

**RELATED MUSIC, ENTERTAINMENT
AND INFORMATION INDUSTRIES**

Music press
Radio, TV, film and advertising
Theatre and dance sector

CORE ACTIVITIES

Live performance
Production and sale of
sound recordings
Administration of copyright in
composition and recordings

RELATED ACTIVITIES

Art and creative studios
Manufacturing of audio hardware
Manufacture and distribution of
musical instruments
PR companies
Jingle producers
Photographers

TELECOMMUNICATION AND IT

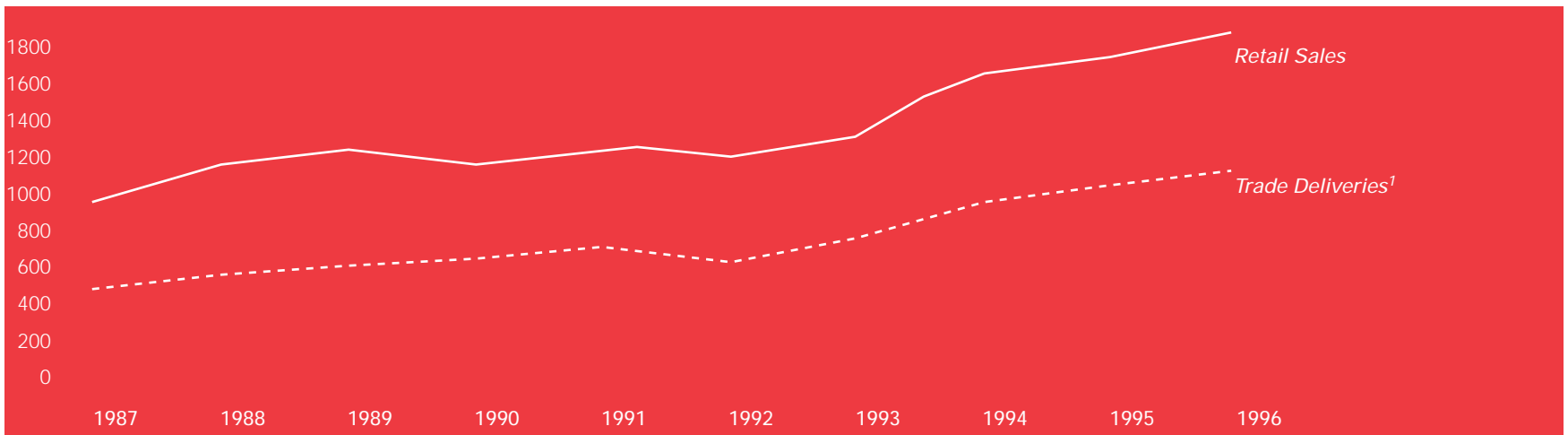
Music on demand
Music games
Internet music sales
Multimedia music
Virtual music networks

music 

This analysis covers the core music business activities of live performances, the production and sale of sound recordings and printed music, and the administration of copyright in compositions and recordings.

INDUSTRY REVENUES

Value of Sales (£m)



Note
 1 Trade deliveries are sales by record companies to retailers which exclude VAT and retailers' margins

Estimated Value Added 1995

Live Performance: Rock and Pop	£300.0m
Live Performance: Classical, etc.	£146.0m
Other Artists' Earnings (including record royalties – UK and overseas, etc)	£525.0m
Opera and Musical Theatre	£120.0m
Recording:	
Record Companies	£317.0m
Studios	£17.4m
Producers	£14.0m
Manufacturers	£67.0m
Music Publishing	£85.5m
Collection Societies	£23.3m
Retailing and Distribution	£334.1m
Managers, Agents and Promoters	£132.0m

Total £2,081.3m

Note
 Total Value Added excludes spending on Musical Instruments (Production, Distribution and Retailing) and Education and Training

Estimated Consumer Expenditure 1995

Consumer Expenditure²	£2.4bn
Private Corporate Expenditure (including sponsorship)	£168.0m
Public Sector Expenditure (including the BBC)³	£198.0m
Total	£2.6bn

Note 2 Includes admissions to live performances and purchases of sound recordings (new and secondhand) and printed music.
 Note 3 The BBC is estimated to have spent £87m on music. Total Expenditure excludes consumer spending on Musical Instruments and Education and Government Spending on Military Bands and Music Education and Training

Total revenues of the music industry in 1995 were £3.6bn.¹

The UK industry has been experiencing strong growth in sales over the past decade. Sales of recorded music have been growing at a 10% annual compound growth rate. This growth is attributable to: the strength of domestic releases; the extension of music demand across three generations; increased buying power among older income groups; and favourable economic conditions in the UK. The CD format, which was introduced in 1983, has also had a big impact on sales growth. CDs have rapidly replaced vinyl and cassettes and now account for 86% of recording sales.

Source: BPI Statistical Handbook 1997, The Value of Music

1 Equals consumer spend plus public expenditure and sponsorship plus exports – does not take imports into account. Source The Value Of Music and Overseas Earnings of the Music Industry.

UK MARKET SIZE

Consumer expenditure on music in the UK in 1995, covering live, recorded and printed music, was estimated at £2.6bn.²

World Leading Markets 1997

	Retail Sales (US\$m)	Share of World Sales
1. USA	11,906.0	31.3%
2. Japan	6,261.7	16.4%
3. Germany	2,836.8	7.4%
4. United Kingdom	2,729.7	7.2%
5. France	2,119.5	5.8%
6. Brazil	1,180.5	3.1%
7. Canada	977.5	2.6%
8. Australia	739.1	1.9%
9. Netherlands	600.1	1.6%
10. Spain	600.1	1.6%
11. Italy	600.1	1.6%
12. Taiwan	472.8	1.4%
13. Mexico	457.0	1.2%
14. Argentina	381.0	1.0%
15. Sweden	381.0	1.0%

Retail sales of recordings amounted to £1.8bn in 1997, accounting for 7.2% of the world market. The UK is the fourth largest market for recorded music but is far more important as a repertoire provider.

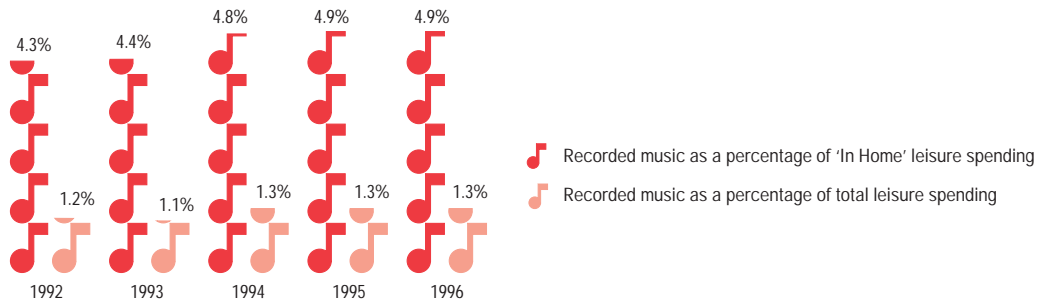
The most popular genres were Pop, Rock, Dance and MOR/Easy Listening, which together accounted for 80% of album sales. Classical music's share of the album market was steady at 7% in 1997, comparable to most other European countries. UK artists accounted for 58% of album sales, up from 53% the previous year, their highest share of the domestic market since 1986.

People in the UK spend four hours per week listening to recorded music, making it the third most popular home-based leisure activity after television and radio.³ Music-based radio continues to be a major media force.

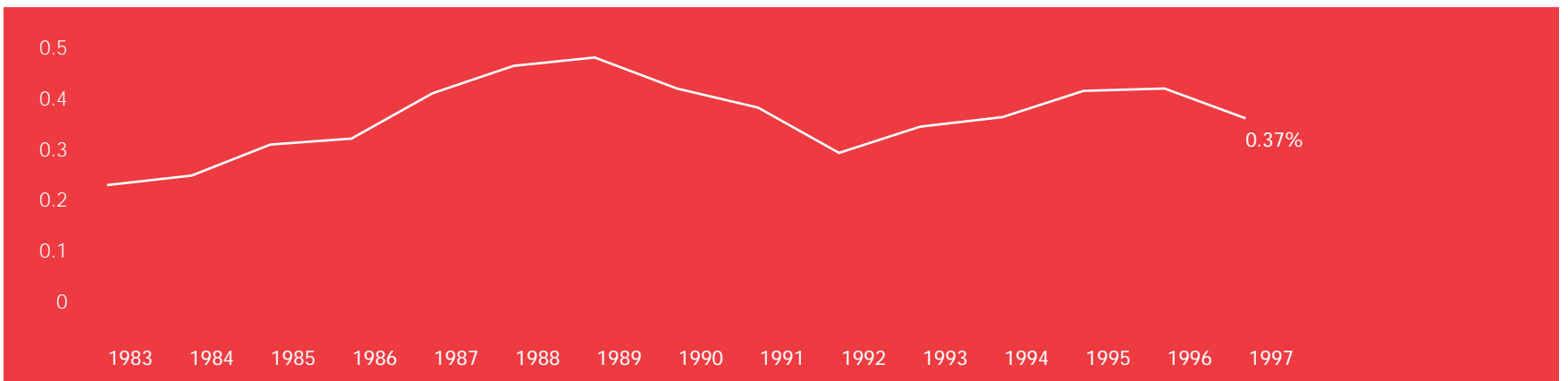
² Expenditure on admissions to live performance, purchases of sound recordings (new and secondhand) and printed music. Source *The Value Of Music and Overseas Earnings of the Music Industry*

³ Source Henley Centre 1994

Recorded Music as a Percentage of Leisure Spending



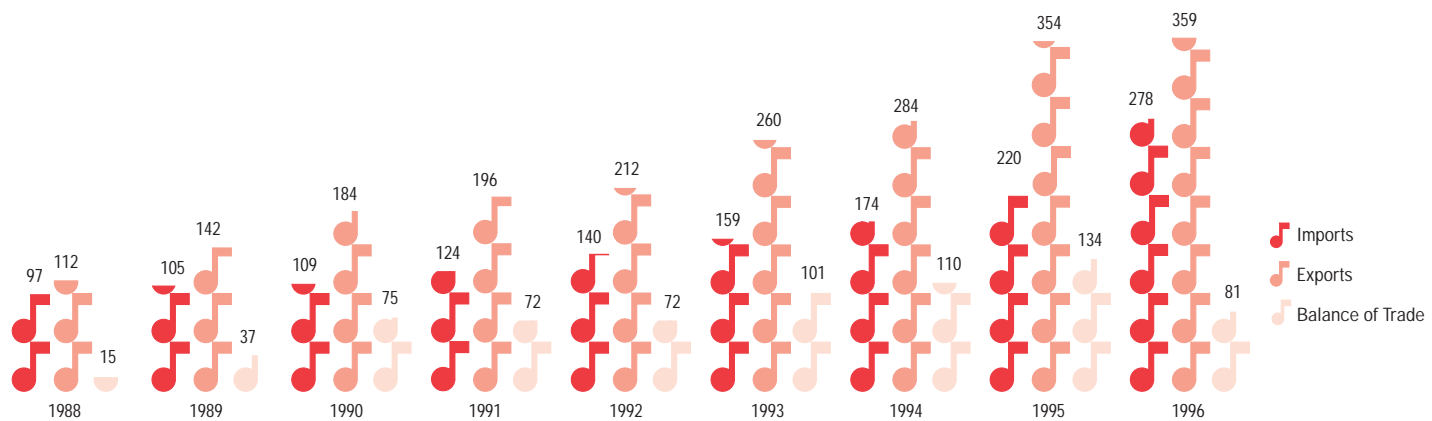
Spending on Records, Tapes and CDs as a Percentage of Total Consumer Spending



Recorded music accounts for just under 5% of in-home leisure spending and 1.3% of total leisure spending. Music maintains a steady 0.37% share of overall consumer spending despite increasing competition in the field of leisure.

BALANCE OF TRADE

Value of Imports/Exports of Finished Goods (Records, Cassettes, CDs) £m



Overseas Earnings and Payments 1993

	Estimated gross earnings from overseas £m	Estimated gross payments £m	Net Earnings £m
Recording	628.1	304.3	+323.8
Music Publishing	259.6	113.6	+146.0
Performance Income	100.9	46.4	+54.5
Musical Instruments	86.0	112.6	-26.6
Musical Theatre and Misc.	83.3	10.0	+73.3
Grand Total	1,157.9	586.9	+571.0
of which:			
Total Invisibles	799.1	308.8	+490.3
Total Visibles	358.8	278.1	+80.7

The UK music industry is one of the most important sources of creative talent in the world. It is estimated that UK artists share of the world music market amounted to 16% in 1996.

Total exports in 1993 (the last year for which reliable data are available) were £1,072m, more than double the value of imports (£472m).⁴

Invisibles comprised almost 75% (£800m) of exports and 82% (£490m) of net earnings. Of these invisible revenues, royalties accounted for 46% (£367m) of exports and 45% (£222m) of net earnings. Around 75% of net earnings on artistic royalties came from North America and the EU.

The export of *finished goods* (records, cassettes and CDs) is also an important earner, and some of the UK companies involved have won the Queen's Award for Export Achievement, including Windsong International and Lightning Export.

Peak Positions of UK Entries in Top 10 Album Charts in Leading Markets (1996-1997 end June)

		US	Japan	Germany	France
Beatles	Anthology 3	1	4	9	9
Beatles	Anthology 2	1	4	4	2
Bee Gees	Still Waters	-	-	2	5
Blur	Blur	-	8	-	-
David Bowie	Earthling	-	-	-	9
Eric Clapton	Change The World	-	7	-	-
Joe Cocker	Organic	-	-	5	10
Phil Collins	Dance Into The Light	-	-	5	1
Cure	Wild Mood Swings	-	-	-	3
Depeche Mode	Ultra	5	-	1	2
East 17	Around The World	-	-	10	-
Jamiroquai	Travelling Without Moving	-	3	-	2
Mark Knopfler	Golden Heart	-	-	5	2
Paul McCartney	Flaming Pie	2	-	6	-
George Michael	Older	6	4	3	2
Oasis	What's The Story, Morning Glory?	5	10	3	8
Pet Shop Boys	Bilingual	-	-	7	-
Simply Red	Greatest Hits	-	-	2	-
Spice Girls	Spice	1	7	6	1
Sting	Mercury Falling	5	7	2	3
Supertramp	Some Things Never Change	-	-	3	-
Take That	Greatest Hits	-	7	1	3
Texas	White On Blonde	-	-	-	2
Roger Whittaker	Alles Roger	-	-	6	-
Worlds Apart	Everbody	-	-	-	1

⁴ Excludes musical instruments. Source Overseas Earnings of the Music Industry

The relative importance of UK music in the rest of the world is reflected in the high number of UK artists in the charts in major music markets around the world.

Parallel imports of cheaper CDs are now estimated at 15-20% of sales for some releases.

It is estimated that by 1997 total exports (visible and invisible) had risen to £1.5bn. The balance of trade surplus is comparable to that of the steel industry. Few other UK industries produce greater contributions to the UK balance of payments.

Piracy is a problem affecting export sales. The pirate market is worth billions of pounds worldwide. The IFPI estimate that one in three music formats sold around the world is illicit. Digital technology and the Internet may exacerbate the problem as it will enable easy access and reproduction of perfect copies.

EMPLOYMENT

Employment in the Music Industry 1995

	Musicians and Composers	Other	Total Estimated Employment
Live Performance: Rock and Pop	31,000 ¹	11,000	42,000
Live Performance: Classical, etc.	4,892	1,491	6,383
Opera and Musical Theatre	1,953	1,935	3,888
Composers not included elsewhere	1,250	–	1,250
Recording:	4,000 ¹	–	4,000
Record Companies	–	6,401	6,401
Studios	–	793	793
Producers	–	750	750
Manufacturers	–	3,000	3,000
Music Publishing	–	1,195	1,195
Collection Societies	–	971	971
Retailing and Distribution	–	18,898	18,898
Managers, Agents and Promoters	–	1,072	1,072
Total	43,095	47,506	90,601

Estimated full-time employment in 1995 was 90,601.⁵ Almost 50% (43,000) were musicians or composers, and of these 31,000 were aspiring pop and rock performers. The next largest groups are retailing (19,000) and recording (15,000).

Part-time employment in the industry is high, especially among musicians. Only 28,000 of the 43,000 musicians were in full-time employment. Total employment in the industry is estimated at in excess of 160,000.

Note 1 4,000 FTE performers have been allocated to the recording industry
Source: BPI Statistical Handbook 1997, National Music Council

⁵ Excludes employment in education and training and the production, distribution and retailing of musical instruments.
Source: The Value of Music and BPI Statistical Handbook 1997

INDUSTRY STRUCTURE

Value Chain Analysis of the Recording Industry

	Songwriter/Composer	Publishing Company	Collection Societies	Artists/Performers	Record Company	Record Producers	Recording Studios	Manufacturers	Distributors	Retailers
Activities	Write songs, compose music Assign copyright to music publishers	Exploit and protect composers' works Collect royalty for songwriters/composers for every record sold	Collect royalties and payments for composers/songwriters and for record companies	Perform music (pop artists usually write own material as well)	Create and exploit copyright in sound recordings by signing artists and co-ordinating recording, manufacturing and distribution activities Market and promote new release Own copyright of recordings but can licence or assign them to others	Work with artist while record is being made	Record music/create master	Manufacture soundcarriers from master	Distribute soundcarriers to retailers	Sales
The Players			PRS MCPS	Over 500 artists and groups (totalling app. 2,000 individuals) are signed to majors and another 2,000 are signed to indies	5 majors (73.2% share of albums sold in 1996) and 600 indies. Majors are: - Polygram (20.4%) - Sony (12.4%) - EMI and Virgin (12.5%) - Warner Music (9.6%) - BMG (8.3%) (% of UK Market)	1,000 active record producers, of whom 500 are full-time	360 independent studios, but many are part of other businesses	150 companies	Over 250 companies, but the five majors distribute over 80% of music	Specialist chains (5), general multiples (9), independent specialists and 'non-traditional' outlets Specialist chains: 49.3% (HMV, Virgin, Our Price, MVC, Now) General Multiples: 36.5% (WH Smith, Woolworths, Menzies, Boots, Asda, Sainsbury, Tesco, Safeway, Dixons and others) Independents: 14.2%
Value Added	£125.0m	£85.5m	£23.3m	£111.6m	£217.0m	£14.0m	£17.4m	£67.0m	£64.0m	£266.1m
FTE¹ Employment 1995	1,250	1,195	971	57,343	10,401	750	793	3,000	2,200	16,698

Note 1 FTE = Full-Time Equivalent

The market for recorded music in the UK is dominated by a small number of record companies and retailing chains.

Source Value of Music, BPI Statistical Handbook 1997, MMC Report, Spectrum Analysis

The major *recording companies* – BMG, EMI, Polygram, Sony and Warner (the five 'majors') supplied 71% of the albums sold in the UK in 1991. The remaining 29% was supplied by 800 independent record companies ("indies"), many of which release only one or two records a year. The indies play an important role in the industry, discovering new sources of talent and establishing new fashions. However, as a result they bear a disproportionate share of the risk of developing new repertoire. There is a current trend for establishing joint ventures between the majors and successful indies, preserving the "indie ethos" while providing more secure financial backing.

Access to new and cheaper technology has significantly increased the number of so-called "bedroom acts" – musicians who write, perform, record and mix their own material in their home.

The recording industry is high risk, requiring substantial upfront investment in new artists and repertoire (A&R). Record companies invest approximately 12-13% of revenues in A&R, one of the highest ratios of R&D expenditure of any industry. The industry relies on a handful of "blockbuster" hits to cover the losses from the majority of recordings that do not sell enough copies to cover the initial investment. The total cost of making a record can be £1m or more for a pop album by a major recording artist.

In addition to developing A&R, the other most important activities of record companies are *marketing and promoting* new releases and *distribution* to retailers.

Among the *retailers*, 10 specialist chains and multiples dominate the UK market, with over 85% of sales. Over 1,000 independent retailers account for the remaining 15%. The number of independent retailers has been declining, while non-specialist outlets such as supermarkets and petrol stations have been taking an increasingly large share of sales. Supermarkets now account for almost 10% of UK retail album sales.

INTERNATIONAL CRITICAL ACCLAIM

The Spice Girls are currently the most successful group in the world, with number one records in dozens of countries. They have sold over 9 million albums in the USA.

Many other British artists have made a significant impact in overseas markets recently. Texas, The Verve, All Saints, Bush, Prodigy and Chemical Brothers have all enjoyed substantial success in important markets. The popularity of established acts such as The Rolling Stones, Eric Clapton, Sting, Rod Stewart and Pink Floyd remains high.

Last year, Sir Elton John's re-recording of *Candle in the Wind* became the biggest selling single of all time, selling over 5 million copies in the UK alone and in excess of 33 million worldwide.

SECONDARY ECONOMIC EFFECTS**Specialist Companies Engaged in the Music Industry**

Number of Companies	
Art and Creative Studios	50
Promoters and Pluggers	180
PR Companies	150
Other (e.g. photographers)	n/a

Estimated Ancillary Employment in Music Venues 1995

	Full-time	Part-time	FTE
Venues	4500	6300	7000
Concerts	2000	4000	4000
Total	6500	10300	11000

Turnover of Selected Related Industries 1995

Turnover £m		
Advertising	Expenditure on music production for commercials	4.5
Dance and Night Clubs	Value of ticket sales for clubs (e.g. Ministry of Sound, Cream, First Leisure clubs)	300
Music Press	Annual retail circulation revenues and advertising revenues	100
Merchandising	Music-based products of which T-shirts and other garments are the most significant items	55-65

Record companies in the UK spent £94m on *advertising* in 1997, of which 57% was spent on television, 26% on newspapers and magazines and 11% on radio.

Live performances at concerts and *venues* (including festival sites, bars and cafes) generated full-time equivalent employment of 11,000 in 1995.

The growing importance of the *Internet* as a new medium for promoting artists and distributing sound recordings will create job opportunities in Website creation, design and related activities.

Other industries closely related to the music industry and which depend, to a greater or lesser extent, on its output include the *music press*, *music merchandising*, the *dance sector*, *radio*, *television* and *film*.

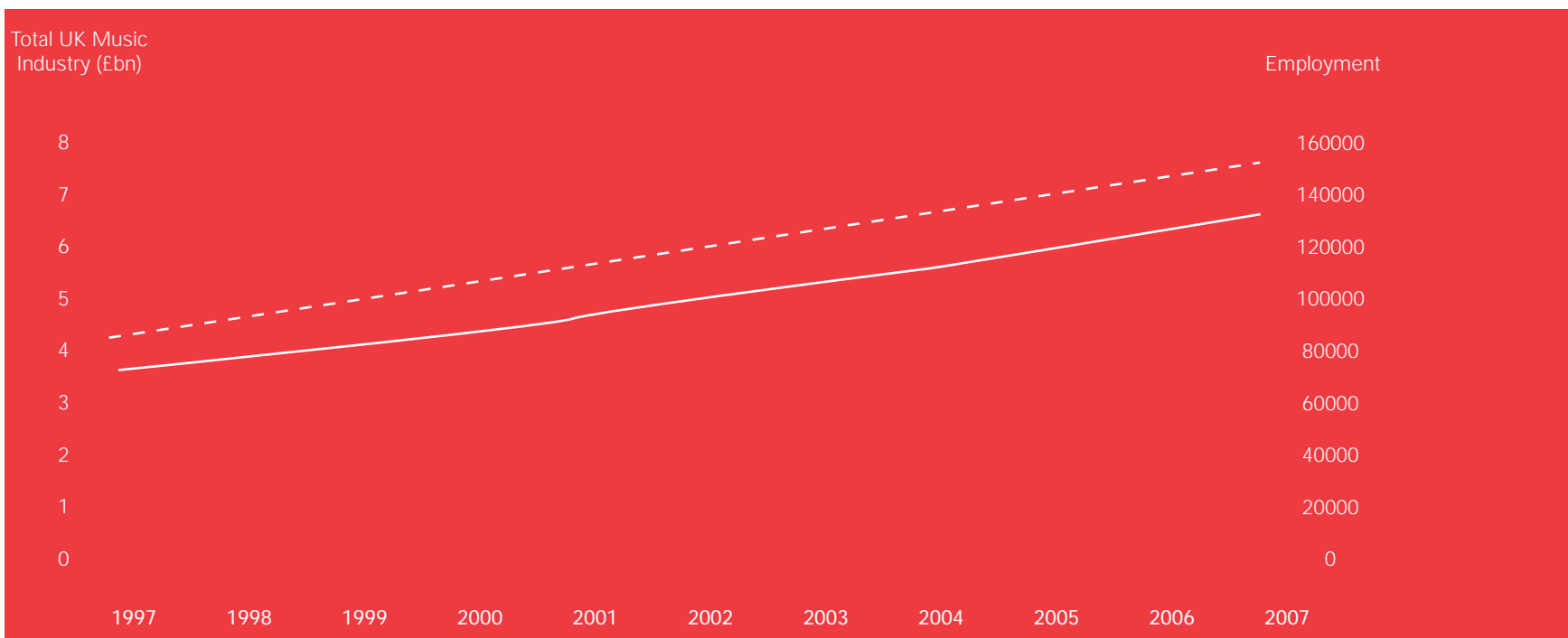
The industry, due to its dependence on intellectual property, has supported the growth of a number of *legal and accounting services* that specialise in music. Over 100 accountants' firms are listed in the 1996 *Music Week Directory*.

The multiplier effect of the music industry in all such areas of *ancillary and indirect employment* accounts for some 136,000 jobs.⁶

The industry also helps to generate more general economic benefits by contributing to the positive image of the UK and promoting British *culture* overseas, with a consequent effect on inbound *tourism*. The UK has always been a source of new talent, innovation and trends which have gone on to influence the world.

POTENTIAL FOR GROWTH

Forecast Growth in Industry Revenues and Employment



The strength of the balance of trade means that rapid growth could be achieved in the industry with only moderate growth in UK demand, if this is coupled with stronger growth in exports.

The total size of the UK music industry could reach £6.7bn by 2007, if UK consumer spending grows by only 4% CAGR but exports reach 8% CAGR. On the same basis, UK consumer expenditure would grow to £3.7bn and full-time equivalent employment to almost 160,000.⁷ Much of the new employment opportunities will be focussed on young people.

New markets in Eastern Europe, Latin America, China, India and other Asian markets will be important sources of future demand.

However, export earnings are susceptible to currency fluctuation, and could be squeezed if sterling continues to strengthen.

The Internet is growing in its influence and importance to the music industry. Technological developments have made online music a practical distribution alternative, with worldwide online sales estimated to reach US\$1.6bn by 2003. The Internet also opens up new opportunities for publicity and for building image and fan loyalty.

Companies doing business on the Internet will, however, need to be assured that adequate copyright laws are in place worldwide to ensure that they can obtain a reasonable return on their investment.

New formats, such as the digital versatile disk (DVD), continue to be developed, but they are not expected to have as much of an impact on the market as did the launch of CDs. Mini Disc sales have been steadily rising and in some countries (for example, Japan) they have become an important format.

⁶ Assumes a multiplier of 1.5 Spectrum estimate

⁷ Based on 1995 total industry revenues of £3.5 billion and 90,061 employees, the 2007 employment figure is doubled and discounted by 25% due to very limited growth in retail sector jobs. Source MBI World Report and Spectrum analysis

GROWING THE SECTOR – POINTS FOR CONSIDERATION

The UK music industry faces the future from a position of relative strength in world markets. UK artists' share of the domestic market remains strong, while the share of US artists is declining. Technological developments will provide new distribution and marketing opportunities, whilst new markets are opening up in many developing economies. Issues critical to the industry over the next decade include:

- ensuring that standards of copyright protection are maintained in the UK and that similar levels of protection are extended throughout the EU (through the forthcoming Copyright Directive) and the rest of the world
- in particular, ensuring that the opportunities afforded by the Internet are coupled with technological and legal protection of intellectual property
- combating piracy
- support for UK exports in emerging markets, particularly for smaller companies who most need external support
- the need to provide business guidance and support for the many small indie companies on which the industry relies
- how to ensure that musicians and others in the industry receive the education and training they need, through the schools system, specialist training institutions and community facilities