The UK's digital
music landscape

2013

DIGITAL MUSIC NATION

BPI
The British Recorded Music Industry

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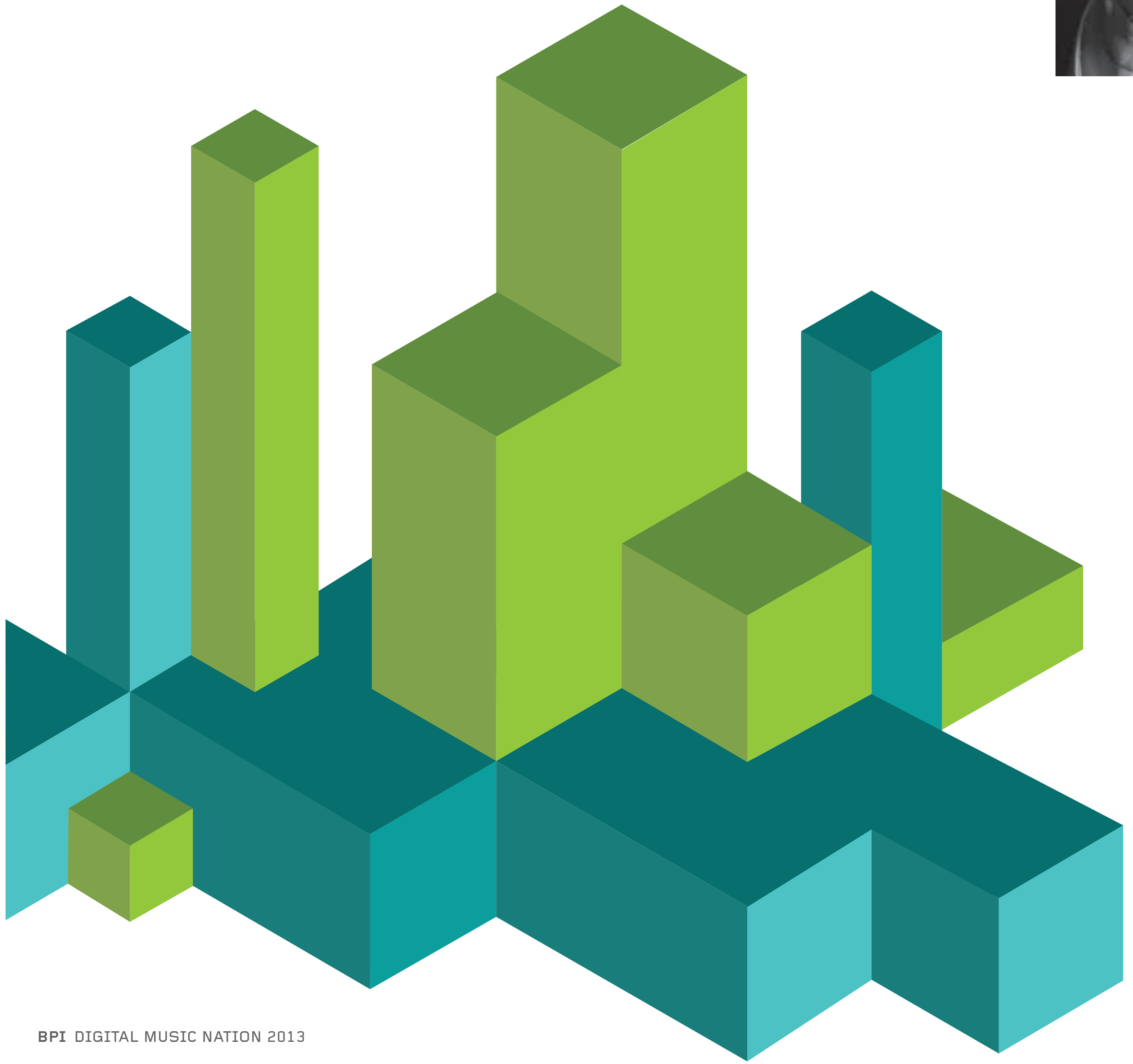


BY GEOFF TAYLOR

A decade ago, the outlook for the record business was gloomy. 'Digital music' was dominated by piracy; the market for legal services had barely emerged.

Looking back over the past 10 years, from when the iPod was still a new device for consumers, the speed of innovation has been dizzying. In that decade we have seen the entry of iTunes, Amazon MP3, 7digital, YouTube, Spotify, Deezer, Rdio, Vevo, Xbox Music, Google Play and more – not to mention the arrival of Facebook, Twitter, smartphones, tablets, mass broadband, 3G and now 4G mobile connections.

The music industry has embraced all of these changes, which has helped drive impressive growth in digital – not just in revenues but also in the diversity of services in the market. There are now over 70 licensed music services in the UK, meeting a huge range of consumer needs.

Like the US, Sweden and South Korea before it, the UK experienced an important tipping point at the start of 2012 when digital music revenues overtook physical music revenues for the first time. More affordable, capable and easy to use tablets and mobile devices are bringing more consumers to digital music for the first time and both the music business and digital music services are rising to meet them.

The consumer is at the heart of these changes. The emphasis placed on design, convenience and speed is encouraging music fans to transition quickly from testing the waters with a download to building a digital albums collection or subscribing to a streaming music service. The music consumer in 2013 is dramatically different from the music consumer of 2003 and it is to the credit of everyone in this ecosystem – labels, artists, publishers, digital services, technology companies – that the platforms are in place to meet their growing expectations.

Social media continued to grow in importance in 2012 with some acts, such as Lady Gaga, setting up their own social networks while others, like Blur, turned to them to debut new songs. While they are changing the very nature of engagement between musicians and fans, they are also playing an important role in music discovery and recommendation, and Facebook's Open Graph and Graph Search look set to deliver this further.

UK labels are strategically well placed to take advantage of these developments. English is a global language. Labels have become experts in using digital and social media marketing to build and connect with a global fanbase, as the international success of bands like One Direction, Mumford & Sons and Muse illustrates. We can now market our music to the world more effectively than ever before. Alongside all this innovation, piracy remains a continuing challenge, although the growing appeal of streaming services, from Vevo to we7, Spotify, Deezer and Rdio and progress on blocking illegal sites and delisting illegal search results means the elements are in place to help carry users over from unlicensed sites to fully licensed ones.

The introduction in 2012 of the Official Streaming Chart stands as an important marker of how far we have come in such a short period of time. It comes eight years after the first download chart and today downloads make up almost 100% of the singles chart. The change has been seismic. And it continues. Market growth and digital innovation are dynamically intertwined, meaning the next 10 years should be equally as game changing and thrilling, as we look forward to the impact of 4G, connected TVs and in-car streaming on the horizon.

UK record labels are in the vanguard of this new wave of global opportunities. Digital is in our DNA and music is set to realise its potential for growth in a fully connected world.

Geoff Taylor

Geoff Taylor
Chief Executive, BPI

UK DIGITAL MUSIC AT A GLANCE

189,000,000
Sales of singles in 2012, 99.6% of which were digital[1]

22,000,000
Monthly UK audience for YouTube[3]

938,000,000
Digital tracks sold to date in the UK by December 2012[1]

27.7%
Percentage of Brits who purchase downloads or stream content legally[4]

114,000,000
Digital albums sold to date in UK by December 2012[1]

3,700,000,000
Number of audio streams in the UK in 2012[1]

71
Legal digital music services in the UK[2]

£49,000,000
Value of streaming market to British record labels[2]

51%
Proportion of UK record label revenues accounted for by digital sales (Q3 2012)[2]

68%
Proportion of people who believe search engines should make it harder to find illegal music websites[5]

20,000,000
Individual tracks available for licence to legal digital services

80%
Proportion of people who are aware of streaming services[4]

20%
Proportion of Spotify's global users who are paying subscribers

345,000,000
Number of tracks downloaded using BitTorrent between January and June 2012[8]

93%
Satisfaction rate with music streaming services[6]

44,000,000
Forecasted number of 4G subscribers by 2016[9]

1,000,000,000+
Number of playlists already created on Spotify

18,000,000
Potential number of tablet owners by 2016[9]

62,000,000
Number of music tracks that have been shared on Facebook

239,000,000
Number of tracks downloaded legally between January and June 2012[1]

54%
Proportion of music fans who prefer to own downloaded music[7]

50,900,000
Forecasted number of cars with streaming facilities to be sold every year by 2017[10]

4,000,000
Number of people regularly engaging in filesharing in the UK[3]

14.5%
Percentage of Brits using P2P networks to fileshare music[4]

1 Official Charts Company
2 BPI
3 UKOM/Nielsen
4 Kantar
5 Harris Interactive
6 EMI Music Consumer Insight
7 YouGov Sixth Sense
8 MusicMetric
9 Futuresource Consulting Ltd
10 ABI Research

MUSIC LEADS THE CHARGE IN DIGITAL INNOVATION

Innovation is the lifeblood of digital music and the scale and speed of developments here in recent years has been phenomenal. The UK is the world's most competitive digital music market, with more than 70 legal services, catering for all different kinds of music fan.

FIVE DIGITAL HIGHLIGHTS OF 2012

Watershed moment for digital music

Q1 2012 saw a ground-breaking moment for digital music when revenues from downloads and streaming accounted for more than 50% of record label income for the first time in digital music's history.

First official streaming chart launches in the UK

The growth and popularity of streaming was marked in May 2012 with the launch of the UK's first Official Streaming Chart, which collates data from both ad-funded and subscription services.

Cloud services fully launch in the UK

Cloud services launched by three of the biggest digital players – **Google, Amazon** and **Apple** – arrived in the UK offering consumers the opportunity to access digital purchases remotely, stream stored content, and upload or scan-and-match music files from their own collections.

Competition heats up in the streaming market

The US-based streaming service, **Rdio,** launched in the UK adding web browser access alongside a range of apps, streaming integration for audio systems and an Artist Program offering musicians a cut of subscriptions they drive. **Deezer** expanded into the live music video streaming market and was bundled with Everything Everywhere's 4G mobile service at launch. A major revamp to **Spotify**'s service included an enhanced recommendations engine, playlists from musicians and celebrities, and notifications when new music from favourite artists is released. The Napster service was bought and relaunched by **Rhapsody**, helping raise its profile in the UK market.

Digital radio manufacturer turns to subscription

Digital radio manufacturer **Pure** brought its own Pure Music subscription service to music fans in the UK, following on from its existing FlowSongs offering. Users can stream content and tag tracks they hear on their DAB set to get more from that artist.

DOWNLOADS UP LOADS

DIGITAL MUSIC OUTSELLS CDs IN UK FOR THE FIRST TIME!

A record number of downloads took digital sales past the £1billion mark for the first time last year.

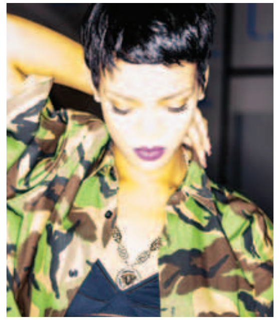
Streaming of music, films and video games rocketed by 11.4% and now make up a quarter of the market.

MUSIC AS A DRIVER OF SOCIAL MEDIA ENGAGEMENT

A cursory look at major digital entertainment platforms and social media services shows how the global appeal of British music and its popular artists attracts huge audiences to many online businesses, helping them to achieve the traction they need to gain momentum in a notoriously competitive environment.

Three of the top 10 most-liked pages on Facebook are by musicians[1] – Rihanna, Eminem and Shakira. Music also leads the way on Twitter: the top four positions for the most-followed people on the service globally are claimed by musicians – Lady Gaga, Justin Bieber, Katy Perry and Rihanna.

1 At the time of writing in January 2013



Rihanna

Justin Bieber

Twitter followers: music artists dominate social media networks
January 2013 – Followers (millions)

1. Lady Gaga	32.859
2. Justin Bieber	32.647
3. Katy Perry	30.962
4. Rihanna	27.728
5. Barack Obama	25.523

Source: twittercounter.com

All time most-viewed YouTube content
January 2013 – Views (millions)

1. Psy – Gangnam Style	1,146.3
2. Justin Bieber – Baby	819.4
3. Jennifer Lopez – On The Floor	638.1
4. Eminem – Love The Way You Lie	529.2
5. LMFAO – Party Rock Anthem	513.5

Source: YouTube

THE POWER OF SOCIAL MEDIA IN BREAKING ACTS OVERSEAS

One Direction's harnessing of the power of social media played a significant role in securing the band's huge worldwide fanbase, helping their debut album *Up All Night* to top the charts in the United States, Australia, Italy and many other territories.

One innovative digital marketing campaign around the album featured a virtual character called 1Dcyberpunk and a story centred around a missing laptop, creating a "transmedia adventure" that went viral across Europe and America.

One Direction was at the heart of the campaign rewarding fans on completion of a series of challenges with an online album listening party, where new tracks were streamed to the online community. The band spent three to five hours a week creating videos of themselves thanking fans for joining them in the race to retrieve the laptop, discussing their favourite entries and enjoying some detective work.

Over 50 days the campaign almost doubled traffic to One Direction's website, attracting 200,000 participants who completed 20 separate challenges. It created 12 Twitter trends and racked up more than 2.5 million YouTube views, with 1DCyberpunk having her own social media following.

GENEVIEVE AMPADUH
HEAD OF DIGITAL MARKETING
SONY MUSIC

"Social media has changed the face of music marketing forever. The ability for artists to reach out to their potential fans in every corner of the globe in real time is incredibly powerful and cannot be replicated by traditional media.

Early advocates of an artist have become an extension of the label's marketing teams and play an invaluable role in breaking artists in their local countries. Empowering super-fans should be a staple of any music marketer's strategy, as should entertaining fans. Why shouldn't a marketing campaign be exciting, memorable and fun? It should be. And if it is, fans will stay with you for the journey ahead."

MIKE ALLEN
VP INTERNATIONAL MARKETING UK
WARNER MUSIC UK

"Social media has emerged as a mission-critical activity in breaking artists internationally. While its impact may vary from market to market, it is only heading one way everywhere you look, and that's upwards. For artists such as Ed Sheeran and Birdy in 2012, social media was the foundation on which their international success was built. In the case of a well-established global act like Muse, it's equally essential that communication is channelled directly to the fanbase, with social media being a big component of that. The fans expect it, and rightly so."

200,000
People participated in the challenges of the One Direction campaign

2.5M
YouTube views generated from the One Direction campaign

Music central to YouTube's appeal

Music also makes up a large percentage of plays and videos on the most widely known and used streaming service, YouTube, which has a monthly UK audience of 22m users. In November, Psy's *Gangnam Style* became the most viewed video in YouTube's history (passing 1bn views in late December 2012) and the top five most viewed clips of all time are music videos.

Music by British artists features prominently among the most popular videos on the service, with Adele's *Rolling In The Deep* having been viewed over 360m times and singles by One Direction and Jessie J also ranked near the top of the all-time chart. For many consumers, especially younger ones, YouTube is their primary digital music discovery and playback service. The sheer scale of its reach and the depth of material available are helping to make on-demand cloud-based streaming a daily occurrence for many consumers and serves as an important bridge to other subscription services.

Social media for sharing and selling music

Facebook, with its 1bn users around the world and Twitter, with more than 500m users, are proving powerful and important partners for the music industry as new global platforms for releasing music.

The recent focus for such services has been on creating opportunities for 'frictionless sharing' between users to encourage music discovery. Facebook partnered with streaming services Spotify, Deezer, and Rdio and launched its 'Listen With' button, and later its 'Share Music' option, allowing subscribers to drag and drop music into fellow users' playlists.

While some listeners create playlists simply to round up all their current favourite tracks in one place, there is solid evidence that they also encourage music discovery: in one recent month on the Spotify service, 10% of all the playlists streamed were created by someone other than the user and these streams accounted for 20% of the overall total. Functions such as these help ensure users have a rewarding

experience on legal services and return to them rather than unauthorised platforms. Twitter is also flexing its muscles here as a marketing and promotional platform for music. DJ Tiësto became the first act to live stream a full show over the service and Blur performed two new tracks on the site in the summer of 2012 – ahead of radio and TV plays. The use of Twitter hashtags and global trending topics to reach new audiences are increasingly important marketing tools for musicians.

The popularity of social games and bespoke social networks

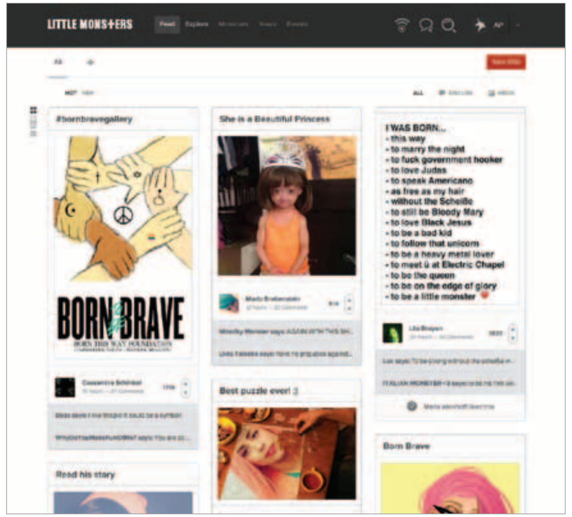
Some acts are looking to control the social network experience with their fans more directly by building their own platforms. Lady Gaga is the most well known of the acts to do so and her *LittleMonsters.com* had over 500,000 members by August.

Social media and mobile have helped to pick up the slack following the decline in the appeal of console-based music gaming, particularly *Rock Band* and *Guitar Hero*. Console games still attract big name acts such as Katy Perry (e.g. her bespoke version of *The Sims)* but third-party Facebook app developers like Zynga are delivering mass audiences to artists. Both Enrique Iglesias (through *CityVille*) and Lady Gaga (through a bespoke version of *FarmVille*

22M
YouTube's UK monthly audience

1BN
Views of Psy's Gangnam Style on YouTube in total

500,000+
Lady Gaga fans registered on her LittleMonsters.com social network



in 2011) have used the platform to reach fans. Perhaps the biggest players in gaming are now on the mobile platform. Rovio's *Angry Birds* franchise expanded in 2012 with a Green Day-themed version of its wildly successful gaming brand to tie in with their release of three consecutive albums.

The album as App

The concept of the album as an app has continued to develop. The most famous example of this was built for Björk's 2011-released album *Biophilia*. Through the app, fans owning mobile phones or tablets downloaded not just the audio tracks but a whole host of multimedia content. From a central menu, the user can access the individual tracks, each with stunning graphics and scrolling lyrics, as well as special features such as games, essays, bespoke animations and even an introduction narrated by Sir David Attenborough.

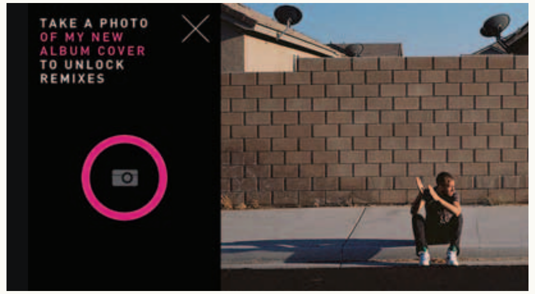
The possibilities of what the format can offer are still being explored. As music consumption moves increasingly to portable devices, artists and labels will inevitably be considering the rich fan experience they can offer around an album's release.

THE ALBUM AS APP
CALVIN HARRIS, 18 MONTHS
COLUMBIA RECORDS/SONY MUSIC

Calvin Harris released his third studio album *18 Months* in October 2012. The challenge was to encourage a single track-buying audience to engage with the full album.

A week prior to the album's release, the team worked with SoundCloud API and the album artwork to create an interactive experience that let fans listen to the album and directly affect the visuals by using flyposters created in real time from their tweets.

They also created a free app for the iPhone and Android platforms that allowed fans to stream the album it in its entirety for free, but only if they kept dancing – the app uses the accelerometer on smartphones to detect movement. Fans were also able to unlock additional content upon scanning the album sleeve, using an image recognition feature.



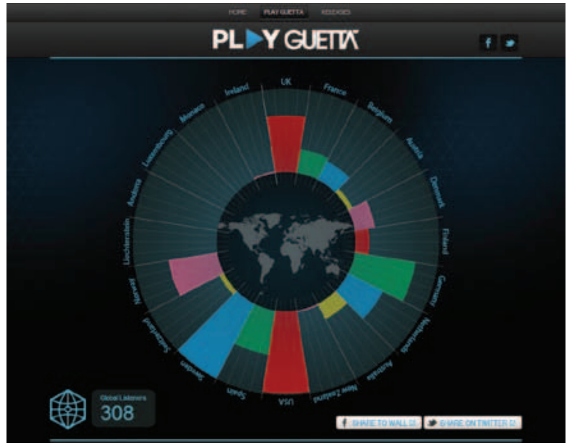
ARTIST APPS DRIVING FAN ENGAGEMENT
PLAY GUETTA

In late November 2012, the French DJ and Producer David Guetta launched Play Guetta – an interactive app available globally on Spotify which invites fans to come and "join the permanent party". It is an innovative listening experience offering a deeper connection with David Guetta, his music and his other fans around the world.

Guetta's fans have made him a social media superstar with over 36m Facebook 'Likes' and close to 7m Twitter followers, culminating in his position as the most streamed artist on Spotify in 2012.

The Play Guetta app features:

- A real-time global communal listening experience for fans.
- Built in 'World EQ' powered by fans of David Guetta in Spotify's 20 territories, giving users live info on engaged users' locations.
- The first use of Soundrop directly integrated into a stand-alone artist Spotify App.
- Users can share their own snapshot of the World EQ at the time by clicking 'Like' or 'Tweet'.
- Users can subscribe to a playlist of 'Trending' party tracks from the Play Guetta app.
- Real-time chat functionality and the ability to vote for songs to be played next in the Play Guetta app.
- David Guetta will now be able talk to fans within the Spotify app and using a #PlayGuetta hashtag via his official Twitter stream.
- Newer fans can view the David Guetta music catalogue aiding the discovery of his previous productions.



D2C turns the artist-fan relationship upside-down

As fans become increasingly used to connecting with their favourite acts online, a new breed of services has emerged to directly serve these needs. D2C (direct to consumer) retailers such as Bandcamp allow labels and artists to set prices for their products and sell directly, with digital material available in high quality formats for audiophile fans.

In a similar vein, Topspin helps content creators with ecommerce, providing bespoke online solutions to help manage and tailor their offer, while fan-funding sites such as Kickstarter and Pledge Music have enabled artists to turn to their fanbase to fund new projects, with exclusives and limited edition experiences as incentives.

Augmented Reality: the relationship between music and visuals

The increased ownership of mobiles and tablets has opened up new avenues for communicating with music fans. One new technology that is increasingly being utilised by artists and labels is that of Augmented Reality (AR). Through bespoke apps used in conjunction with a device's camera, fans are able to view specially created visual content at specific locations or in conjunction with certain products – this can take the form of special animations or exclusive videos.

36M+
People who 'Like' David Guetta on Facebook

7M
People follow David Guetta on Twitter

1ST
David Guetta is the most streamed artist on Spotify in 2012

Plan B

WORKING TOGETHER: TRADITIONAL AND DIGITAL MEDIA
PLAN B *ILL MANORS* LAUNCH
ATLANTIC RECORDS UK

The launch campaign for Plan B's latest album, *Ill Manors,* was borne out of a combination of traditional and digital media. Engagement with fans centred on five core elements.

- A 'tweet to unlock' campaign promoted via TV and online video pre-rolls where the hashtag #illmanorsalbum unlocked pre-released tracks.
- A 'Tag London' campaign where fans tweeted their opinions on the social and political climate using the hashtag #ILLMANORS which were later projected onto the Houses of Parliament, Olympic locations and other iconic London landmarks.
- More than 100,000 fans took part in the album's launch party which was streamed live online via YouTube.
- Online, mobile and in-game advertising via PS3 and Xbox provided platforms for teasers and homepage takeovers on a host of music, games, film and lifestyle forums.
- Fans were given the opportunity to vote for their favourite album track on Facebook to win tickets to Plan B's performance at the iTunes Festival.

The combined impact of the various initiatives resulted in 5.9m Facebook fans, 342,000 Twitter followers, 8.3m YouTube views of new album content and a boost in sales.

100,000
Number of fans taking part in the live stream launch party

1
Chart position of *Ill Manors* on week of release in July 2012

The Rolling Stones

AUGMENTED REALITY THE ROLLING STONES, GRRR!

The release of The Rolling Stones' compilation album *Grrr!* was accompanied by a bespoke AR app for use on mobile devices. Fans were able to use the app at 3,000 locations in 50 cities around the world to bring artwork from the album to life at famous landmarks, with the added incentive of exclusive prizes for the best photos shared. The app used Augmented Reality on artwork but also real buildings (such as Big Ben and Sydney Opera House) to allow fans to unlock content. Developer Aurasma revealed that The Rolling Stones' app had a click-through rate of 24% – meaning users were engaging with it on an extremely high level. This presents enormous opportunities to sell tracks and merchandise via the app.

"The album reveal created a real buzz on social media," said Deborah Hyacinth, Vice President of Digital Marketing at Universal Music Group, in a recent Music Week article about the campaign. "The 50 cities stage adds another level of interaction to this global campaign, giving fans that little bit extra to mark such a fantastic lifetime achievement. This pioneering use of mobile technology extends The Rolling Stones' reputation for innovation and imagination."

24%

Click-through rate of The Rolling Stones Augmented Reality app

IN CONVERSATION WITH COSMO LUSH

SVP DIGITAL BUSINESS DEVELOPMENT, EMI MUSIC

EMI

In 2011, EMI launched its Open EMI initiative. Cosmo Lush, SVP Digital Business Development at EMI Music, explains to BPI OpenEMI and the issue of innovation for the industry.

Tell us about the Open EMI initiative.

EMI launched Open EMI in 2011 with a view to fostering and supporting innovation in digital music. And at the heart of Open EMI is the concept of sandboxes. We've joined up with a technical partner called The Echo Nest to create secure environments on the internet where developers can play with EMI's rich music repertoire and experiment with products or services that they may be developing. They can very quickly and easily publish those products in the most suitable digital environment or channel for their creation.

Do you think it is fostering a mutual understanding between the music and tech sectors?

I hope so. The idea of Open EMI is to build stronger links – and more trusted links – between the music community, the developers' community and the investment community who are putting money behind the development of new digital services. I think it is a gradual process. It will take time and we need to be patient. But I have no doubt that it will accelerate over time and that what we are doing here at EMI will spread across the industry so that in a few years time access to music and the ability to licence and to use music in the digital production process will be much easier.

What do you see as the next big thing for the industry?

I think the next big thing that will impact the music industry is the proliferation of really smart devices on which people can and want to consume digital content. We in the music industry need to be ready and in a position to license and distribute our music across all those different types of devices because therein lies the seed of innovation and creativity around digital music consumption.

Where does social media fit in?

There's no doubt that social media will continue to be at the heart of what we do in the digital world. I think it's particularly apt in the music world because music is all about fantastic artists and passionate fans who want to engage with those artists and the music they create. Social media is all about connectivity, it's about networks of friends and family, and in many ways that's the perfect environment to promote and sell music content.

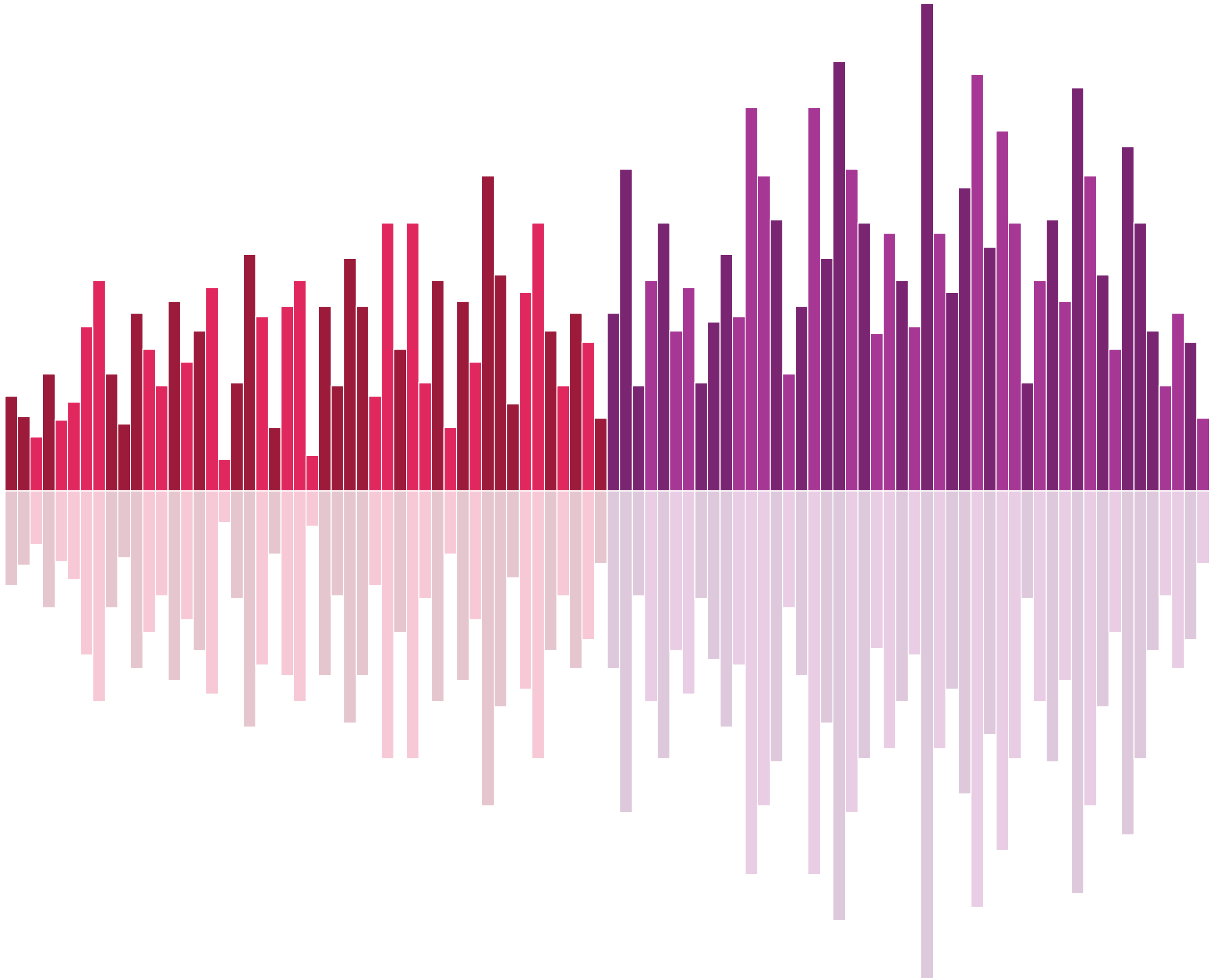
What effect will new technologies have?

The proliferation of new devices and new technologies paves the way for a whole variety of new formats. Whether it's the app or some other as yet undiscovered format the opportunity is to take music and to add in a whole bunch of other content and rich media to offer fans another way to engage with music and to engage with artists. There's all sorts of challenges around that from an economic and distribution point of view, but frankly those are challenges that we relish. Our job is to work with developers and other partners across the media space to bring those kinds of concepts to life in a way that is creative and compelling to our artists' fans.

To listen to the full interview with Cosmo, please visit **www.bpi.co.uk**

"I think the next big thing that will impact the music industry is the proliferation of really smart devices on which people can and want to consume digital content."

DIGITAL MUSIC'S TIPPING POINT



THE DIGITAL MUSIC SWITCHOVER

A significant moment in the history of the UK music business occurred in Q1 2012, when digital income accounted for over half of all recorded music income for the first time.

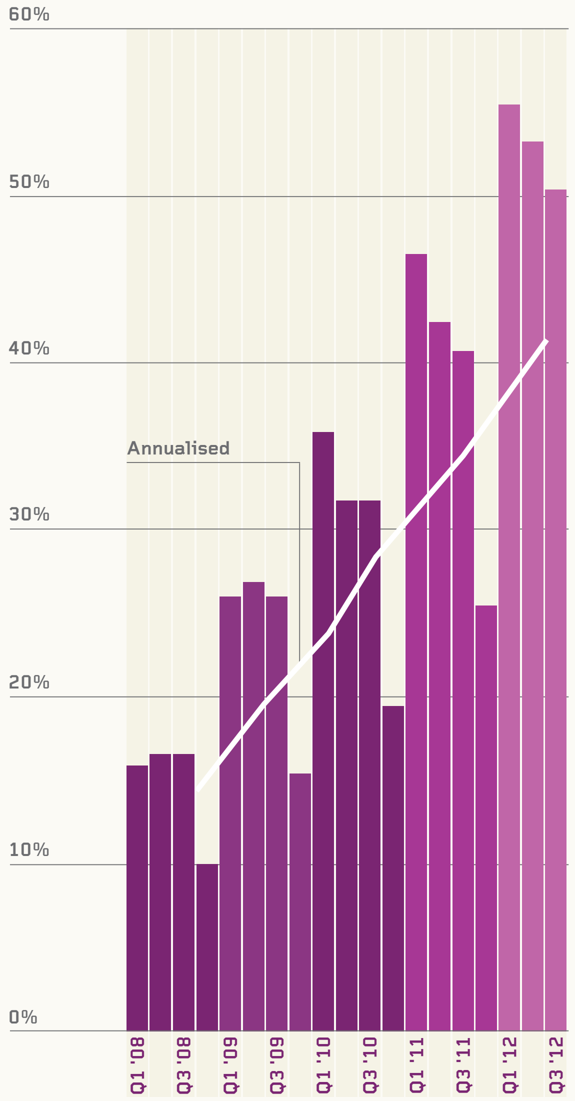
This trend of digital dominance carried through into Q2 and Q3, although sales figures suggest that Q4 will revert to a majority CD-based business, largely due to the gifting market in the final two months of the year. The CD still has an important role to play, but the continuing rise of digital is proof that consumers are embracing its immediacy, convenience and breadth of catalogue. The idea that digital is a 'new' or 'niche' format is finally coming to an end. It is the driving format and, most importantly, a growing format.

The singles market is now 99.6% digital (based, for now, on paid downloads) and this has proved an important testing ground for consumers, using services like iTunes, Amazon MP3 and 7digital to buy tracks. The corresponding rise in the singles market has been phenomenal – from 32.3m in 2004 to more than 183m in 2012. Digital has revitalised the official charts.

In the albums market, almost a third of all albums in the UK were sold digitally in 2012. This has risen to more than 40% in early 2013 as consumers spend digital gift cards post-Christmas and enjoy music on the latest smartphones and tablets.

Record labels' digital income is drawn from a variety of sources – à la carte downloads (iTunes, 7digital, Amazon MP3), subscription downloads (eMusic), ad-supported music and video streaming (Vevo, YouTube, Spotify, Muzu, we7), subscription streaming (Spotify, Deezer, Rdio), games and ringtones.

Digital's share of trade income
Quarterly and annualised (2008-2012)



Source: BPI Surveys

More than a quarter of Brits use legal music services

Data from Kantar Worldpanel's survey[2] shows that more than one in four (27.7%) people in the UK claim to use legitimate digital music services to purchase downloads or stream content. Encouragingly, this is almost double the number of people (one in seven) who admit they use peer-to-peer (P2P) networks to fileshare.

One in five consumers dedicated to digital

Data from Kantar Worldpanel[3] reveals that almost one fifth (19.6%) of music consumers in the UK only buy digital.

While digital single sales continue to increase, it is digital albums that are driving the real growth in the download market overall.

First-time buyers of digital music gave two thirds (66.4%) of their digital music spend to album purchases in 2012. While services like Complete My Album on iTunes are there to bridge the divide between tentative single downloaders and album downloaders, these numbers suggest that new converts to the online music market are increasingly feeling confident enough to start downloading albums straight away rather than building a collection of single tracks.

Filesharers spend less on music than legal consumers

Appearing to debunk the common belief that filesharers spend more on music than other consumers, Kantar Worldpanel found that the average spend over a 12-month period for professed filesharers was lower than the spend of consumers who only use legal services. Kantar Worldpanel's respondents diarise their music purchases on an ongoing basis – there are no estimates made of past purchasing, just an accurate recording of spending patterns over time. The panel data demonstrated that filesharers spent an average of £26.64, compared with £33.43 by legal-only consumers, refuting the popular argument that filesharers are the heaviest spenders on music.

According to Kantar Worldpanel's survey, legal users outnumber filesharers by a ratio of almost two to one and their relative spend is much greater. Filesharers' recorded music expenditure constituted 16.3% of the market total in the period under review, while legal-only respondents accounted for 42.1%. Some surveys have suggested that filesharing encourages greater purchasing because of the 'discovery' element. However, Kantar's survey found that a large proportion (44.8%) of filesharing respondents had bought no music in the past 12 months according to their individual purchase records.

The kids are alright

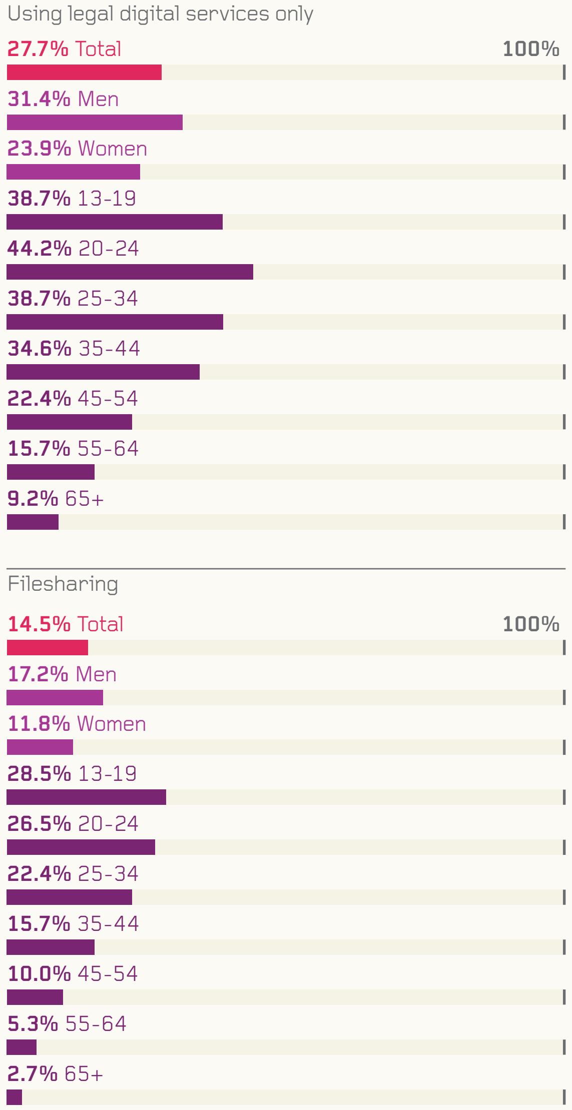
Digging further into the digital spend of music consumers reveals to what extent age affects average spend. Predictably, young people spend more on digital music than the older generation – who remain active in the CD market, as the graph shows. But they also spend most in total – a third more than any other age segment.

Although the majority of streaming users access music on free, ad-supported tiers, a significant proportion (17.3%) now pay a monthly subscription according to Kantar Worldpanel.

Four out of five people aware of streaming services

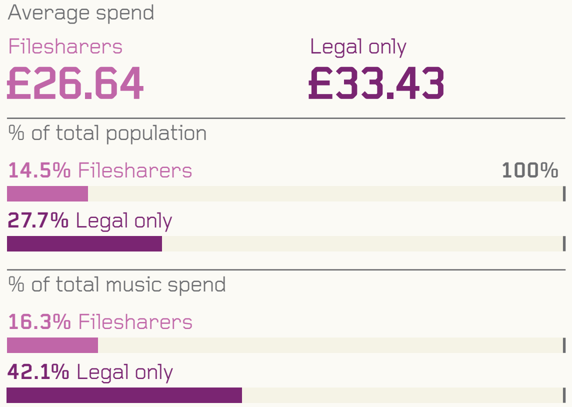
In 2004, the first UK download chart was launched to reflect the changes in how fans were starting to buy music and, as more consumers flocked to download stores, it was eventually integrated into the full singles rundown. The UK's first Official Streaming Chart – launched in May 2012 – is, for now, a standalone chart but is proof that streaming is of growing importance for both the record business and consumers.

Why use illegal when you can have legal?
% age groups



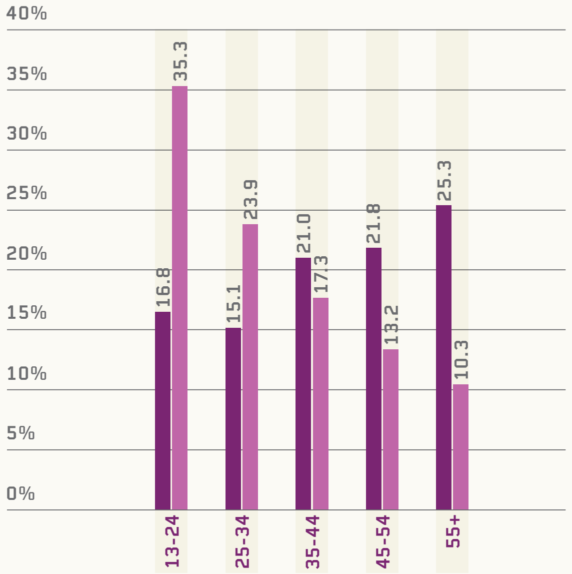
Source: Kantar Worldpanel Digital Music Survey 2012

Filesharers only account for less than a fifth of overall music spend



Source: Kantar Worldpanel Digital Music Survey 2012

13-24 year-olds spend most on digital music
% age group sales ■ Physical Music ■ Digital Music



Source: Kantar Worldpanel (12m ended September 2012)

2 Kantar Worldpanel's panel of 15,000 individuals were asked to answer a series of questions relating to digital music consumption in August 2012 and 12,184 panellists completed it. All answers were demographically weighted to be nationally representative of the UK population.

3 Data from Kantar Worldpanel shows the purchasing trends of 15,000 demographically representative individuals in the UK.

Data from Kantar Worldpanel shows that four out of five individuals in the UK have heard of at least one of the leading audio streaming services, with the model worth close to £50m to labels, accounting for 15.2% of their digital income.

The move into downloading has helped pave the way for consumers to migrate into streaming, especially as connected portable devices such as smartphones and tablets are helping shift consumers' expectations about all digital and entertainment content, not just music.

Edinburgh most popular UK city for Spotify

Spotify, the streaming service, now has 20m active users globally, of which 5m are paying subscribers. The company also revealed at the start of December 2012 that it has paid out over $500m to rightsholders since it launched.

Spotify's own research reveals that per capita usage of the service in the UK is highest in Edinburgh and Cardiff, with London being fourth. This shows that the reach and the appeal of streaming now extends across the country and is growing fast nationwide.

Music fans rate streaming services very highly

EMI Music's Consumer Insight Department interviewed over 1,100 users of music subscription services in September 2012.

Customer satisfaction with the current range of services was extremely high, with 93% of users stating their satisfaction – or perhaps of more interest, only 6% of users saying they were displeased with the service they were currently signed up to.

The findings were bolstered by the YouGov SixthSense Music 2012 report which showed that more than a quarter of users would give streaming services full marks for value for money with 73% giving them seven out of 10 or better.

For EMI respondents, the biggest draw was having access to an unlimited music catalogue (40%) while just over a third (36%) cited being able to listen to music they already know as an important attraction. Similarly, more than a third (35%) cited discovering new music as appealing whilst other factors included the absence of adverts on premium subscriptions, mobile portability and sharing playlists.

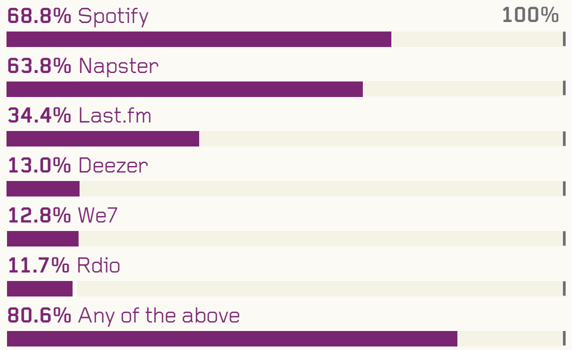
Streaming services prioritise music discovery

The popularity as well as the immediacy of downloading is reflected in the charts each week with sales spikes becoming quickly apparent after television performances or when songs appear in adverts, helped in no small part by music identification smartphone apps such as Shazam and SoundHound which link through to digital retailers. Shazam, for example, has revealed that around 9% of tagged tracks result in a purchase. Smartphone technology as well as 3G and 4G mobile networks have helped enormously in harnessing such impulse purchases.

Social discovery is now a significant part of digital music and in August 2012 Facebook revealed that 62.2m tracks have been shared 22bn times through its Open Graph since September 2011. Meanwhile, the number of playlists created on Spotify to date has now surpassed 1bn and services such as ShareMyPlaylists have tapped into this trend.

Rdio and the new Myspace also place social discovery at the heart of their offerings and standalone services such as This Is My Jam are driven entirely by social discovery and recommendation. Whilst some consumers may feel overwhelmed by choice, the role of playlists and recommenders (DJs, journalists, pop stars) on services are helping to make this easier through expert curation.

High awareness of streaming services

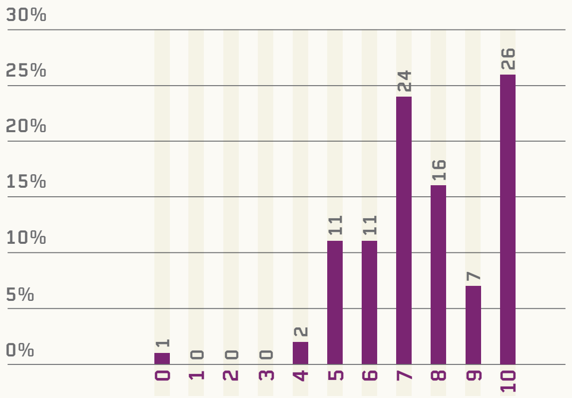


Source: Kantar Worldpanel Digital Music Survey 2012

The most popular UK cities for Spotify

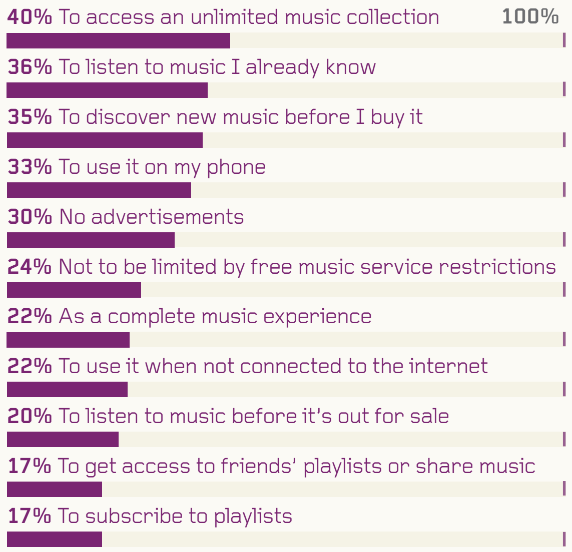
Source: Spotify

On a scale of 0-10, with 0 being not at all good value for money and 10 being extremely good value, to what extent do you think that paying to stream music represents good value for money?



Source: YouGov SixthSense Music 2012 report

Motivations for subscribing to music services
% subscribers



Source: EMI Insight

Music ownership favoured over access

Music fans are experiencing choice and flexibility like never before. With access to more than 20m tracks online, subscription services are particularly appealing to music obsessives, who can hear all the new releases and delve deep into catalogue. But according to the YouGov SixthSense Music 2012 report, the majority of fans (54%) still want to own downloaded music with only 9% saying they prefer access over ownership.

This is partly a question of familiarity with the model, and reflects the high value that UK music fans say they place on music ownership. But it also reflects one advantage of the à la carte model that is often understated – the ability for consumers to pay for music only when they really want it. Research shows that most UK consumers are hesitant about taking on new contracts. The combination of these factors means that the à la carte model is likely to appeal to a large number of UK music fans for a considerable time. It may be that the hybrid approach, where streaming services also offer downloads, could be an important handrail for music fans who are open to experimenting with the access model.

Overall, the next transition phase for the music industry will not be the move from physical to digital but rather the move from digital ownership (MP3s and other digital files) to digital access (streaming from the cloud).

Services like YouTube and SoundCloud (which now has 180m users globally) are helping to push the idea of access-based music into the mainstream. It will be a slow and steady build, but these companies are helping to normalise access to music this way and make that transition for consumers easier.

Top 20 most streamed tracks
January-October 2012

Spotify

Streams	Sales	Artist	Title
1	1	Gotye	Somebody That I Used To Know
2	2	Carly Rae Jepsen	Call Me Maybe
3	3	Fun.	We Are Young – feat. Janelle Monáe
4	4	David Guetta	Titanium – feat. Sia
5	5	Nicki Minaj	Starships – Explicit Version
6	7	Flo Rida	Wild Ones – feat. Sia
7	48	Rihanna	We Found Love
8	13	Alex Clare	Too Close
9	6	Jessie J	Domino
10	15	Train	Drive By
11	32	Jay-Z	Ni**as In Paris
12	54	Drake	Take Care
13	57	Ed Sheeran	Drunk
14	10	Flo Rida	Whistle
15	23	David Guetta	Turn Me On – feat. Nicki Minaj
16	35	Coldplay	Paradise
17	101	Ed Sheeran	The A Team
18	68	Ed Sheeran	Lego House
19	11	Rudimental	Feel The Love – feat. John Newman
20	66	Skrillex	Bangarang – feat. Sirah

Source: Spotify

Ed Sheeran

The five most streamed tracks are exactly the same as the top five sales hits in 2012 in the UK Official Singles Chart. But beyond this there are interesting differences to note in how streaming compares to downloading.

Artists with a younger fan base dominate the 20 most streamed tracks. Ed Sheeran's audience, for example, is highly digitally engaged, following extensive digital marketing and social networking initiatives such as his crowd-sourced video for *Give Me Love* and his 4m followers on Twitter. This is reflected in the fact that he has three of the top 20 streams of the first ten months of 2012.

IN CONVERSATION WITH PAUL SMERNICKI

DIRECTOR OF DIGITAL,
UNIVERSAL MUSIC UK

UNIVERSAL
UNIVERSAL MUSIC UK

How have you seen the industry change in the last 10 years?

When I think about my job and the bits of the business I deal with every day, they didn't even exist 10 years ago. Things that seemed like a bolt-on not so long ago – such as mobile site optimisation or even iTunes and certainly concepts like subscription models – are now not only part of our everyday language and business but amongst the most important areas of what we do. It's phenomenal.

Do you think that music will become a wholly digital business?

I think there will always be demand for a tangible product but that overall the demand for it will continue to diminish. There are bits of our business that might surprise people: we have a vinyl boxset store that does really well and we have a direct-to-consumer store where we reissue great albums from our catalogue on vinyl. But, overall, I think the pendulum will continue to swing towards digital.

Do you think the future of the album could be a downloaded app?

I think the way people talk about apps is a bit of a red herring. I think what we need to deliver is a great experience – either in the form of an app/desktop application or a digital experience to take into a live event. My focus would always be on the experience as opposed to the digital product.

Is the car the final frontier for digital music?

The car and the living room – neither have been nailed. The Holy Grail is how to give someone a completely seamless musical experience that just follows them around. Layering an experience on top of music is where we in the industry can be innovative and there is great music intelligence out there to help us to do so. I want to be able to tell my car where I'm going and for it to devise a playlist to last the journey based on my musical tastes. That's the future that will take people to a whole new digital immersion level.

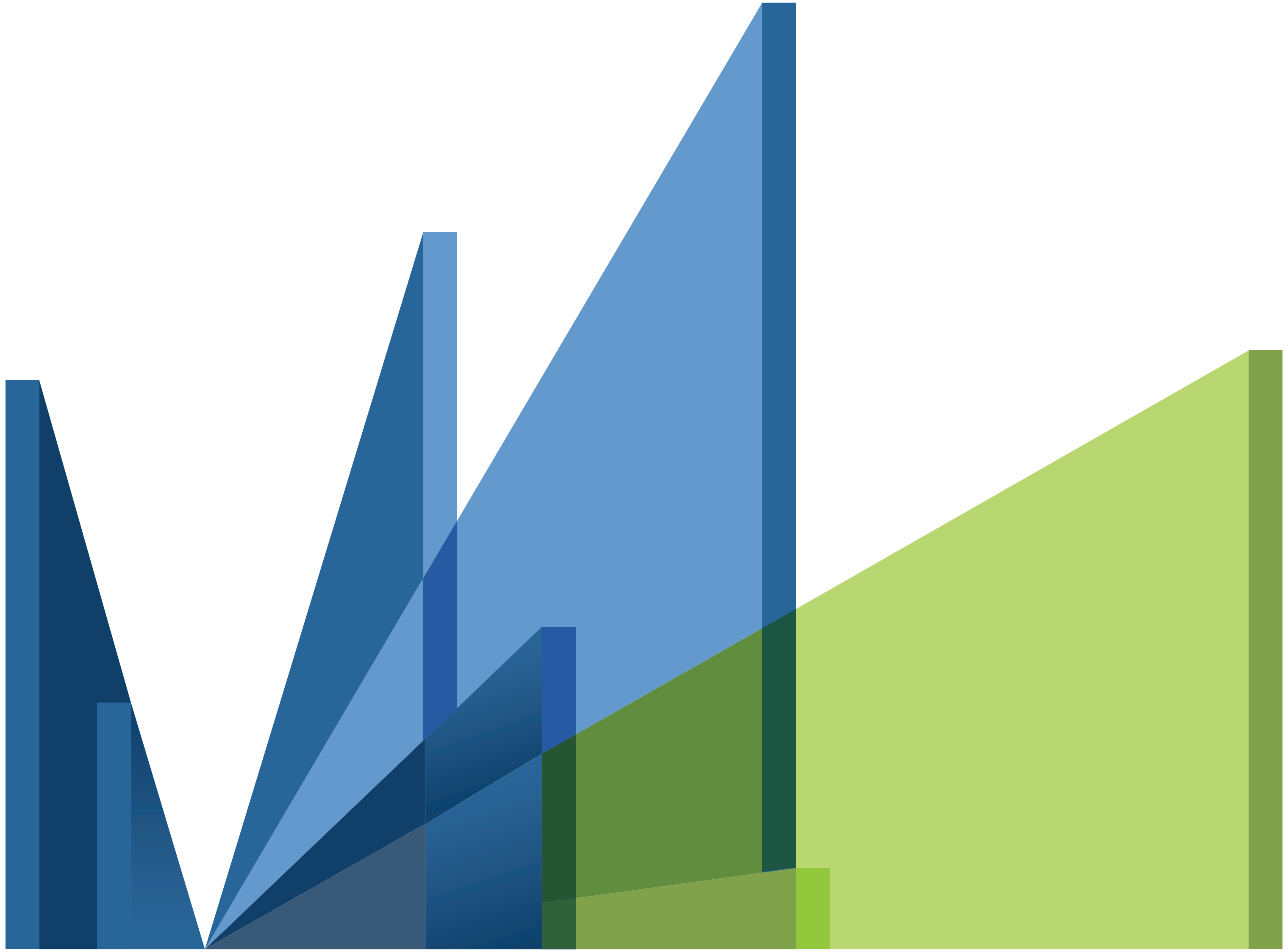
What's the next big thing for the music industry?

I'd love to see a music service without a front end where you subscribe to the architecture that delivers the music. As an industry it is very hard for us to look very far into the future but I think we should – both for the near-future trends and the trends that may be 10 years from now.

Listen to Paul's thoughts on the future of digital music at **www.bpi.co.uk**

> **"My focus would always be on the experience as opposed to the digital product."**

THE CHALLENGE OF ILLEGAL FREE



Piracy in the UK remains at a high level with 7m individuals visiting sites that offer content illegally each month. Despite innovation in the online market for music, new services still have to compete with websites and services that attract potential customers away because they offer music illegally for free.

Data from UKOM/Nielsen – who measure actual website usage monthly – shows that around 7m individuals in the UK use at least one service where content is hosted illegally each month, from peer-to-peer (P2P) networks and cyberlockers to stream-ripping applications and unlicensed streaming services.

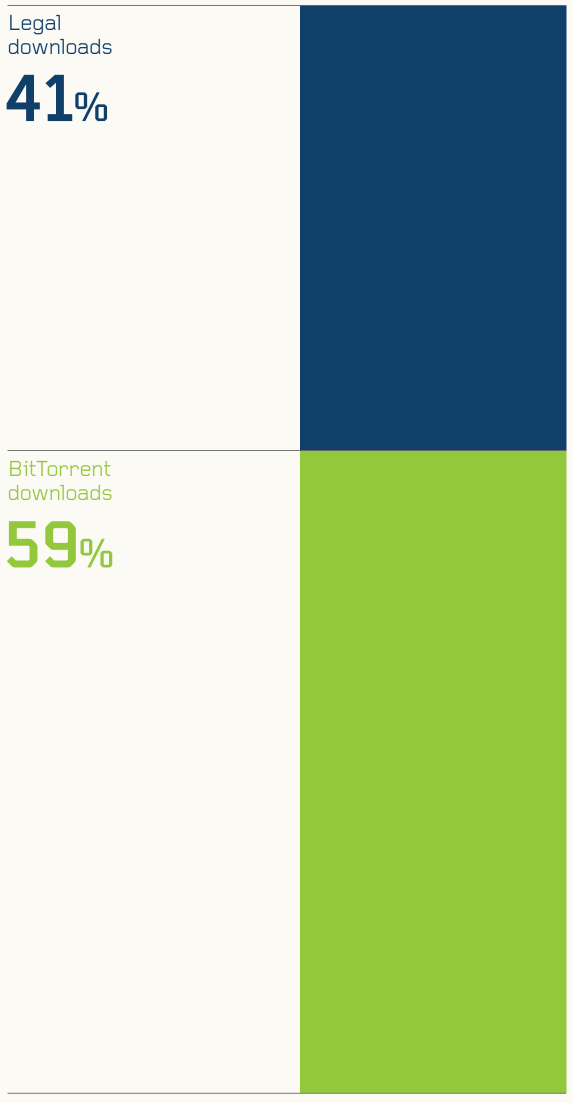
Illegal locker access on the decline

In recent months, some of the most popular services used for infringement have seen a significant drop in users, largely as a result of the shutdown of the locker site Megaupload at the beginning of 2012. Before its closure, Megaupload had more users than any other locker site in the UK, averaging 1.3m each month in 2011[4] and reportedly up to a staggering 50m per day around the world. In the wake of its closure, Filesonic discontinued its rewards programme and disabled the sharing functionality. As a result, user numbers drastically reduced from almost half a million in January to 216,000 the following month, dropping further to fewer than 100,000 in May[5].

The Swiss-based locker site RapidShare followed suit by slowing speed of access for its free tier users in a bid to hamper unlawful usage. Hulkshare, sold to Israeli investors in 2011, undertook a complete revamp of the site to become a legitimate music proposition for digital music fans. UKOM/Nielsen's data shows that in the UK at least 1.5m people are still using locker services each month, down from 2.5m recorded in the latter part of 2011.

4,5 UKOM/Nielsen

BitTorrent and legal downloads compared
January-June 2012



Source: Musicmetric / Official Charts Company

P2P growth contained in 2012

BitTorrent and P2P remain the most popular methods of obtaining copyrighted material illegally, with around 4m people in the UK using them each month[6]. In February, torrent indexer BTJunkie voluntarily closed its services in response to the actions being taken against The Pirate Bay and Megaupload. Also in February, the High Court ordered UK ISPs to block access to The Pirate Bay and from April 2012 the blocks were implemented. According to UKOM/Nielsen data, usage of the site has plummeted by over 70% as a result. In December, Pirate Party UK was forced to remove its proxy giving access to The Pirate Bay. However other applications and services such as Kickass Torrents and Torrentz have picked up users.

345m tracks illegally downloaded via BitTorrent in first half of 2012

Monitoring service MusicMetric's first Digital Music Index report estimated that over 43m downloads were made via BitTorrent alone in just the first six months of 2012. Of these 78% were albums and 22% single tracks, equating to 345m tracks downloaded illegally via BitTorrent. Over the same period 91.7m tracks and 14.7m albums were downloaded from iTunes, Amazon and other licensed services, which equate to 239m tracks (using a ratio of one album to 10 tracks).

In other words, legally purchased tracks still represented less than half the number of tracks downloaded in total from legal sites and BitTorrent – and this does not include all the tracks sourced illegally from locker sites, other P2P protocols, stream rippers, illegal paysites, blogs and forums.

Creating breathing space for legal services

Illegal downloading is holding back the digital growth not just of music, but also of other creative sectors like publishing, sport, TV and film. None of them can ignore the challenges of piracy. So creators and rights owners have developed a range of initiatives designed to reduce filesharing. With usage of unlawful services so widespread, it might be assumed that action against such activity would not be widely supported by the general public. Research, however, contradicts this view.

Surveys show overwhelming support for site blocking

The prevention of access to sites hosting illegal content has some precedent in the UK in the actions against Newzbin and The Pirate Bay. Support for this course of action is solid.

- Over half (56%) of respondents to a 2012 AudienceNet survey[7] agreed that sites which distribute music illegally without paying artists should be blocked or closed down.
- 42% of filesharers agreed that the blocking of a site would stop them acquiring infringing content[8].

Show us the legal sites, say consumers

Search engines play an important role in directing consumers towards online music sites. At present, consumers encounter a confusing world of search results where blatantly unlicensed sites are often listed much higher than trusted brands like Amazon and iTunes. Consumers do not welcome this situation.

- Two thirds (66%) of respondents in an AudienceNet survey[7] of 2,000 adults believe search engines should direct people to legitimate sites ahead of illegal ones.
- More than two thirds (68%) of respondents to a Harris 2011 study agreed that search engines should make it harder to find websites that offer music illegally, with 63% of pirates concurring.

During 2012 BPI worked hard to remove illegal listings from Google's search results, and to persuade Google to demote sites that are the subject of Digital Millenium Copyright Act (DMCA) notices. In August, Google announced that it would do this. So far the impact appears to be very limited, but BPI is working with Google to monitor the results and arguing that it must do more to live up to the commitment it made. BPI's Anti-Piracy Unit issues millions of notices to Google and infringing sites to request the takedown of members' repertoire which is being hosted illegally. In 2012, BPI sent over seven million delisting notices and will work towards establishing partnerships with other leading search engines in 2013.

345M
Tracks illegally downloaded via Bit Torrent in first half of 2012

239M
Tracks legally downloaded via iTunes, Amazon and other licensed services in first half of 2012

42%
Filesharers agreed that the blocking of a site would stop them acquiring infringing content

70%
Reduction in UK Pirate Bay users following blocking order obtained by BPI

Government should take a stronger stance on piracy

Research strongly suggests that there is an expectation upon government to take a firmer stance on action against piracy.

- 60% of respondents to the AudienceNet survey[7] believe government should prevent companies from advertising on sites that distribute music illegally, with the same percentage agreeing that it should do more to support jobs in the creative sector by taking action to stop unauthorised downloading.
- A similar proportion (61%) feel government should do more to educate the public about the law surrounding illegal downloading.

BPI, in partnership with other creative sectors, is building a partnership with the internet advertising industry's Digital Trading Standards Group, assisted by the National Fraud Intelligence Bureau (NFIB), to encourage advertisers to stop promoting their goods and services on infringing sites.

BPI and IFPI already work with the City of London Police and the NFIB to ensure that payment providers, including the major credit card companies, do not support illegal sites by processing payments for them.

Music Matters: helping promote legal services

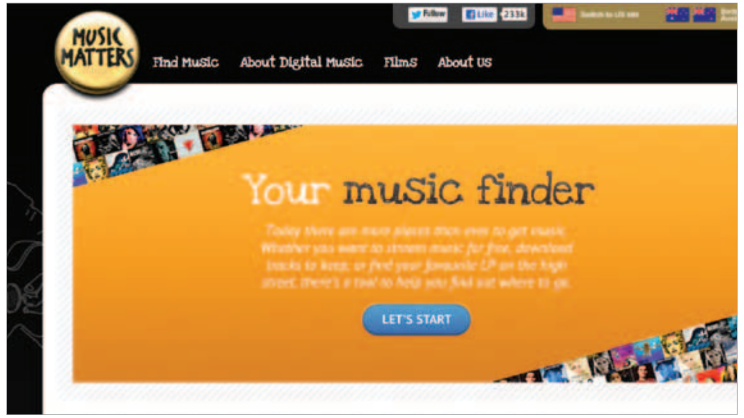
With more than 70 legal digital music services for fans in the UK to choose from, and a host of illegal sites that can confuse them, it isn't always easy for consumers to keep up to date with the services that are best for them. To help music buyers, BPI – in partnership with artists, retailers, songwriters, record labels and managers – launched Music Matters to highlight where music can be bought safely and legally online. The Music Matters badge features on a host of digital services to tell fans that the sites are authentic and, importantly, that musicians are paid when their music is purchased or streamed. Check out **www.whymusicmatters.org**

6 UKOM/Nielsen
7 AudienceNet Survey on Music Downloading, May 2012
8 EMR/Wiggin 2012 Digital Entertainment Survey

BPI has sent more than 7m takedown requests to Google

1. Degban (Copyright protection company)	12,931,064
2. RIAA (Recording Industry Association of America)	8,652,049
3. BPI (British Recorded Music Industry) Ltd	7,558,610

Source: Google Transparency Report



CERTIFICATION MARK
MUSIC MATTERS
WHYMUSICMATTERS.ORG

IN CONVERSATION WITH OLE OBERMANN

SVP INTERNATIONAL DIGITAL BUSINESS, SONY MUSIC ENTERTAINMENT

Where do you think the next growth wave for digital music services will come from?

Right now there are a few big themes that we see in the music industry.

There is a huge opportunity for digital interactive radio services. If you think historically about how people have consumed music in the past, about half of the population were proactive buyers of music. But the other half of the population listened to music in a passive way, mainly through radio. So I think that more personalised and interactive radio-type services represent a huge untapped area for us.

The mass distribution of music streaming services is also just getting started. In my opinion, every connected device, broadband provider, and mobile carrier should give a user the option to have a comprehensive music experience. We've seen this start to happen but it is really going to grow in the next couple of years.

International expansion is also a very big topic right now. We've never really had the retail infrastructure to sell our physical product in markets around the world but with digital services you literally have a billion people on some continents with a connected device. And all of a sudden we can give them a music experience they would never have been able to get before.

How important is 4G to digital developments?

I think that 4G is an opportunity. What we're seeing now is that if you build a service that is compelling, it can win out against piracy. Once 4G really lines up with the right devices and we have an ecosystem that works perfectly, I think it's a massive opportunity. With the music experience becoming more visual over time you need faster speeds for delivery of images, videos and other content. 4G allows that aspect of a digital music service to grow and flourish.

Do you think the app could become the album format of the future?

I think that's a good way to think about it but it comes down to defining what an app is over time. I think the experience of enjoying an album in the digital world should be really interactive with access to lyrics, cover art, video content, and interviews with the artist – and if the app becomes the package to bring that all to the consumer then the app becomes the album.

How critical is social media to promoting and selling music?

Social media is a very integral part of how we market and promote music now and in the future – and creating awareness around an established artist who has new material out in the market or a developing artist who is phenomenal and we want everyone to know about that artist, social media will be a big part of the mix.

To listen to the full interview with Ole, please visit **www.bpi.co.uk**

"Over the last 12 months our top 30 active UK artists have provoked 1.8 billion online interactions over online and social media – that's more than the population of China and USA combined.

There is no other business that can claim this level of consumer engagement – music is first and foremost a passion and an incredibly powerful medium to make long lasting audience connections."

Nick Gatfield, Sony Music UK Chief Executive.

IN CONVERSATION WITH LEANNE SHARMAN

VP AND MD DIGITAL STRATEGY AND BUSINESS DEVELOPMENT, EMEA – WARNER MUSIC INT.

How have you seen the music industry change over the last 10 years?

We have experienced a phenomenally exciting evolution in the way people discover, access and listen to music. There have been a number of game changers in the last ten years. Technology has continued to develop apace and today there are many devices that people can use to listen to a large volume of music on the go. Simultaneously we have seen the successful development of new commercial music models, with streaming and download stores that offer people instant access to millions of songs – whether they just want to listen to them once, create a streaming playlist or purchase them to own. As a result, I think it is fair to say that digital is at the forefront of everything we do today in the music industry. We now have digital experts who are involved in all aspects of our business because it is vital that we continue to work with innovative new technology and services to ensure consumers can enjoy a high quality music experience and connect with their favourite artists.

Where will the growth in digital services come from?

There will be the evolution of existing services. Access is, and will continue to be, an important consumption model and we expect to see it grow in a few ways. Current services will see an increased customer base when mobile operators and ISPs bundle them in with their offerings. They will also be developed to be accessible across all platforms (PC, mobile, in the living room via the TV and in the car). We will also see more packages being added to broaden their appeal and suit the listening habits of a wider audience. In the UK we can look to the launch of new interactive digital radio services. These will offer a new means to access music and provide a fantastic platform to introduce fans to new tracks and artists. Furthermore, as global digital players launch in new countries we'll see new territories becoming increasingly important music markets.

How can the music industry take advantage of faster connectivity (superfast broadband and 4G)?

I'm really excited about 4G. It means faster access and hopefully that means digital music will become more of a mass market offering.

What do you think the next big thing is for digital music?

I think that what is important today is what will be important tomorrow – and that is the access model and the evolution of bundled subscription services within mobile operator plans. I'm also excited about the roll-out of services to new territories as well as new models entering emerging markets. Plus I think offering music to a mass market audience at an entry-level – be that via interactive radio or other models in discussion today – will be where the music industry is going.

What lessons have we learnt and what advice can we give to the other creative industries to help them on their digital journey?

The music industry has evolved at a significant pace and it has been unbelievably important to keep on top of technology, stay close to it and develop music services in line with the capability of the latest offerings. You need to understand your consumer and what they want, then try to put together services to meet that demand.

To listen to the full interview with Leanne, please visit **www.bpi.co.uk**

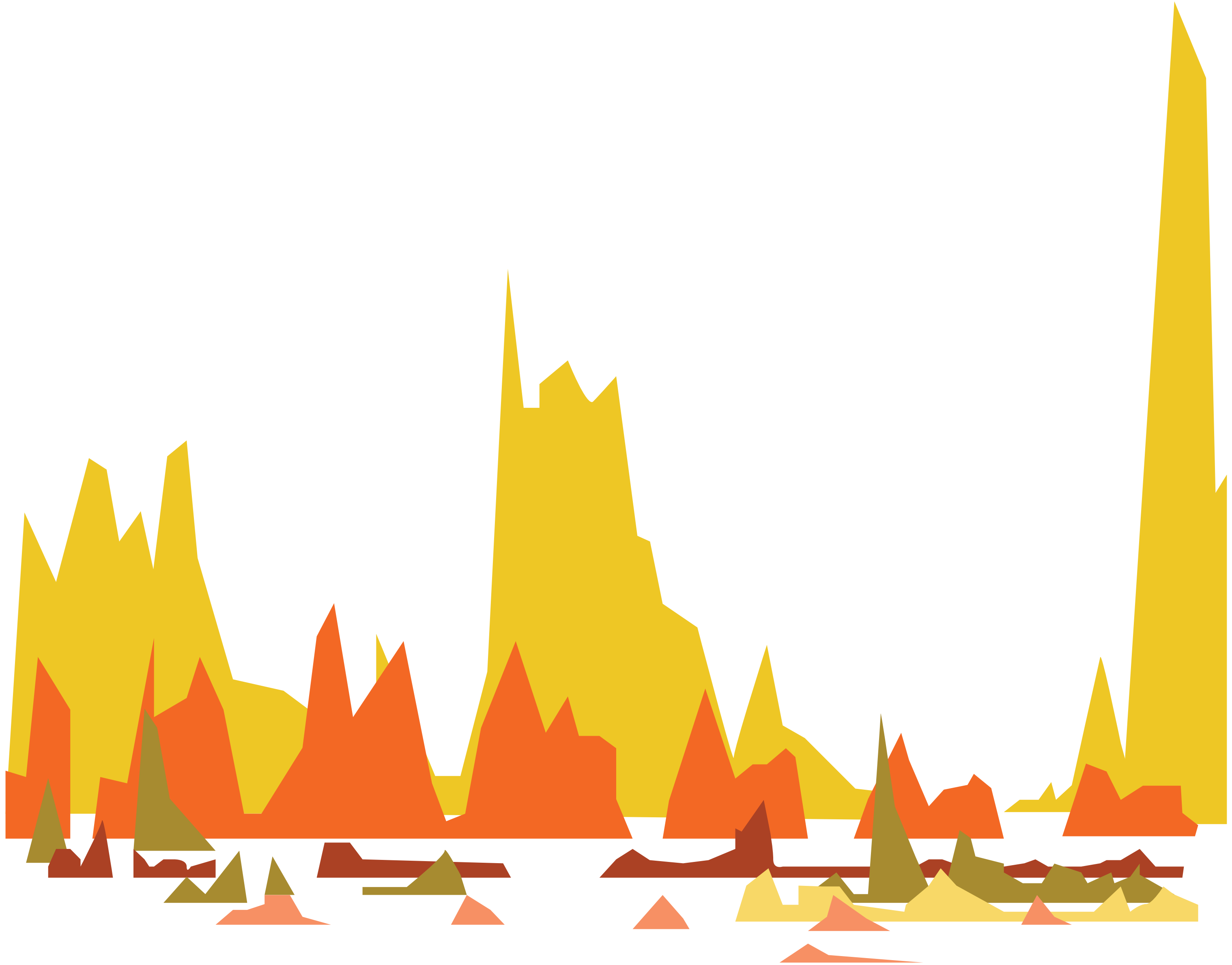
"Our focus is the development of long-term careers for our artists, which means building and sustaining a real connection with their fans.

In order to fully harness the power of the numerous music and social media platforms at our disposal, we have integrated digital expertise throughout the company, from marketing and promotion to business development and commercial.

Developing those skills across the entire organization means we can create more opportunities than ever before, delivering compelling consumer experiences and helping to fulfil the potential of each individual act."

Christian Tattersfield, CEO Warner Music UK & Chairman Warner Bros.

WHAT'S NEXT FOR DIGITAL MUSIC?



With streaming and downloading growing rapidly and increasingly shaping mainstream music consumption and discovery, there is great interest in the technological developments and trends that will make an impact in the coming months and years.

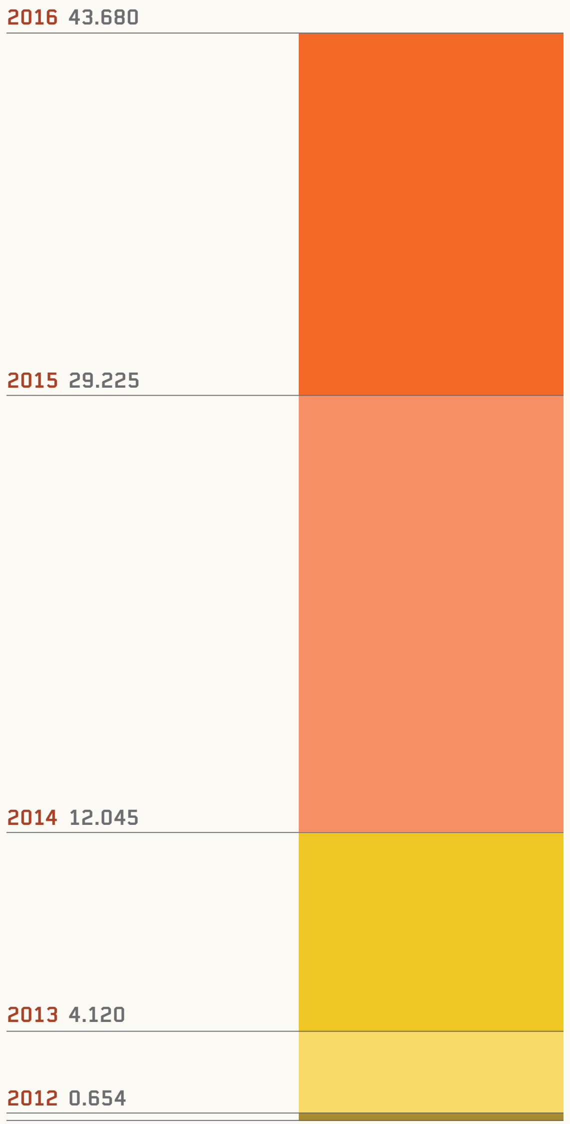
The move towards 4G integration

Mobile, such an important part of the expansion strategies of download and subscription services to date, is about to make its next major step forward with the roll out of 4G networks, meaning media-rich content such as music and videos can be delivered over mobile networks much more quickly – with speeds estimated at 10 times those on 3G networks.

In the UK, in August 2012, Everything Everywhere was given permission by Ofcom to use its existing bandwidth to launch the first 4G services around the country, with the initial rollout in 10 cities taking place in October. Forecast data from Futuresource Consulting illustrates the scale of uptake with 44m individuals in the UK expected to be 4G mobile subscribers by the end of 2016 – almost 70% of the population.

For many consumers, mobile will therefore become the primary device for digital music consumption. Previously the PC or laptop were the main hubs for music online, but leaps forward in smartphone technology, audio compression, wi-fi availability and mobile connectivity have combined to create the perfect storm for mobile-centric music consumption. 4G could also impact positively on the use of cloud storage services, with major players such as Google, iTunes and Amazon now being followed into the market by consumer electronics company LG and former P2P platform Audiogalaxy.

Forecast 4G uptake 2012-2016
Subscribers (millions)



Source: Futuresource Consulting

LOOKING AHEAD WITH MARK FOSTER
MANAGING DIRECTOR, DEEZER

In October 2012 Deezer celebrated its first birthday in the UK.

What do you think will be the next big thing in streaming services in 2013?

We're convinced that the future of digital music will rely on music discovery and re-establishing the emotional connection between music and people: our mantra is to help people rediscover music via recommendations by real people. Integration is also going to be a key theme for streaming services in 2013, as we start to see streaming truly embedded into every aspect of our day-to-day lives. Whether it's integration with the speakers in our living rooms, TVs, cars, games consoles, as well as newly-designed apps, the point of music streaming is that we allow music fans to access the songs they love anytime, anywhere.

What's next for Deezer in 2013?

2013 is going to be a big year for Deezer as we launch our Free service and Deezer4Artists (D4A) programme in the UK. We'll also continue our global rollout – 160 countries and counting – because there are still many people out there that crave great music but don't have such an intuitive, simple and compelling way of accessing it.

What impact do you hope D4A will have?

We want to provide a new and easy way for artists to connect with their fans around the world. We've been listening to what both artists and fans want and using that insight to create something innovative and unique. Prior to the launch of D4A we were busy working with artists to increase visibility in an engaging way. To promote Girls Aloud's *Ten*, Deezer gave the band the opportunity to call the shots with an editorial takeover. On the album's week of release, the girls made 10 music recommendations via a video message. Polydor and individual band members tweeted and shared news on Facebook on a daily basis. Deezer promoted the takeover on its homepage and social channels and a ticket and boxset competition was launched after a push notification to our mobile app users. Girls Aloud went to the top of the most popular Pop bands on the site, *Ten* went to No. 1 on the service and we got some great press attention.

Are you seeing exciting offerings emerge from the App Studio?

This is the latest step in our Open Deezer API programme. It allows developers to use Deezer functionality within their own apps and it also lets them place their new feature-rich apps inside the Deezer library. There are some really exciting apps taking shape, for example edjing, which lets you mix two Deezer tracks, and Wallzr, which creates desktop wallpaper based on your playlists.

How will your partnership with Everything Everywhere change the Deezer user experience?

After a successful first year of partnership with Orange, Deezer will now allow 4G EE customers to access, stream and download millions of tracks faster than ever with its Deezer Mobile offer included into tariffs. By combining a music service bundled in 4G tariffs, Deezer and EE combine greater user experience and innovation and offers affordable legal solutions to music piracy. It encourages more people to enjoy music legally. 4G will allow users to stream and download albums faster than ever, without any buffering.

> **"We're convinced that the future of digital music will rely on music discovery and re-establishing the emotional connection between music and people."**

Deals and services for a new audience

Bundled deals, whereby the cost of accessing music services are rolled into monthly payments to the ISP or mobile provider, are starting to take off in the UK and work as an important way to push subscription services into the mainstream.

Virgin Media has partnered with Spotify to offer subscribers on particular broadband package tiers bundled access to the premium version of the streaming service. Deezer, meanwhile, arrived in the UK in September 2011 with the Orange mobile network as a partner. Beyond Virgin, Spotify also has a long-standing partnership with the 3 network in the UK for mobile subscriptions and this is an area all subscription services will focus on more in the coming years.

More than 18m people to become tablet owners by 2016

The rapid growth of the tablet market will also no doubt have a significant bearing on how music services are tailored and which partnerships are forged. A 2012 Futuresource survey of tablet owners found that half already use their devices to listen to music and the same company predicts that over 18m people will be tablet owners in the UK by 2016.

Forecast UK tablet sales and ownership

Shipments (000s units)

2011	2012	2013	2014	2015	2016
3,513	5,640	6,810	7,852	7,981	8,027

Installed base (000s units)

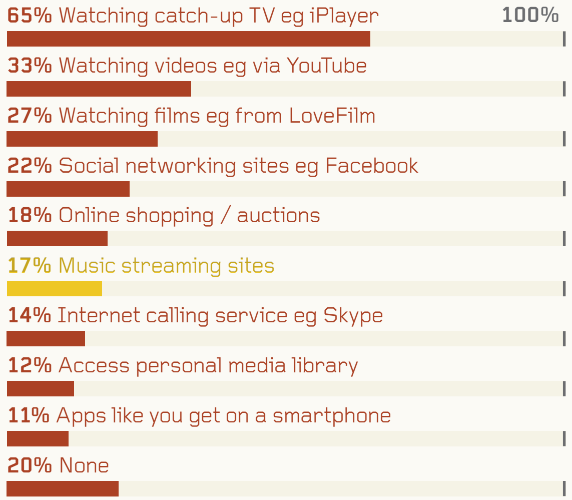
2011	2012	2013	2014	2015	2016
4,443	9,320	13,431	16,298	17,893	18,745

Household penetration

2011	2012	2013	2014	2015	2016
16.8%	35.0%	50.3%	60.6%	66.3%	69.2%

Source: Futuresource Consulting Ltd

Usage of Internet-connected TVs



Source: Futuresource Consulting Ltd

Music connectivity in the home

While much of the focus on digital music has been on portability (via smartphones and tablets), technological trends suggest that the connected home, with the TV at the centre, will be where things move.

Music companies are already making plans for smart TVs including SoundCloud and Shazam, who signed deals with ITV in May 2012 to bring interactive adverts to British shows. Sony Music Unlimited recently developed a facility for their Bravia TVs that 'tags' music used in TV shows so the full track can later be accessed on their service. 7digital has also joined up with Toshiba as the European music partner on its line of smart TVs. Such services are certainly gaining traction on this platform, with a 2012 survey by Futuresource Consulting finding that almost a fifth (17%) of connected TV owners used them to access music streaming sites.

Labels are also interested in this area, with EMI using the social TV app Zeebox to offer extra content and build sales around its artists' TV appearances.

Connected devices and hardware to grow in popularity

Beyond the TV, companies like Sonos and Teufel are bringing connected speakers into the living room to allow subscribers to services such as Rdio, Deezer, Napster and Spotify as well as digital radio stations to stream high-quality audio around their homes. Sonos also added the Sub wireless woofer to its product range last year, marking a dramatic jump in digital audio playback quality. Pure has also made moves in the connected home audio arena, launching its first multi-room system in October 2012, while earlier in the year hardware manufacturer Onkyo announced that Spotify access would be integrated with their new range of networked receivers.

Futuresource predict that annual sales of connected devices and hardware will reach around 3m in 2015, with networked speakers a particular growth area, indicating an installed base of more than 10m UK homes within the next five years.

Forecast UK ownership of networked home audio devices
Shipments (000s units)

	2011	2012	2013	2014	2015	2016
Integrated audio systems	126	208	323	410	475	506
A/V receivers	37	49	57	55	53	51
Dedicated docks & networked speakers	353	681	1,040	1,426	2,009	2,375
DVD/BD HTiB	194	267	299	322	325	315
Speakerbars	6	15	33	57	80	102
Total	715	1,220	1,752	2,269	2,941	3,349

Source: Futuresource Consulting Ltd

Sonos speaker system

MOG's in-car streaming service

In-car audio to become more of a reality

Outside of the home, connected cars will also create new opportunities for music services. Developments in the US already hint at the potential here. Satellite radio broadcaster Sirius XM is already installed in a number of new car brands while streaming radio service Pandora has signed several partnerships in this space and MOG entered into a deal with BMW in January. In Europe, Spotify linked with Seat in Spain last year to bundle subscriptions into its Ibiza cars, as well as Denon and Marantz.

Early 2013 saw several new Stateside developments announced in this area, with Chrysler making deals with services such as Slacker Radio and Pandora, while Ford partnered with the streaming service Rhapsody, confirming that music is very much in the plans of car manufacturers.

ABI Research forecasts that 50.9m connected cars with, among other things, streaming media will be sold every year by 2017. It adds that around 5.7m connected cars will be shipped in 2012.

As the volume of cars sold with CD players will inevitably decrease, it is new partnerships such as these that will potentially keep music at the centre of in-car entertainment. A December 2010 internet survey by Mintel found that 47% of car owners aged over 17 listened to music more in their car than at home, rising to over 50% among those under 34 – as music subscriptions become more familiar to consumers, this represents an important opportunity for a new revenue stream.

Technology is driving changes in music consumption, while demand for music continues to push forward technological innovation. This virtuous cycle has underpinned previous phases of growth for recorded music and it is about to do so again.

As digital music enters its teens, an entire generation of consumers have grown up with it, embracing its exciting potential and shaping the way they enjoy and engage with music. For some music fans, their digital music journey has only just begun. With music firmly at the forefront of digital innovation, however, the industry's prospects for a return to growth have never looked brighter.

47%
Car owners listen to music more in their car than at home

5.7M
Connected cars shipped in 2012

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