the widespread undervaluing of music (see box).

Other independent research confirms the considerable value of music to commercial third parties. In the UK, Entertainment Media Research found there is a direct link between effective music policy, revenues and customer loyalty. As many as 79 per cent of consumers said that music encourages them to stay longer in stores and spend more. According to a report in the *Financial Times* in August 2008, “Retailers have long known that the right song on the overhead speakers can keep shoppers in a store. Such is the power of music over consumer behaviour, claim the advertising executives, academics, music consultants and market researchers who are all part of a cottage industry springing up around retailers using music to attract and keep clientele.”

Extraordinarily, it is in the US, the world's largest music market, that has traditionally championed intellectual property rights, that performers and producers have no rights to be paid when their music is broadcast over the radio. Other countries without broadcast rights are Rwanda, China, Iran and North Korea. Japan has no public performance right. Redressing these anomalies is a major priority for the music sector.

The corporate radio industry in the US generates US\$17.6 billion in advertising revenue every year (PWC), yet terrestrial broadcasters in America pay nothing to artists and producers for the music they play to attract the listeners that advertisers pay to reach. Artists, producers and others have come together to form the musicFIRST (Fairness In Radio Starting Today) coalition, which is pressing the US Congress to reform the law. Recently, legislation to end broadcast radio's unique exemption from paying creators for use of their works was marked up in the U.S. House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property, and the legislation will once again be introduced early on in the 111th Congress this year.

New forms of digital and satellite radio are seeing spectacular growth in the US. Satellite radio is the fastest growing subscription service in the US, building up a subscriber base of 20 million users in just seven years.

John Simson, managing director of SoundExchange, the performance rights music licensing company in the US, says: “Radio is going through transitional times. The radio experience will change even further as radio becomes more interactive. Artists and record producers will have to constantly revisit the terms on which such radio stations are licensed. It could be that radio totally transitions to a personalised online environment.”

“There is just no logical explanation why musicians can earn radio royalties in virtually every market of the world and yet not in the country with the world's largest commercial radio sector.”

**John Smith, President,
International Federation
of Musicians (FIM)**

How music is driving big business.

PriceWaterhouseCoopers' report (2008) outlines key examples of how music is driving businesses in sectors ranging from radio to nightclubs:

■ **Canadian commercial radio's** use of music showed that it accounted for 76 per cent of air time between six in the morning and midnight, excluding commercials. A conservative estimate of the contribution of music to advertising revenue, compared to news and other elements, was 62 per cent.

■ **Research in Australia** found music was being substantially undervalued in nightclubs. It looked at the end consumers' willingness to pay for music and found that the average nightclub patron valued its worth at A\$6.97 as part of their evening's experience. The Australian Copyright Tribunal determined the fair price of using protected sound recordings at nightclubs should be set at A\$1.05 per person, an increase of 1,400 per cent on what was previously being paid.

"A whole range of businesses, from restaurants to broadcasters, are playing recorded music to attract customers, improve productivity and drive commercial growth."

Jeremy Thorpe,
PWC Partner

US\$17 billion
US radio annual
advertising revenue

US\$0
Royalty payments
by US radio to artists

Digital music goes global – three countries in focus.



Japan

Japan leads the world in mobile music

Japan, the world's second largest digital music market, saw a 26 per cent increase in mobile

single sales in 2008. Music fans are offered a range of digital music products – mainly through mobile platforms, which account for 90 per cent of digital music sales.

Nonetheless, mobile-based piracy remains a big problem and labels, carriers and content distributors are working closely together to deal with the problem.

Japan's success can partly be attributed to the industry partnership Label Mobile, now Recochoku, a joint venture between 12 record labels that runs all of its stakeholders' mobile commerce activities.



Thelma Aoyama

Takashi Kimoto, managing director of sales, marketing and digital at Universal Music Japan, says his label uses master ringtones to maximize sales of physical product: "We tend to release "chaku-uta" (mastertones) one or two months before the physical release for test-marketing and use the market's response to judge the song's hit potential in physical form."

This strategy paid off with *Sobaniirune* (*I'll Be With You*), the second single by Universal Music Japan female vocalist Thelma Aoyama, which also featured the rapper SoulJa. In 2007, *Sobaniirune*, which debuted as a master ringtone but saw sales take off as a full track download and CD single, became the first single to sell two million full-track downloads in Japan.

Full-length song downloads to mobile are currently powering the Japanese market's growth and now account for nearly 60 per cent of mobile revenues.

Local labels are now looking to ringback tones as a promising new revenue stream. As with master ringtones, ringback tones are usually released before the CD version goes on sale.

New digital products also include the "chaku-uta long", edited songs of ninety seconds to two minutes, and "uta gift", which are mastertones that can be sent to other consumers as a greeting. The "Kisekae Tool" or dynamic mobile theme is currently supported by three major wireless carriers in Japan and compatible with more than 40 million handsets in the market. In July 2008, Warner Music launched a range of Kisekae Tools for local artists, including Rip Slyme, for whom the product has been their most successful mobile bundle yet.

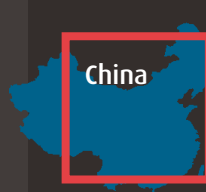
Japan has also seen important moves to improve consumer awareness

of legitimate music. Digital music sites offering licensed tracks now bear an "L MARK" on their web pages. The system, initiated by RIAJ in February 2008, already covers most of local digital music services, being adopted by 158 content providers and 953 licensed music sites by the end of 2008. "The increasing variety of digital music products gives consumers more choice," says Yoichiro Hata, director and general manager of the Recording Industry Association of Japan's (RIAJ) information and technology division.

Warner Music's Asia President Lachie Rutherford says: "It's about working with our business partners and coming up with consumer-friendly options. We are starting with the consumer and working backwards which is proving a successful approach."



L MARK logo for licensed Japanese music sites.



China

China promises but Baidu stifles the market

China is a potentially huge music market that is being throttled by online music piracy. The biggest infringers

are the country's largest internet companies – Baidu, Sohu-Sogu and Yahoo China – which provide specialised "deep link" services giving users direct access to millions of copyright-infringing music files. Baidu is the biggest single violator of music copyrights and by far the greatest obstacle to legitimate digital commerce in China. IFPI estimates that it accounts for over half of the illegal music track downloads in the country and attracts three quarters of the traffic to infringing "deep link" sites. Baidu's download service is thought to be highly profitable. Based on its advertising rate card, the service is estimated to bring in annual advertising earnings of at least RMB330 million (US\$50 million).

"Baidu has become the largest and most incorrigible distributor of pirated music in China."

Qu Jing Ming, Director General of the Music Copyright Society of China

Music companies represented by IFPI launched legal action against Baidu in February 2008, claiming damages for copyright infringement. A judgment is expected in 2009. Meanwhile, an investigation into Baidu's MP3 Search service, published in September 2008 by *The Register* found that it frequently located music in a network of sites with closely-related domain names, did not link to China's two leading legal music download sites and linked to significantly fewer blogs and forums than a regular search engine. "The cumulative effect is to keep the 'free music flowing' for Baidu's users — with devastating consequences not just for creators, but for rival internet businesses," concluded *The Register*. There has also been unprecedented criticism from local producers, led by the Music Copyright Society of China.

Some legitimate digital music sites in China are emerging however including 9sky and top100.cn.



Brazil

Brazil – mobile today, online tomorrow

Brazil exemplifies how innovative business models can generate significant consumer demand. The Brazilian digital music

market, the largest in Latin America, nearly doubled in value in 2008 and now accounts for more than 10 per cent of recorded music sales in the country, with nearly 80 per cent of revenue coming from mobile channels.

Brazilians spend more time on the internet than any other nation and social networks such as YouTube, MySpace and Orkut have already attracted big audiences. Yet the online market in Brazil is in its infancy. In the mobile sector, operators have launched 3G networks offering fast download speeds, but there is still enormous untapped potential for growth.

Brazil's mobile music business has grown rapidly, with the number of mobile users up 60 per cent in the past three years. Leading operators such as Vivo, Tim and Claro have around 30 million subscribers each and are increasingly looking to differentiate their services. Handsets pre-loaded with music are a growing business, with operators using them to aggressively promote their products and services.

Music companies have been active in the pre-loaded mobile business. In a partnership between Warner Music International and Sony Ericsson, Madonna's album *Hard Candy* was pre-loaded on Sony Ericsson phones. Two packages were made available with the phone - one with five tracks from the album and another with the full album. Both featured extra content such as wallpapers and ringtones and were launched in the run-up to Madonna's tour of Latin America – one of the fastest selling tours of all time in the region. "The campaign drove substantial re-orders following strong consumer demand," says Alfonso Pérez-Soto, head of business development and strategic partnerships, Warner Music Latin America.



Universal Music has carried out similar campaigns with artists such as Sandy & Junior and Ivete Sangalo. Universal partnered with Motorola to offer a pre-loaded song from local rock band NX Zero on Motorola's phones prior to the release of the band's album. "It's a good example of a developing act working with digital," says John Echevarria, chief operating officer, Universal Latin America: "The coordination of traditional radio and digital pre-release promotion led to the sale of a million handsets containing tracks from NX Zero."

Sony Music Entertainment and Sony-Ericsson, reached a similar deal with music by established local act Jota Quest. In the first wave of the campaign at the end of 2007, some 800,000 Sony Ericsson Walkman handsets were sold with the album *Ate Onde Vai* plus video tracks, behind-the-scenes footage and wallpapers. Many more were sold with the band's new album *La Plata*. The package included behind-the-scenes footage and an exclusive song for download. In total, more than one million handsets were sold pre-loaded with Jota Quest's music. Sony Music is expanding its mobile deals with artists. International deals include partnerships with Justin Timberlake and P!nk.

The core mission: investing in talent.

The digital revolution has transformed the way the music industry engages with consumers and distributes its product – but providing investment and, developing and marketing talent remain a core function of the record industry.

“Fast food corporations, coffee shop chains and radio stations are among those who have tried to break acts by creating their own labels. They have all failed and shut their labels down. No successful new artists have come through that route.”

Ged Doherty, Chairman and Chief Executive, Sony Music UK

Music companies are overwhelmingly the largest investors in artists’ careers, ploughing back around 20 per cent of their revenues into the development of talent. Labels bring financial backing and a wealth of expertise that adds value to artists, helping them develop their art and bring it to a broad audience. The fragmented world of the digital environment, in which millions of bands are vying for the attention of hundreds of millions of fans, makes this role as a partner, investor, promoter and advisor for artists more important than ever.

Cutting through the digital noise

While technology has made “do it yourself” releases possible, in reality these have, to date, been largely the preserve of a few long-established acts. Erik Nielsen, who runs Marillion’s Racket Records label, told the EconMusic conference in September 2008 that while “do it yourself” works well for a band that has built a fan base since 1983, it is not a panacea for up and coming acts. In the UK in 2008, the band Hamfatter created a media splash when it was backed by the millionaire entrepreneur Peter Jones on the TV programme *Dragon’s Den*. Despite a wave of publicity, the band’s first single peaked at number 71 in the charts in its first week and dropped out of the Top 75 the following week.

Music companies’ marketing role is all the greater in the digital space because of the sheer volume of music available online. MySpace, for example, lists more than 2.5 million hip hop acts and 1.8 million rock artists alone. Moreover, consumers’ tastes are fragmenting. Research by Bauer Media in the UK found that even the least engaged music fans are open to about 15 different genres. Music companies work to market and promote their artists’ music to ensure that it catches the public’s attention.

Number of acts on MySpace (2008)	
Musical genre	Number of acts
Hip Hop	2.5 million
Rap	2.4 million
Rock	1.8 million
R&B	1.6 million
Pop	723,000
Metal	611,000
Punk	468,000
Electronica	413,000
Techno	335,000
Reggae	314,000

Source: MySpace website, December 2008
Note: Some acts may be registered under more than one category. Figures are rounded.

“Breaking an act and sustaining their career requires more varied expertise than ever before. We can provide artists with the investment, resources, tools and collaborators to achieve their creative potential, attract an audience and develop long-term appeal.”

John Reid, CEO, Warner Music UK & Europe





Duffy

Adding value to artists

Music companies are working to cut through the “noise” from myriad digital channels to generate commercial value for the works of their artists. EMI Music’s chief executive Elio Leoni Sceti says the work of a music company today is “managing multiplicity and complexity” and that its role is to help artists reach consumers wherever they are with great music in a marketplace that is increasingly complex, with partners ranging from games companies to mobile phone operators. In order to better understand consumers, EMI plans to rollout its emi.com site. Its main purpose is to be a “learning laboratory” where the company can develop a deeper knowledge of how consumers experience, interact with and purchase music.

Simon Wheeler, director of strategy at Beggar’s Group, which includes brands like XL Recordings, Rough Trade and Beggars Banquet, says music companies’ skills are essential in connecting artists to consumers in the complex digital world: “For the artist to connect with the consumer through all of these new channels needs a big team of people – without that it’s just not realistic, even for the biggest management company.”

Helping build an artist’s career does not mean just telling them what they want to hear. Ged Doherty, chairman and chief executive of Sony Music UK, says that he twice had to tell one well-known act that their new album was not up to the standard that they could achieve. Because of their good relationship, that act reworked the album which has now proved very successful. “Sometimes you have to be brave enough to say the baby is ugly,” says Doherty.

Labels open other doors for artists too. Nick Gatfield, president of A&R Labels, North America and UK, EMI, recalls signing Amy Winehouse when he worked at Island Records: “She had real, raw talent, but she was just 17 and it took time to develop her vocal skills and her song writing. We experimented with different styles and rehearsed and improved her live performances. The pay off came when she released *Back to Black* as we harnessed her natural talent to produce a coherent album.”

Music companies are also able to match artists with other talent, such as world class songwriters and producers. Duffy was introduced to songwriters David McAlmont and Bernard Butler and producers Steve Brooker, Jimmy Hogarth and Eg White for the production of her debut album *Rockferry*. The result was the UK’s most successful release of 2008, with more than 1.6 million in sales.

Broadening services

Music companies are broadening the work they undertake for artists. This includes managing direct-to-consumer channels such as websites and social network pages on artists’ behalf. These often include merchandising, DRM-free downloads, streams, premium content, links to other fans, updates on touring and ticket sales. Universal Music now runs websites for artists such as Snow Patrol and Keane. Warner Music works with artists as diverse as Pendulum and Alesha Dixon to create comprehensive artist sites.

In a new approach to marketing, labels also bundle sales of recorded music with other products, such as merchandise or live tickets to create an “unpiratable” product. In 2008 Sony Music ran campaigns that bundled products, such as the *Funhouse* album campaign for P!nk, which enabled her fans to buy first preference tickets for her 2009 UK tour dates when they pre-ordered the album on iTunes.

Meanwhile, new broader rights deals are emerging. These provide artists with additional support for touring, further opportunities in brand and synchronisation deals, wider marketing campaigns including the sale of merchandise and extra strategic marketing muscle. In exchange, music companies recoup their investment in an act through a variety of revenue streams including record sales, live tickets, sponsorship, merchandise sales and publishing rights. In July 2008, Edgar Bronfman, Jr., chairman and chief executive, Warner Music Group said his company has expanded rights relationships with more than a third of its current roster.

Marketing an album in the digital world.

Once marketing an album was comparatively simple. You hired a venue, threw a lavish launch party and plugged the album to your trusted contacts in radio stations and reviewers working for specialist press or national newspapers.

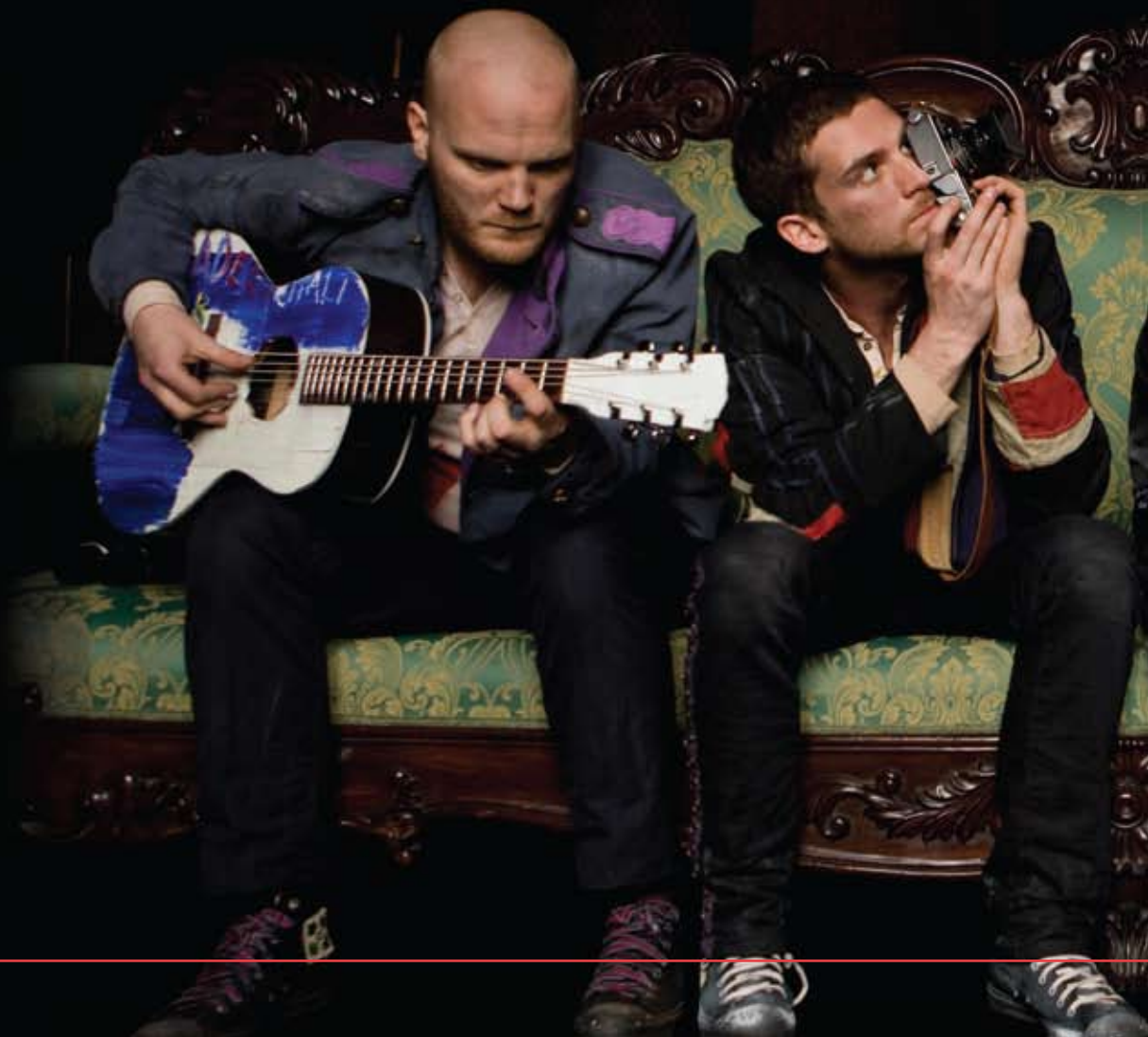
Things are very different now. A good illustration of a modern launch campaign was Coldplay's fourth studio album *Viva La Vida or Death and All His Friends*. The track listing and release date were announced in April 2008 on the band's website Coldplay.com. The title track *Viva la Vida* was used in partnership with Apple, forming the soundtrack for the company's new iPod TV ad campaign.

The track *Violet Hill* was offered as a free download for one week from 29th April on Coldplay's website and the band announced free concerts for fans would be held in London, New York and Barcelona in June, in addition to the band's regular tour dates.

In early June the album leaked onto the internet and the band responded by making it available as a stream on their MySpace profile. The band also undertook a series of high-profile media appearances in the US to promote the album.

By the end of June, the album had sold more downloads than any other in digital history and debuted at number one in 36 countries. The album was also released on vinyl, an enduringly popular format with audiophiles, a week after the CD was made available.

Viva La Vida became the top selling album of 2008 on iTunes, selling two million copies through the service. In November 2008, the band released a deluxe album, *Viva La Vida – Prospekt's March*, which contained extra material from Coldplay's recording sessions.



A team sharing the same vision: **The manager's view**

Diane Wagg works with numerous artists including UK rock band *Scouting For Girls*.

"Technology has opened up all kinds of new opportunities for artists and labels. A number of artists release music on their own labels – or rely on other channels to get their music heard. YouTube and MySpace are great ways for bands and labels to communicate with potential fans and an excellent way for new artists to start reaching music lovers. But signing a record deal remains a solid option provided the people at the label believe in the band and the deal makes sense.

Music labels provide access to creative professionals that an artist may not be able to reach themselves, such as first-class record producers, video directors, artwork designers and photographers. While some producers work with acts on the basis of royalties and advances tied to when the artist starts to

generate income, there are only so many of these deals professionals can take on. Having a record deal also offers confidence to such third-parties that an act has a potentially secure future and is an ongoing project.

Ultimately though, it boils down to people. *Scouting For Girls* signed to Epic because Nick Raphael and Jo Charrington immediately connected with the band and their music. They shared the same vision as the band, respecting their values, creativity and identity, whilst working with them to develop their music and their growing following. The band had a team working with them with the manpower, contacts, expertise and finance to reach further and possibly be more creative than they could have been alone struggling with funding and trying to do everything themselves. And it meant that they were able to devote all their time to music, rather than fitting it in around their

day jobs working in Threshers, the Carphone Warehouse and as a builder, worrying about where their next meal was coming from.

The partnership between Epic and *Scouting For Girls* proved to be a perfect example of how both parties can achieve huge success whilst enjoying a friendly and productive relationship along the way."



Scouting For Girls



Monetising music in an era of free - the role of ISPs and Governments.

The music industry is evolving new business models, offering consumers access to music in many new ways. The industry's greatest challenge remains generating commercial value in an environment dominated by free unauthorised music. Estimates on the impact of internet piracy vary but are consistently huge in scale. IFPI, collating separate studies in 16 countries over a four-year period, estimated unauthorised file-sharing at over 40 billion files in 2008. This means that globally around 95 per cent of music tracks are downloaded without payment to the artist or the music company that produced them.

"There is a growing understanding that everything on the internet isn't free. As people are getting older and more used to the internet they are starting to understand that it's not quite the free model that they thought it was at the start."

Stephen Conroy, Minister for Broadband, Communications and the Digital Economy, Australia

The cost of 'free' music

Estimates on the economic and employment damage caused by piracy vary. In the UK, Jupiter Research valued the loss at £180 million in 2008, with a cumulative loss to the industry of £1.1 billion by 2012 if nothing is done to address the problem. Europe Economics estimated the potential employment losses from piracy to the music, film and TV sectors at 30,000 jobs in the UK (December 2008).

Few dispute that the vast scale of unauthorised music consumption is massively damaging investment in music and the careers of artists. One British MP raised the issue in Parliament, citing the

example of Pendragon, a progressive rock band from his constituency, who had sold 50 copies of their new music DVD in its first week of sale, but saw 3,000 copies illegally downloaded in the same period.

Unlawful distribution of music on peer-to-peer (P2P) networks remains by a large margin the music sector's chief piracy problem. Overall 16 per cent of internet users in Europe regularly swap music on P2P networks, according to Jupiter Research. Those networks in turn account for up to 80 per cent of all internet traffic (ipoque) and file-swapping of copyrighted music and movies is widely-acknowledged to account for a large part of P2P activity.



"He loves the album – he wants to know where he can download it for free."

A future for local music and film? France and Spain in focus

The French and Spanish music industries illustrate the impact of online piracy on the health of local repertoire. Figures released by French music industry association SNEP and Spanish association Promusicae highlight:

■ **The declining sales of local artists.** In France, the number of album releases by new artists fell 16 per cent in the first half of 2008. The French share of newly released albums domestically fell to 10 per cent in the first half of 2008, compared to 15 per cent in the first half of 2005. In Spain, just one new local artist featured in the Top 50 albums from January to November 2008 (Pitingo at number 20) and just two in the Top 50 digital songs (Pitingo at number 43 and Despistaos at number 44). Back in 2003 there were 10 new Spanish artists in the Top 50 album chart.

■ **Scale of piracy.** There were an estimated 1.6 billion songs downloaded illegally in Spain in 2008 (Promusicae/Gfk), compared to two million legal à-la-carte downloads. This means just 0.1 per cent of total tracks downloaded in Spain were legal. Digital sales are flat at 10 per cent of the market, around half the global average.

■ **The impact beyond music.** 13.7 million films were distributed on P2P networks in France in May 2008, compared to 12.2 million cinema tickets sold (Equancy and Co and Tera Consultants).



The case for ISP cooperation: key facts

- Internet Service Providers (ISPs) would be enforcing their own contracted terms and conditions and applying the same approach towards illegal behaviour as they would with non-paying subscribers.
- It can solve the problem. Seven out of 10 music consumers download music illegally because it's available free (Entertainment Media Research, UK 2008).
- P2P file-sharing, a large part of which is unauthorised copyrighted music and film, accounts for up to 80 per cent of all internet traffic (ipoque).
- ISPs have an extensive technical ability to control traffic on their networks. AT&T, the largest American ISP, is testing a system to limit monthly uploads and downloads of its subscribers in order to contain "bandwidth hogs" who use a disproportionate share of network capacity. Comcast, the second largest American ISP, has imposed nationwide download capacity limits on subscribers and will cancel subscriptions of repeat infringers.

"We were one of the first content businesses to have to grapple with a business model that suddenly wasn't a business model at all. Suddenly it became common for consumers – and businesses – to use our music without paying for it."

Elio Leoni Sceti, Chief Executive, EMI Music

Internationally, demographic analysis points to future trends and suggests the problem, in the absence of a solution, will rapidly get worse. In the US, Europe and Australia, independent research confirms that teenagers and young adults – the generation of future music consumers – acquire the most unlicensed music. Jupiter Research found in 2008 that one in three 15-24 years olds in Europe uses copyright-infringing P2P networks – three times the proportion that consumes music legally.

Further research points to a key trend: unlawful downloading is driven by free availability - not by greater choice of repertoire. It is the lack of a requirement to pay that is the single biggest attraction for consumers who illegally file-share.

Entertainment Media Research in the UK found that 71 per cent of people who said they file-shared more heavily in 2008 cited the fact that they could obtain music without payment as the number one reason for their activity. It is the avoidance of payment rather than a superior service that prompts internet users to illegally swap copyrighted music. Reinforcing this finding, research from NPD in the US in 2008 found that users were describing their experience of unauthorised P2P networks as getting worse.

There is clear evidence that consumers, though often unlikely to pay voluntarily, nonetheless want artists and copyright holders to be paid and their intellectual property to be respected. Research commissioned by the Canadian government found that nine in ten consumers backed strong copyright laws to protect creators.

IPSOS in France found that 84 per cent of people who had downloaded music illegally thought artists and authors should be paid for their work. These figures point to a central principle in the music industry's current priorities for improving the digital environment: namely that while consumers' instincts are to acquire music legitimately, the widespread availability of unlicensed free music acts as a disincentive.

"The victim of online music piracy is the freedom of artistic expression."

Yves Riesel, President, Abeille Musique France, independent label

From concept to reality: governments start to move on ISP cooperation.

The principle that Internet Service Providers (ISPs) should play a greater role in protecting content online is moving from concept to implementation. The music industry first proposed a solution to the online piracy problem – extending responsibility for copyright protection across the value chain to include ISPs – in 2005. Three years later, government-backed systems of ISP cooperation are being advanced or considered in many countries. In 2008 a tipping point was reached, with governments in France and the UK leading the way in requiring ISPs to help bring piracy on their networks under control.

There is growing acceptance that government pressure is crucial to producing collective action by all ISPs. A French EU Presidency communiqué to the European Commission in September 2008 confirmed: “Experience has shown that some level of government involvement is essential to achieve rapid and meaningful progress.”

In **France** the government continues to set the pace in introducing legislation to require concrete steps by ISPs to encourage legal music consumption and deter piracy. A new draft “Creation and Internet Law” sets up a

system of graduated response by which ISPs will educate and warn persistent copyright abusers and, as a last resort, sanction them with loss of internet access for between one and 12 months. The system targets persistent offenders who have ignored two warnings and will be overseen by an independent authority. Research suggests it will have real impact and that the number of actual suspensions will be low. The law was adopted by the government in the summer of 2008 and approved by the

While the record industry hopes ISPs will voluntarily adopt reasonable policies to prevent their networks being used to transmit infringing material, experience suggests a robust and complete response requires a level of government intervention, even if just to prevent unfair competition in the provision of internet connectivity by less scrupulous actors. In July 2008 the **UK** government brokered a joint ‘Memorandum of Understanding’ between the recording and film industries and the UK’s six largest ISPs, binding the parties to work to achieve a significant reduction in unauthorised file-sharing.

As part of the MOU, a working group was established to identify solutions for repeat infringement, to form the basis of a government-sponsored code of conduct. At the same time, the government initiated a consultation on legislative options to deal with internet piracy. The consultation is based on three principles: new business models, public education and enforcement against copyright infringement.

During a three month trial period, which started in October 2008, ISPs sent out thousands of letters warning users about the illegal acquisition of music and promoting legitimate consumption. The UK and French plans are being watched closely in Europe: in December 2008 the Italian Parliament adopted a resolution to follow other initiatives in Europe to step up cooperation by ISPs in curbing piracy.



“Music has been hit hard over the last ten years and if we don’t do something there is a real danger that parts of the music industry will be washed away.”

Andy Burnham,
UK Secretary of
State for Culture

The evidence that graduated response will work

- Seven out of ten (72%) UK music consumers would stop illegally downloading if told to do so by their ISP (Entertainment Media Research, 2008)
- Seven out of ten (74%) French consumers agree internet account disconnection is a better approach than fines and criminal sanctions (IPSOS, France, May 2008)
- Eight out of ten (82%) American teenagers familiar with the law think sanctions for illegal downloading are appropriate; 57 per cent of those unfamiliar with the law agree (KRC US, January 2008)
- 90 per cent of consumers would stop illegally file-sharing after two warnings from their ISP (IPSOS, France, May 2008)

Similar initiatives are being taken elsewhere. In December 2008 the US recording industry announced it is working with the Attorney General of New York and leading ISPs on a series of voluntary online anti-piracy initiatives, with Attorney General Andrew Cuomo urging a deal involving a graduated response approach. In a separate but parallel move, the RIAA and several leading ISPs agreed on principles under which ISPs will take responsibility to send notices and institute a programme of escalating sanctions for subscribers who are repeat copyright infringers.

In February 2009 **New Zealand** will start operating a graduated response system following enactment of a law in April 2008 requiring ISPs to adopt and reasonably implement a policy of terminating the accounts of repeat infringers.

In **Australia** the Minister for Broadband, communications and the digital economy, Stephen Conroy, interviewed on national television, said illegal file-sharing has “decimated the music industry” and would do the same to film and other sectors unless there are “significant changes”. He added: “The so-called three strikes legislation has been talked about in Australia and we’re watching closely what’s happening in France and the UK and we’re considering what we can do to support intellectual property rights. People will change their behaviour if there’s an economic cost.”

“When I exceed the speed limit on the roads too many times, I know I will lose my licence for six months and I accept that as normal. There’s no reason for a change of attitude when it comes to the internet. As human beings we don’t like rules and regulations, but we don’t live in an ideal world and a free-for-all benefits nobody.”

Chris Ancliff,
General Counsel, EMI

The momentum in favour of ISP cooperation has reached Asia as well. In April 2008 in **Japan**, a consortium of ISP, music and film trade associations was established to agree measures against copyright abuse on Japan’s chief ISP network. The national police and senior government representatives are observers on the consortium. ISP actions to notify infringers and terminate the accounts of repeat offenders are on the agenda. The **Hong Kong** government launched a discussion forum between content industries and ISPs in 2008 and has said it is prepared to legislate if necessary. In **South Korea** the government has issued for consultation a draft law introducing a system of graduated sanctions against online infringement, including terminating the accounts of repeat offenders.

Meanwhile, courts in different countries have helped clarify the existing legal obligations for ISPs to help fight piracy. In a landmark judgment in 2007, a court in **Belgium** ordered the ISP Scarlet (formerly Tiscali) to make it impossible for its users to infringe copyright using peer-to-peer protocols on its networks. The court found filtering to be a feasible and appropriate means to distinguish between legitimate and unauthorised files. In October 2008, a further court ruling rejected the ISP’s claims that filtering was impossible. The court said it was “not unreasonable to require of SA Scarlet that it make greater efforts than those which it had shown thus far” to stop copyright infringement. The ISP has been liable for fines of €2,500 every day from 1st November 2008 until it takes effective steps to curb its users’ infringement of Belgian copyright law.

Courts have also confirmed the need for ISPs to block access to copyright-infringing websites. In November 2008, an appeal court in **Denmark** upheld a decision requiring an ISP to block access to The Pirate Bay website. Courts have also ruled that the suspension of internet accounts being used illegally is acceptable under EU law. In **Finland**, a court ordered TeliaSonera, a leading ISP, to suspend the internet connection of a customer whose connection was used to upload a considerable number of infringing music files.

New law ‘will sustain French creative industry’.



President Sarkozy’s ground-breaking proposal for legislation in France owes much to the leading economist

Olivier Bomsel, who says its key objective is “to sustain a content industry in France in the future.”

Bomsel sees the graduated response as important to the next development phase of the creative internet economy. In phase one, during the rapid expansion of broadband networks, ISPs used free content to boost the roll-out of their fast-growing new businesses. In this first phase “content” took second place to the perceived benefits of the broadband revolution. “The consequences were a free ride for distributors, while the IT industry successfully argued that the advantages of network rollout offset the losses to the content industry,” says Bomsel. As a result, consumers were prepared to pay for new equipment and network access while content was made available largely via massive intellectual property infringement.

The new French law, says Bomsel, aims at a fair solution for the next phase of the internet revolution. In phase two, once the rollout of broadband is over, the ISPs have to become fair distributors. A graduated response system will be introduced by which the repeat infringer would face suspension of internet access after two warnings. A government-appointed independent watchdog supervises the system and relays the warnings via the ISP. Bomsel says the element of sanction in this system is essential: “The system depends on the reliability and deterrence of the sanction.”

Education: the campaign for hearts and minds.

New business models and rights enforcement are two key elements of the transforming music industry. A third critical component is public education.

In 2008, the recording industry launched or was active in more than 70 campaigns worldwide, including television advertising, documentary productions, letter-writing in partnership with ISPs, live debates at universities, school band tours, education packs for teachers, digital music web portals and the publication of information to support parents.

Parents and teachers are a particularly receptive audience. A Canadian report shows that 93 per cent of Canadians think parents should teach their children how to use the internet in a responsible way (Enviro-nics' annual Social Values Monitor, 2008). Yet parents and academics realise how difficult it is to keep tabs on children's online activity, let alone control it. The Byron Review, conducted on behalf of the UK government, concluded there is a growing adult insecurity when it comes to teaching young people about the benefits and risks of an environment they do not understand themselves.

Young People, Music and the Internet.

2008 saw the launch of a global information campaign to explain the world of music downloading to teachers and parents worldwide. The simple guide, *Young People, Music and the Internet* was published by children's internet charity Childnet International and supported by Pro-music (www.pro-music.org), the international alliance of music sector groups. It is being distributed through schools and colleges, libraries, record stores, teaching portals and websites in Argentina, Australia, China, Mexico, Singapore, Spain, the UK and the US, with a further 12 countries set to publish it in 2009.

Endorsed by the European Commission, it aims to help close the "knowledge gap" between young people and their parents and teachers, in order to promote the safe and legal use of the internet and mobile phones to download music. Hundreds of thousands of copies were requested by teachers, libraries, local authorities, parents and even computer repair stores.



"I am a father of three young kids who are all very interested in music and computers. They are forever asking to use the computer to download their favourite songs. There is a constant worry about the security of the internet with children. This new guide helps adults and children to use the internet safely and securely."

Ronan Keating, Singer-songwriter

"The new guide...should help to spark off those vital conversations between parents, teachers and young people that are so essential for promoting responsible behaviour on the Internet.."

Viviane Reding, EU Commissioner for Information Society and Media



Commissioner Reding

Pro-Music.org

A key challenge is to raise awareness of legitimate sources of music. In 2008 IFPI and an alliance of international right holder groups relaunched the pro-music.org portal “for all you need to know about music online”. The site offers the largest listing of legal online music stores, monthly digital charts from around the world and information for those wanting to succeed in the music business. It also lists the best education tools and resources from around the world to inform all audiences about the rights and wrongs of obtaining music online.

National campaigns

Below are examples of some of the projects run by music industry associations and partner organisations in 2008:

■ Documentaries.

In 2008 *In Tune* was distributed as part of the *Music for Free?* campaign in Australia. *In Tune* features interviews with Australian artists who speak on issues from what it's like to be part of a band to how the digital revolution has affected their livelihoods.



■ School tours. The *Rock the Schools Tour* in Australia showcased six bands in secondary schools around the country alongside workshops about creating and protecting content.



■ School resources and education packs. Governments increasingly recognise the importance of education programmes.



In the UK, Ireland and Australia the core curriculum is being changed in order to promote a better understanding of the value and importance of intellectual property. In the US, the RIAA works in partnership with education experts to develop curriculum materials, including DVDs, assemblies, and online curriculum, for students at every level from grades 3-12.

IFPI Finland produced an education pack called *Copyright Protects Creative Work* for 10-12 year old students. It features a storybook written by a well-known children's

author and illustrator and is accompanied by a teachers' guide, exercise booklet, lesson plans on each theme, a poster and a board game, all of which can be downloaded from www.tekijanoikeus.fi for home or school use.

■ Online public debate.

The French music industry association launched *demailamusicque.com*, where the hot issues of the day are commented on by SNEP and people are invited to participate in a discussion thread.



■ Competitions.

The *Frank Hardcase* competition is supported by an animation and website asking students to prepare an anti-music piracy campaign for fellow students for a A\$1,000 prize. It was spearheaded by CrimeStoppers Australia with the participation of the recording industry and formed part of the government's *Music for Free?* campaign.



“I swear I wasn't looking at smut – I was just stealing music.”

© The New Yorker Collection 2002 Alex Gregory from cartoonbank.com. All Rights Reserved.

When did intellectual property become free? – music managers speak out.

Music managers, the voices closest to the artist community, are becoming increasingly vocal in supporting the case for Internet Service Provider (ISP) cooperation in protecting music online.

Arthur Spivak, the US manager behind a raft of top-selling acts from Tori Amos to We Are Scientists, says the idea that future talent will be supported solely from live music, sponsorship and merchandising is an illusion: "I work with a band that performed 300 shows on a two-year cycle to support their last album. They went around the world three times and yet only sold around 400,000 copies. They made about US \$30,000 each before taxes. They could have made more money on welfare."

Bertis Downs, manager of REM, believes the key question for new bands is how to make a living and build a long-term career in an environment where new technology is challenging the very right for creators to be paid: "For REM it wasn't an overnight launch to fame and fortune. It was a slow grind to success that took place over many years. I'm not saying you can put the technological genie back in the bottle – that would be absurd. But I am saying that if we don't take better steps to protect the value of music, then you have to ask where the next REM is going to come from? That's why the whole idea of widening responsibility for copyright protection across the value chain is so important."

U2 manager **Paul McGuinness** says ISP cooperation has moved firmly on to the agenda of governments, led by France and the UK, within just two years: "There is a

huge amount of work to do to press the case, but in many parts of many governments people are seeing the statistics, realising the cultural catastrophe that we are facing and understanding the inherent benefits of a system which addresses piracy near its source. For the first time, there is now the prospect that if ISPs do not cooperate with steps to help tackle copyright theft, then legislation may require them to do so. This is real progress."

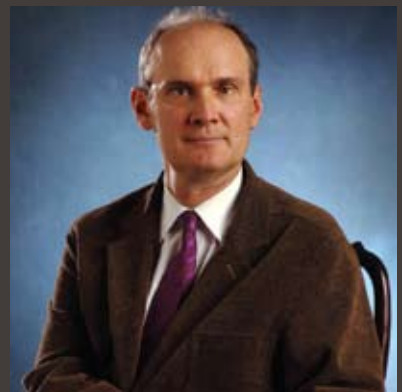
Technology, says McGuinness, should pose no obstacle for ISPs. The "deep packet inspection" techniques routinely engaged in now by all ISPs could be used in future to identify and interdict illegal P2P files of film and music content."

David Holmes, manager of Coldplay, also favours a change of approach from ISPs. "We need to think differently about how to ensure music gets properly protected on the internet. We will all lose out if we let the idea take hold that the creators of recorded music don't need rewarding for their work. I support the campaign for ISPs to be involved in this. I would like them to do more to protect artist rights."

Spivak believes the artist community has to speak out more if real change is going to happen: "The artists and music companies should work together, not separately. They must speak out and lobby their governments to force the ISPs to combat internet music piracy. Educate and legislate. Why and when did intellectual property become free? If we do not speak up and fight back, the music business will be the next vaudeville – a thriving industry and culture that disappeared in a few short years".



Paul McGuinness



Bertis Downs



Arthur Spivak

"Artists and music companies should work together."
Arthur Spivak, Manager

Commerce in the era of 'free' – a common challenge for creative industries.

For many years, the music industry has been dubbed the “canary in the coalmine” for other creative sectors entering the digital environment. Today, for the film, book, newspaper, television and other sectors, the digital future has now either arrived or is approaching fast. A common theme confronts all these sectors - how to “monetise” their business in an era of widespread free content.

For the film business, physical piracy has traditionally been the greatest threat, but the figures from IPSOS (November 2007) reflect how rapidly consumers are becoming comfortable with accessing illegal sites. Some three million people in the UK download unauthorised films online, with a dramatic fall in the previous year from 30 per cent to 11 per cent in the number of consumers who think the practice is “too much effort”.

In December 2008 the issue was highlighted by leading names from the UK’s film and television industry, including Kenneth Branagh, Richard Curtis, Terry Jones, Mike Leigh and Sir Alan Parker in a letter to *The Times*. They noted that ISPs “have the ability to change the behaviour of those customers who illegally distribute content online” and calling on them to “act responsibly” or “be compelled to do so”.

The film and television industry is fast adapting its business model with the aim of migrating millions of consumers from illegal to legitimate sources of content. “There is a tsunami of digital theft on the internet that extends across multiple content sectors, most notoriously affecting music but also spreading across TV, movies, games, software and books,” says Rick Cotton, general counsel of the US TV and film company NBC Universal: “The challenge is to stop this undermining the evolution of very exciting and enormously positive legitimate digital distribution capabilities.”

In order to limit piracy, migrate consumers and drive revenues, NBC has been pursuing a two-pronged strategy of making content easily accessible to internet consumers, while at the same time advocating the implementation of technology-based anti-piracy measures across the internet.

Both elements played a key role in the company’s anti-piracy efforts during their 17-day coverage of the Beijing Olympics. The network made massive amounts of Olympic material available to consumers on nbcolympics.com, while at the same time working with User Generated Content (UGC) sites such as YouTube to filter and take down illegitimate material.

As a result of their efforts, 99 per cent of all online views in the U.S. took place on NBC’s platform. “This was the most viewed TV production in American history, and the overwhelming access point for online viewers was at nbcolympics.com - and the thing that essentially eliminated pirated Olympic content from video sharing sites was content recognition technology and filtering,” says Cotton. The case highlights the value of technology in tackling the common piracy threats facing music and TV, and its particular effectiveness in dealing with real-time streaming and time-sensitive content.

“There is a tsunami of digital theft on the internet that extends across multiple content sectors.”

Rick Cotton
NBC Universal

NBC Universal believes that responsibility for copyright protection needs to be spread across the value chain. “The infrastructure industries need to come to the table to help reduce the flow of stolen content. We are now seeing many forms of dialogue, and those are absolutely critical to reducing both physical and digital piracy,” says Cotton.

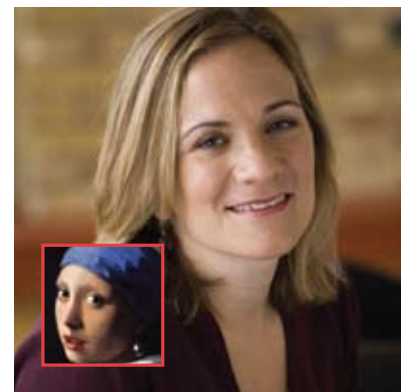
The book publishing world is grappling with a similar challenge. Tracy Chevalier, until recently chair of the UK Society of Authors and author of *Girl with a Pearl Earring*, says book publishers need to take a hard look at new revenue models. She warns that authors

could even eventually be forced out of their trade by piracy: “The question for the book industry, watching the music industry, is that if the whole idea of people buying individual works is going to disappear, then how are writers going to make a living in the future?”

Chevalier is interested in the kind of new business models being experimented with in the music business. Some similar new solutions in publishing might include sponsorship or ad-supported books. She says: “The alarm bells start ringing when you hear from the music business that for some 95 per cent of all the tracks downloaded, there is no payment going to the artist.”

Electronic commerce came much closer to the book industry in 2008 with the announcement, of competing forms of e-Book by Sony, Amazon and Waterstones. However, digital sales in the sector are still miniscule.

Chevalier says change is coming for the book world, though not with the suddenness with which it hit the music business. She believes raising public awareness about the real value of creative works has a very important role to play: “It’s a complicated task you have because as well as changing legislation and shutting down illegal sites, there needs to be a broader education effort to get people to appreciate that getting content for free means the creator doesn’t get paid.”



Tracy Chevalier, author of *Girl With A Pearl Earring*, warns on book piracy

Tracy Chevalier

Pre-release piracy: industry **steps up** action.

Pre-release piracy is probably the most damaging form of copyright infringement as it impacts on sales of the original tracks or album at what should be the high point of consumer interest.

Pre-release copies are leaked days or weeks before the official release date and then the number of files online containing the music quickly proliferates. There are special networks and ripping groups that work to maximise the distribution of pre-release infringing music. The damage this and subsequent file-sharing causes can mean the difference between an album charting in the Top 10 or missing out – something that can have a huge impact on an artist's career. Illegal services are able to offer music before legitimate sites can – a major advantage for them in terms of securing users.

Music companies are increasingly using the services of IFPI's internet anti-piracy team to fight pre-release piracy. Searching the internet for infringing uploaders and the operators of servers and indexing and tracking sites, the team sends notices and warnings which may, if necessary, be followed up with legal steps, either criminal or civil. The results of this work are visible.

In 2008, IFPI removed three million infringing web links, up from 500,000 in 2007, stopping potentially hundreds of millions of unlicensed downloads.

Containing pre-release piracy, boosting sales

Stopping an album leak prior to release aims to help boost its legitimate sales. Zomba Records called in IFPI's anti-piracy team after Usher's latest album, *Here I Stand*, leaked weeks before its May 2008 official release date.

Investigators tracked down the original source of the leaks and issued more than 4,000 'notice and takedown' orders to remove links from blogs and forums to the copyright-infringing music.

For Zomba, as for other record companies, this kind of action supports the marketing strategy, allows anticipation to build up ahead of release day and contains the damage caused by the leak. *Here I Stand* went on to be a big success, topping the Billboard Hot 100 chart.

A similar exercise by the IFPI team stopped all online pre-release leaks of Enya's November 2008 album *And Winter Came...* Investigators ensured that sufficient security measures were in place on all aspects of the manufacturing process and artwork production and also ensured that all unauthorised content was taken down from the internet as soon as it was discovered. The album subsequently became a top ten hit in the US and many European countries.

500,000 infringing links removed by IFPI 2007

3 million infringing links removed by IFPI 2008

Action on campus in the US

The US music industry is focusing its education and deterrence programmes directly on the issue of music theft on college campuses. Illegal file-sharing by college students is disproportionately high. A survey by Student Monitor in spring 2006 found that more than half of students downloaded music and movies illegally and according to NPD, students accounted for more than 1.3 billion illegal music downloads in 2006. This is despite the fact that every student in the country has access to affordable (even free), legal music through innovative music industry supported models like those offered by Ruckus, AmazonMP3, and MySpace Music.

Many universities have successfully implemented anti-piracy technology tools and report receiving fewer copyright infringement (DMCA) notices. Several university officials have testified about the efficacy and cost benefits of adopting an anti-piracy technology. While each university has its own policies and tools, technology has clearly been part of the answer.



Kaiser Chiefs

"About three weeks prior to its release, our album got leaked. A gloom came over me when I saw it available on blogs all across the globe. It has nothing to do with money, that doesn't come into it, but it felt like someone had come into my house and nicked stuff, then put it on the internet for everyone to have a look at."

Kaiser Chiefs' Nick Hodgson
speaking to Drownedinsound.com



www.pro-music.org tells 'all you need to know about music online'. Users can find out where to get music legally online and discover more about the music industry. The website is backed by a cross-industry group of rights holders.



Recording Industry In Numbers is the definitive source of global music market information; an annual report containing global sales figures, country specific data and insight into key consumer trends. To find out more or to purchase a copy go to www.ifpi.org

Published by IFPI. January 2009. Copyright © IFPI.

All data, copy and images are subject to copyright and may not be reproduced, transmitted or made available without permission from IFPI.

Designed by Band London www.bandlondon.co.uk

