



Core activities:

Production, distribution and retailing of sound recordings

Administration of copyright in composition and recordings

Live performance (non-classical)

Management, representation and promotion

Songwriting and composition

9 Music

Related activities:

Music press

Multimedia content

Digital media

Retailing and distribution of digital music via Internet

Music for computer games

Art and creative studios

Production, distribution and retailing of printed music

Production, retailing and distribution of musical instruments

Jingle production

Photography

Education and training

Related industries:

Internet/e-commerce

Publishing

Television & Radio

Film & Video

Advertising

Performance Arts

Interactive Leisure Software

Software & Computer Services

9 MUSIC

REVENUES Gross: £4.6 billion (1997/98) ^a
EXPORTS £1.3 billion (1997/98) ^b
EMPLOYMENT 122,000 (1997/98) ^c

^a NMC and KPMG, 1999: *A Sound Performance*. ^b NMC and KPMG, 1999: *A Sound Performance*. ^c NMC and KPMG, 1999: *A Sound Performance*.

INDUSTRY REVENUES¹

Total revenues of the music industry in 1997/98 were estimated at £4.6 billion.

The value of domestic consumer expenditure was £3.3 billion while UK exports amounted to £1.3 billion in the same year.²

The value added of the music industry to the UK's economy was estimated at £3.2 billion³ in the same year.

The value added by the recording industry alone totalled £2.3 billion.

ESTIMATED VALUE ADDED OF THE UK MUSIC BUSINESS, 1997/98

	£ MILLIONS
COMPOSITION AND MUSIC PUBLISHING	<u>122</u>
MUSICAL INSTRUMENTS: PRODUCTION, RETAILING AND DISTRIBUTION	<u>344</u>
MANAGERS, AGENTS AND PROMOTERS	<u>159</u>
LIVE PERFORMANCE	<u>571</u>
RECORDING COMPANIES	<u>521</u>
RETAILING AND DISTRIBUTION OF RECORDINGS	<u>365</u>
EDUCATION AND TRAINING	<u>211</u>
OTHER ARTISTS' EARNINGS (a)	<u>930</u>
TOTAL	<u>3,223</u>

Source: NMC/KPMG, 1999.

(a) Composers and performer/composers.

¹ Total industry revenue was measured in terms of domestic expenditure on music and exports (does not take imports into account).

^{2, 3} NMC and KPMG, 1999: *A Sound Performance*.

UK MARKET SIZE

Overall domestic expenditure on music (excluding performance of classical music) within the UK economy totalled £3.3 billion⁴ in 1997/98.

The music industry has experienced phenomenal growth since the early 1980s. Particularly in the last decade of the 20th century, patterns of consumption of music became ever more intense and diversified; this is true not only in relation to audiences but also in relation to expenditure by other institutional sectors such as private corporations and government.

The amount spent by private corporations on music was estimated at £160 million in 1997/98.⁵ This included the purchase of musical services, for example, live performance in clubs and hotels or licensing music for broadcast on independent radio. Music is a key ingredient for radio and TV broadcasters. For example, in the first quarter of 1999 42.6 million adults tuned into a radio station once a week. Programmes such as the *BRIT Awards* and *An Audience With ...* regularly draw audiences of 10 million viewers, while established music programmes such as *Top of the Pops* and *CDUK* typically attract an audience of between 1 million and 3 million.⁶

Other corporate contributions to the music sector are in the form of sponsorship. (This is mainly targeted at the performance of classical music which is covered in the chapter on the Performing Arts).

Public spending on music (excluding classical music performance) was estimated to be in the region of £196 million in 1997/98, and ranged from spending by local authorities on music venues through to music education and to support for military bands.

It is estimated that consumer spending on music totalled £2.9 billion⁷ in 1997/98.

Attendance at live music events (non-classical music) was estimated to be around 14 million⁸ in the UK in 1997/98, with admissions representing £227 million – a leap of 35% in relation to the estimated £168 million of 1994.⁹

The total market value (at wholesale prices) of sound recordings was an estimated £1.1 billion¹⁰ in 1999, an increase of 1% on 1998.

Retail sales of sound recordings and music videos were valued at nearly £1.9 billion in 1999. Spending on recorded music grew by 4% in the year to 1999, which compares favourably with the European average of 1%.¹¹

Growth tended to slow down in the late 1990s. Sales were relatively flat over the last three years although they levelled at a high level; album shipments, for example, have been running at around 200 million units per year since 1995. The proportion of consumer expenditure allocated to spending on records, tapes and CDs during the 1990s has remained static in the same three year period.

Market penetration of CD albums neared 50% in the UK in 1999 as music buyers spent on average almost £79 per year on albums,¹² the vast majority of which were CDs. The CD is now established as the leading format: in 1999 it accounted for 92% of total album revenue. Those in the 15-29 age bracket were responsible for over 50% of the total consumer spend on singles.

Sales of the MiniDisc doubled in 1999, a performance followed by an increase of nearly 200% in the retail sales of MiniDisc players.¹³

Classical music's share of the UK's sound-carrier market was 5.9% in 1999. Its market share showed a gradual downward trend during the 1990s: in 1990 it stood at 11.2%.¹⁴

4, 5, 7, 8 NMC and KPMG, 1999: *A Sound Performance*.

6, 10, 12, 13, 14 British Phonographic Industry, 2000: *Statistical Handbook*.

9 NMC and University of Westminster 1996: *The Value of Music*.

11 International Federation of the Phonographic Industry, 2000: *World Sales of Recorded Music, 1999; The Recording Industry in Numbers 2000, October 2000, (www.ifpi.org)*.

In 1999 the UK was the third largest record sales market in the world and the market leader in Europe, with a share of 7.6%.¹⁵

Piracy affects every area of the music industry from composers and musicians to retailers. It is estimated that in 1999 there were 1.9 billion discs and cassettes in circulation in the global pirate music market with a value estimated at £2.6 billion. Internet piracy is spreading rapidly and the IFPI estimate that in 2000 there were in excess of 25 million pirate files available for trading on the Internet.¹⁶

DOMESTIC EXPENDITURE ON MUSIC BY INSTITUTIONAL SECTOR, 1997/98

	£ BILLIONS
CONSUMER SPENDING	<u>£2.9</u>
PRIVATE CORPORATIONS	<u>£0.2</u>
PUBLIC SECTOR SPENDING	<u>£0.2</u>
TOTAL	<u>£3.3</u>

Source: based on NMC/KPMG, 1999.

Note: For the purposes of this chapter public sector expenditure excludes funding to classical music artistes, performances and organisations but includes education and training and MoD funding of military bands.

ESTIMATED CONSUMER SPENDING ON MUSIC, 1997/98 (a)

	£ MILLIONS
TOTAL ADMISSIONS (b)	<u>303</u>
SOUND RECORDINGS (NEW) (c)	<u>1,793</u>
SOUND RECORDINGS (SECOND-HAND) (d)	<u>38</u>
PRINTED MUSIC	<u>42</u>
MUSICAL INSTRUMENTS (NEW)	<u>450</u>
MUSICAL INSTRUMENTS (SECOND-HAND) (d)	<u>150</u>
EDUCATION (TUITION AND EXAMINATIONS)	<u>104</u>
TOTAL	<u>2,880</u>

Source: Based on NMC/KPMG, 1999.

(a) Including VAT. (b) Classical music performances were excluded.

(c) Includes music videos.

(d) Figure adjusted on a 50% basis – under national accounting rules only the retailers' or dealers' margins should be included in respect of second-hand goods.

15, 16 *British Phonographic Industry, 2000: Statistical Handbook.*

MAJOR MAINSTREAM POP AND ROCK CONCERTS: PERFORMANCES, 1997

CONCERTS AT:	NO. OF CONCERTS
VENUES WITH CAPACITY LESS THAN 5,000	<u>8,107</u>
LARGER VENUES	<u>483</u>
OUTDOOR EVENTS	<u>89</u>
TOTAL	<u>8,679</u>

Source: based on NMC/KPMG, 1999.

Figures are based on a CPA survey of promoter members. Responses were received from 26 of its 32 members (81%) and have been grossed up to allow for non-respondents and non-members.

BALANCE OF TRADE

The value of UK exports of music goods and services overseas was estimated at £1.3 billion¹⁷ in 1997/98. Imports were worth an estimated £775 million, which gives a net trade balance of £526 million.

Tours by UK artists to North America, for example, yielded £40.5 million¹⁸ in 1998; the table below measures the performance of UK artists' tours in the last three years to 1998.

Copyright earnings generated by composers and music publishers were £358 million in 1999.¹⁹

The tax paid by non-resident performers as a result of earnings from performances in the UK was estimated at £3.83 million²⁰ in 1997/98.

17, 18, 19, 20 NMC and KPMG, 1999: *A Sound Performance*.

OVERSEAS EARNINGS AND PAYMENTS, 1997/98

(£ MILLIONS)	OVERSEAS EARNINGS	OVERSEAS PAYMENTS	NET EARNINGS
COMPOSITION OF MUSICAL WORKS AND MUSIC PUBLISHING	358	187	171
MUSICAL INSTRUMENTS: PRODUCTION, RETAILING AND DISTRIBUTION	88	149	(61)
MANAGERS, AGENTS, PROMOTERS	6	•	6
LIVE PERFORMANCE (a)	108	32	76
RECORDINGS	728	392	336
RECORDINGS: RETAILING AND DISTRIBUTION	N/A	N/A	N/A
EDUCATION AND TRAINING	13	•	13
BALANCING ITEM (PAYMENTS UNACCOUNTED FOR)	•	15	(15)
TOTAL	1,301	775	526

Source: NMC/KPMG, 1999. (a) Excludes classical music.

MAJOR NORTH AMERICAN TOURS BY UK ARTISTS, 1996-1998

	1996 (a)	1997	1998
NUMBER OF ARTISTS IN TOP 10	7	13	14
TOTAL SHOWS	428	436	491
ESTIMATED GROSS INCOME FROM BOX OFFICE SALES	\$113.8M	\$213.7M	\$223.9M
UK SHARE OF TOTAL TOP 100 BOX OFFICE	15.3%	21.%	19.8%
ESTIMATED FLOW-BACK OF BOX OFFICE INCOME TO THE UK (b)	£21.9M	£39.1M	£40.5M

Source: NMC/KPMG, 1999.

(a) Figures published for 1996 covered only the top 50 concert tours, rather than the top 100.

(b) Calculated by assuming 30% of box office flows back to the UK. Sterling conversions have been based on annual average £-\$ exchange rates provided by the Bank of England.

EMPLOYMENT

Full-time employment in the music industry²¹ was estimated at 122,073²² in 1997/98 and is broken down in the table below.

Composers and musicians represented 30% of employment in the industry, which is a good indicator of the significance of origination of content and its performance in the music industry's supply chain.

Self-employment, part-time and occasional employment and multiple job-holding (often embracing an arts-related and non-arts occupation) are characteristic patterns of employment in the music industry. Quantifying this type of employment is therefore difficult. For example, most pop musicians do not

achieve success in the recording industry but are likely to find work in pubs, clubs and as session musicians. Also, of the 1,000 UK record producers it is estimated that only half are full-time producers.²³

Composers' and musicians' approach to work and employment is typically flexible and entrepreneurial. This is in part due to the nature of the music industry which rewards innovation and is responsive to and in the fore-front of changing fashions, but it is also explained by the autonomy which is characteristic of the creative process itself. Data from the 1991 Census estimated that only 10% of musicians (all genres, including classical music) were full-time employees.²⁴

FULL-TIME EMPLOYMENT BY SECTOR, 1997/98

	MUSICIANS AND COMPOSERS	OTHER	TOTAL ESTIMATED EMPLOYMENT
LIVE PERFORMANCE (a)	35,000	11,000	46,000
COMPOSITION OF MUSICAL WORKS	1,500	•	1,500
MUSIC PUBLISHING	•	1,275	1,275
COLLECTION SOCIETIES	•	913	913
MUSICAL INSTRUMENTS:			
– PRODUCTION AND DISTRIBUTION	•	5,700	5,700
– RETAILING	•	4,000	4,000
MANAGERS, AGENTS AND PROMOTERS	•	1,126	1,126
RECORDING:			
– RECORD COMPANIES	•	7,128	7,128
– RECORDING STUDIOS	•	660	660
– PRODUCERS	•	750	750
– MANUFACTURERS	•	3,000	3,000
RETAILING AND DISTRIBUTION OF RECORDINGS	•	18,668	18,668
EDUCATION AND TRAINING	•	31,353	31,353
TOTAL	36,500	85,573	122,073

²¹ Excludes live performances of classical music.

^{22, 23} NMC and KPMG, 1999: *A Sound Performance*.

²⁴ O'Brien and Feist, 1995: *Employment in the Arts and Cultural Industries: an Analysis of the 1991 Census*.

(a) Non-classical music. Source: NMC/KPMG, 1999.

MUSICIANS BY EMPLOYMENT STATUS, 1991

EMPLOYMENT STATUS	PERCENTAGE
FULL-TIME EMPLOYEE	10
PART-TIME EMPLOYEE	14
SELF-EMPLOYED WITH EMPLOYEES	4
SELF-EMPLOYED WITHOUT EMPLOYEES	62
UNEMPLOYED OR WAITING TO START JOB	11
TOTAL	100

Source: O'Brien and Feist, 1995.

INDUSTRY STRUCTURE

The vast majority of music businesses are small businesses, a fact which is common to all the sub-sectors of the music industry, and it is estimated that between 80 and 90% of these are micro-businesses,²⁵ i.e. employing up to nine people.

The recording industry alone comprises over 2,000 companies. These range from a small number of multinational conglomerates, the so-called "majors", who dominate the world markets, through to the smaller independent record labels. Smaller companies tend to concentrate on artists and repertoire (A&R) and often outsource production, manufacturing and distribution.

The music publishing industry is similarly structured: the five majors and some 200 independent publishers represent over 2,500 associated companies and catalogues. The promotional role of publishers is key, the smaller independent publishers particularly important in developing new writing talent.

The classical publishers generally still print all their own music, whereas the pop publishers print limited amounts through specialists. A number of publishers specialise in educational music.

The majors – Universal Music Group, Sony, Bertelsmann Music Group (BMG), EMI and Warner Music Group – account for about 75% of the UK's recorded music market and 80% of the global market.²⁶

However, although independents do not have their counterparts' investment power their advantage comes from being small, as their flexibility often enables them to operate more closely to the music scene, identifying new trends and quickly responding to them, and also to operate in niche areas of music; 40% of new artists who achieved gold albums in the UK in the 1990s were recording with independent companies. Co-operation and mergers of independents with majors are not uncommon in the music business.

²⁵ *National Statistics Business Monitor PA 1003, 2000: Size Analysis of United Kingdom Businesses: Commerce, energy and industry.*

²⁶ *British Phonographic Industry, 2000: Statistical Handbook.*

One factor that hinders the growth potential of small labels is that they operate under considerable financial constraints and with a limited administrative capacity. This, in turn, hinders not only their ability to invest in a varied portfolio of artists but also the capacity to take risks. Financial performance (and sustainability) is thus heavily dependent on the success of one of their recording artists. So the ability to generate new product is by nature limited; new product is cyclical – new albums, for example, are released on average every two years and any financial gains from this will have to enable the company to survive until the next “hit” happens.

The record distribution system in the UK comprises over 200 companies.²⁷ Majors often have their own distribution systems (in 1999 majors controlled nearly three-quarters of the distributors’ market) and have a bargaining strength with retail outlets which smaller companies do not have. The records of independents are also often distributed by majors.

The development of e-commerce and increased consumer access to music via the Internet are creating alternative channels for marketing and distribution. This could enable smaller companies to overcome current barriers to trade and business development and it has the potential to change the present structure of the industry.

The retail market comprises some 6,400 over-the-counter retail outlets, ranging from specialist chains (e.g. Virgin or HMV), to independent specialists, multiple retailers (e.g. Woolworth’s) or supermarkets (e.g. Sainsbury’s).

The mail order (non-Internet) market represented around 11% of the recorded music market in 1998, but as online shopping becomes more commonplace this figure is likely to change noticeably in the future.

²⁷ *United Business Media, 1999: Music Week Directory 2000.*

THE SUPPLY CHAIN STRUCTURE OF THE RECORDING INDUSTRY

	COMPOSER	PUBLISHING COMPANY	COLLECTION SOCIETIES	PERFORMERS	RECORD COMPANY
ACTIVITIES	Compose music Assign copyright to publishers	Exploit and protect composer's work Collect royalties for composers and for every record sold	Collect royalties and payments for composers and record companies	Perform music	Create and exploit copyright in sound recordings by signing artists and co-ordinating recording
PLAYERS			PRS MCPS	Over 500 artists and groups (totalling 2,000 musicians) are signed to major record companies and another 2,000 to Indies	5 major companies (account for 75%+ of record industry domestic turnover) and 2,000 independents
VALUE ADDED	£930m	£96m	£26m	£350m	£405m
FTE EMPLOYMENT 1997/98	1,500	1,275	913	46,000	7,128

Source: *Creative Industries Mapping Document, 1998; NMC/KPMG, 1999.*

ACTIVITIES	RECORD PRODUCERS	RECORDING STUDIOS	MANUFACTURERS	DISTRIBUTORS	RETAILS
	Work with artists while record is being made	Record music/ create master	Manufacture soundcarriers from master	Distribute soundcarriers to retailers	Sales
PLAYERS	1,000 record producers of whom half work full time	360 independent studios (many are part of other businesses)	150 companies	Over 250 companies. The 5 majors distribute 73% of records	6,400 outlets: Specialist chains; Independent specialist; Multiple retailers; Supermarkets; other outlets
VALUE ADDED	£14m	£15m	£87m	£86m	£279m
FTE EMPLOYMENT 1997/98	750	660	3,000	2,578	16,090

Source: *Creative Industries Mapping Document, 1998; NMC/KPMG, 1999.*

RECORD COMPANY MARKET SHARE, ALBUMS, 1996-1999 (% UNITS)

	1995	1997	1999
UNIVERSAL	3.0	4.6	24.2 ^(a)
POLYGRAM	20.6	19.6	•
SONY	12.0	12.1	14.6
EMI	13.4	14.2	13.0
WARNER MUSIC	9.9	7.2	9.6
VIRGIN	8.3	10.3	7.5
BMG	8.1	7.8	7.5
ZOMBA	0.4	0.9	2.6
CRIMSON	•	1.1	1.7
TELSTAR	3.3	1.6	1.6
OTHERS (INDEPENDENTS) ^(b)	21.0	20.6	17.7

Source: BPI, 2000.

(a) Universal acquired PolyGram; this accounts for the increase in their market share in 1999. (b) Aggregate of individual independent companies with <2% share of the market.

MARKET SHARE OF SINGLES AND ALBUMS SALES BY TYPE OF RETAILER, 1999/2000

TYPE OF RETAILER	SINGLES %	ALBUMS %
SPECIALISTS	64.1	54.5
MULTIPLES	27.8	20.4
SUPERMARKETS	5.6	9.1
MAIL ORDER AND CLUB	1.0	10.6
INTERNET	0.5	1.0
OTHER OUTLETS	1.1	4.4
TOTAL	100.0	100.0

Source: BPI, 2000.

REGIONAL DIMENSIONS

Sales are spread fairly evenly throughout the country though proportionally more sales are made in London and fewer in the North East.

SINGLES, PERCENTAGE OF RETAIL SALES BY REGION, 1999

(%) GENERAL POPULATION	7"	12"	CASSETTE	CD	TOTAL
LONDON 19.3	27.7	28.7	18.9	23.7	22.7
SOUTH AND SOUTH EAST 9.2	9.7	10.7	10.0	9.8	9.9
SOUTH WEST 3.0	1.9	2.1	2.9	2.4	2.5
WALES AND WEST 7.7	6.8	5.2	7.7	6.3	6.6
MIDLANDS 15.4	14.8	16.1	17.6	15.4	16.0
ANGLIA 6.7	8.3	6.7	7.5	7.0	7.1
YORKSHIRE 9.9	8.9	7.7	9.6	8.5	8.8
LANCASHIRE 11.7	11.5	8.9	11.7	10.7	10.9
NORTH EAST 5.1	2.7	4.2	4.2	4.2	4.2
NORTHERN IRELAND 2.3	1.4	3.1	1.8	2.0	2.0
SCOTLAND 6.4	3.3	4.6	5.2	7.2	6.5
GRAMPIAN 2.1	2.8	1.4	1.8	2.1	2.0
BORDER 1.2	0.2	0.5	0.9	0.9	0.9

Source: Millward Brown, from British Phonographic Industry, 2000: Statistical Handbook.

ALBUMS, PERCENTAGE OF RETAIL SALES BY REGION 1999

(%) GENERAL POPULATION	LP	CASSETTE	CD	MINIDISC	FULL PRICE	MID PRICE	BUDGET	TOTAL
LONDON 19.3	35.4	21.0	27.2	40.9	26.2	30.5	26.3	26.7
SOUTH AND SOUTH EAST 9.2	10.4	10.4	10.1	10.2	10.1	9.9	10.6	10.1
SOUTH WEST 3.0	2.0	3.4	2.7	2.6	2.7	2.6	3.1	2.8
WALES AND WEST 7.7	7.3	8.6	6.8	4.7	7.1	6.2	7.0	6.9
MIDLANDS 15.4	13.4	15.7	13.8	11.2	14.2	13.1	13.6	14.0
ANGLIA 6.7	5.7	7.2	6.7	5.2	6.9	6.2	6.4	6.7
YORKSHIRE 9.9	6.3	9.0	7.6	5.3	7.8	7.3	7.7	7.8
LANCASHIRE 11.7	7.8	11.0	10.3	8.1	10.4	9.9	10.3	10.4
NORTH EAST 5.1	3.2	3.8	3.6	3.2	3.6	3.5	3.8	3.6
NORTHERN IRELAND 2.3	2.5	1.9	1.8	1.0	1.8	1.7	1.9	1.8
SCOTLAND 6.4	3.7	5.0	6.4	5.3	6.2	6.4	6.3	6.2
GRAMPIAN 2.1	2.0	1.9	2.2	1.8	2.1	2.0	2.2	2.1
BORDER 1.2	0.3	1.0	0.8	0.5	0.8	0.6	0.8	0.8

Source: Millward Brown, from *British Phonographic Industry, 2000: Statistical Handbook 2000*.

INTERNATIONAL CRITICAL ACCLAIM

The record of achievements for the UK music industry in overseas markets is strong: the UK was second only to the US as a source of repertoire (or as a creative source) and in third place in the world market ranking in 1999 in terms of sales following the US and Japan.

In 1998, for example, the UK was the nationality of origin of 22% of the top 100 European hit singles and of 31% of hit albums. The US had 21% and 28% of European hits respectively.²⁸

Performance in the US market has been relatively poor recently although UK artists have had a number of hits. This is in part due to the strength of local musical product such as country music or rap-influenced metal.

Domestic repertoire in many international markets grew in popularity (and market share) in the 1990s. The development of local music industries and investment in local talents and in developing local markets gradually enhanced the share of local

repertoire in national territories. It also had an impact on the development of local musical taste. The average figure for repertoire of domestic origin in the world market was 66.2% in 1999,²⁹ a figure which systematically increased during the 1990s while the share of international repertoire gradually decreased.

Nevertheless, many UK artists continue to sell well in markets throughout the world: Radiohead, Craig David, Sonique, S Club 7 and

²⁸ Dane, 1998: *Cultural Trends, "The UK Music Industry: Some Recent Developments"*.

²⁹ IFPI, 2000: *The Recording Industry in Numbers*.

Robbie Williams were a few of the British acts who enjoyed substantial success overseas recently. In the first week of December 2000 there were 24 British albums in the American Top 200.³⁰

SECONDARY ECONOMIC IMPACT

A range of services supply the music industry. The table below identifies specialist companies who are engaged in the recording industry.

The music industry also has an indirect impact on some of its own sub-sectors through its interaction with the advertising industry. Record companies spent £112 million on advertising in

1999, while record company advertising on music television channels such as MTV or VH1 increased by 163% between 1998 and 1999.³¹

The use of music in advertising has a direct impact on employment and royalty-earning opportunities for composers, musical directors and musicians.

SPECIALIST COMPANIES ENGAGED IN THE RECORDING INDUSTRY, 1999

	NO. OF COMPANIES
ART AND CREATIVE STUDIOS	100
PROMOTERS AND PLUGGERS	166
PR COMPANIES	175
OTHER (PHOTOGRAPHERS, HAIRDRESSERS, ETC)	149

Source: Music Week Directory 2000, 1999.

POTENTIAL FOR GROWTH

The world's music market grew consistently during the 1990s (at a rate of 2.6% per year).³² Investment in and marketing to local music markets is increasing as living standards, namely leisure time and personal disposable incomes, continue to rise. The British music industry has the potential to build on its existing strengths in international marketing: the English language, talent, brand, investment power, expertise and infrastructure.

Growth in online retailing is already having an impact on the music industry. Mintel forecasts that online commerce in the UK is likely to grow over 1000% in the next four years to 2004. The Henley Centre predicts that

by 2003 UK consumers will spend £27.5 billion shopping online.³³ Growth will be driven by further falling costs of hardware and increased ownership of PCs, low-cost access, an increase in online usage times and faster connection speeds, better security of payment and familiarity with the technology.

In 2000, 32% (7.8 million), of the UK's households had Internet connections³⁴ and 17% used it for playing or downloading music. In an earlier study (1999-2000) 12% of Internet users had bought CD/videos and 51% had visited a music website.³⁵

The potential for growth of the music industry is also allied with the growth

of the Internet in the way it has the potential to change (or add to) the way in which music can be delivered: from the online distribution of music through streaming, downloading or other on-demand services and the online retailing of records to ticket buying provision or webcasts of live performances.

The full extent of the Internet's impact on the music industry, however, will probably not be felt in the short term, since the penetration rate of the Internet is still relatively low. When it happens, the ability to deliver music online to consumers in a variety of forms is expected to produce efficiencies, particularly in helping to reduce delivery times for catalogue

³⁰ Jones, 2 December 2000: *Music Week, American Chartwatch*.

³¹ *British Phonographic Industry, 2000: Statistical Handbook*.

³² IFPI, 2000: *The Recording Industry in Numbers*.

³³ Mintel, 16 May 2000: *Leisure on the internet*.

³⁴ ONS, Survey: *Internet Access, First Release, July-September, 2000*.

³⁵ MORI for "Which?" *Online Internet Survey 1999*.

that might not otherwise be readily available in traditional retail outlets.

The new peer-to-peer business model is likely to generate a wider and more specialised (niche) choice of product, which should generate opportunities for further growth.

IMPACT OF E-COMMERCE/ INTERNET/TECHNOLOGY

E-commerce is challenging traditional systems of delivery and has the potential to radically change the economics of the music industry itself. The functions of marketing, selling, distribution and broadcasting can conceivably all be performed by a single website. From the point of view of supply this streamlined approach might, despite transitional costs, have the potential to shorten the supply chain leading to, from a consumer's perspective, potential price reductions and ease of access and wider choice. This might, however, have negative impacts on employment in the medium term, especially in manufacturing, distribution and retailing; around 18% of total employment in the music industry.

The possibility to digitally download music for individual user storage virtually eliminates the costs of manufacturing and physical distribution. In the US in 1999 two singles by Puff Daddy and Tori Amos were released on the Internet a month before their retail release, both

downloads at a cost of £1.10 to the consumer.³⁶ Another delivery model is a kind of "e-jukebox" (similar to on-demand video) where a digital audio stream is delivered electronically at the request of the end user (with no download).

A consequence of these developments is the fact that many major retailers are expanding their operations to include MP3 and wireless application protocol (WAP) technology. New applications like RIO, WAP phones and, for example, the Sony memory stick Walkman are already on the market.

On the other hand, the growing market for Internet mail order has also meant that the number of Internet sites selling music has grown significantly in the past two years. For example, HMV, Tower and Virgin Megastores have launched online retail operations.

In the UK, books and CDs are the most popular online purchase.³⁷ Convenience is an important attribute when purchasing on the Internet, and one of the reasons why items like books and CDs do well on the Internet is because shoppers are able to search for particular items much more easily than they can in traditional stores. In the first quarter of 2000 *Amazon.co.uk's* music sales were up 136% on the same period in 1999.³⁸

It is predicted that online music sales could reach £2.5 billion worldwide by 2004 – £80 million in the UK. The table below suggests that, similar to the US and other European top music markets, the UK's rate of growth in the next two years will be slightly over 100% per year³⁹ (although growth showing a tendency to slow down towards 2002).

Increasingly international artists have experimented with downloading samples of their music from the Internet, while others like Madonna or David Bowie have offered whole songs for downloading. Madonna in November 2000 played live to an audience of 4,000 at the Brixton Academy (London) in a concert which was webcast to 9 million listeners around the world.⁴⁰ The publishing, recording and technology industries are now establishing the conditions for a thriving online music market: the SDMI (Secure Digital Music Initiative), a partnership involving well over 100 companies and organisations, is trying to develop an open framework and specification for playing, storing and distributing digital music.

36, 39 *Mintel, 5 July 2000: Records, Tapes and CDs.*

37, 38 *Mintel, 8 June 2000: UK vs US Online Shopping.*

40 *Sykes, 29 November 2000: Evening Standard, "Nine million fans and 4,000 celebrities in Brixton see a superstar make music".*

MUSIC SALES ONLINE, 1997-2002

(£ MILLIONS)	UK	% INCREASE	US	GERMANY	FRANCE
1997	1.5	•	24.3	2.2	0.6
1998	4.0	+166	56.5	5.7	1.2
1999	8.7	+118	121.3	14.0	3.0
2000	19.0	+118	247.0	35.0	7.9
2001 (FORECAST)	40.0	+111	469.0	76.2	17.5
2002 (PROJECTION)	80.0	+100	802.5	151.0	36.5

Source: Jupiter Europe/Mintel, 2000.⁴¹

GROWING THE SECTOR – POINTS FOR CONSIDERATION

Online distribution is set to change and in many ways facilitate the way people obtain their music. Services like, for example, Napster make possible file-sharing and downloading for free. However, in the main, the online trade in music has so far ignored the rights of those who create and invest in the creation of music.

This is of serious consequence for the economics of content creation and consequently the quality of music – it has the potential to jeopardise the digital music industry itself. UK copyright law has for a long time provided rights for creators that enable them to seek payment for use of their material over the Internet. However, an international framework

is needed, given that online business does not have geographical barriers.

The WIPO Copyright and Performances and Phonograms Treaties of 1996 provide the basis for this. Their early ratification through the EU Copyright Directive and implementation in every member state is an imperative for the music industry. Digital distribution is fast becoming a mainstream form for the delivery of music recordings. Copyright protection is a vital prerequisite for record companies seeking to trade and invest in the e-marketplace. Market research into music e-commerce needs to be developed, as knowledge of markets is essential to the strategic development of businesses.

One of the current barriers to the development of online shopping is the perceived insecurity of online financial transactions.

Piracy needs to be combated. There are now plans for a new EU Directive and other co-operative initiatives strengthening the enforcement of intellectual property rights; it is important that combating counterfeiting and piracy is made a priority in the EU negotiations for enlargement.

Business support needs to be made relevant to small businesses in the music industry.

There needs to be support for the international marketing of British acts, especially by smaller companies.

⁴¹ *British Phonographic Industry, 2000: Statistical Handbook.*