Adding up the UK music industry 2011

The big numbers for 2011

- Total UK music industry revenue stable at £3.8bn
- Live music revenue reached a record £1.6bn
- Digital music sales increased by 20 percent
- Business-to-business revenues grew by £18m in total across 2011
- Record label revenues outside CD, DVD and digital services exceeded £200m for the first time

PRS for Music represents over 95,000 songwriters, composers and music publishers in the UK and protects the rights of international songwriters through over 150 arrangements with international bodies.

The report has been compiled by Nicholas Brookes in co-operation with a number of key bodies and individuals from across the industry. Very special thanks also to Will Page, Director of Economics, Spotify and Chris Carey, Global Insight Director, EMI who both contributed to this and previous editions of our Adding Up report.

The fourth edition of *PRS for Music's* Adding Up the UK music industry paper explores the value of the music industry and its income streams for 2011. Technology plays a vital role in shaping the way we now enjoy music on many types of devices and the music industry – like many others - has had to adapt to these changes in formats, consumption and usage.

In 2011 we saw Deezer and Apple's iTunes in the Cloud launch in the UK and we recently licensed the eagerly anticipated Google Play and Amazon Cloud. Supporting global technology brands to launch new products here and in Europe is great news for music creators and the UK economy at large.

Despite the continued decline of the recorded music market, driven by the drop in physical sales of the once dominant CD, digital revenues continued to increase. Digital music revenues grew by 20 percent in 2011 to reach £379m for download-to-own and streaming combined and this will only increase. The live sector saw phenomenal revenues - £1.6bn – the highest for live music since we started the Adding Up report. While this was largely due to the celebrated Take That stadium gigs, this growth reflects an increased appetite for festivals and live band experiences.

These buoyant revenue streams mean that consumers are using music in fresh ways and remodelling the market, which brings with it huge opportunity. But while we move from one era into another, the value of the UK music industry remains stable at £3.8bn.

This vital creative industry needs to be nurtured so that it can continue to thrive and support other sectors to produce world-renowned music, creating employment opportunities and promoting innovation.

Robert Ashcroft,
Chief Executive, *PRS for Music*

Adding up the estimated value of the UK music industry in 2011 £m (% change on previous year, consistent methodology)	2010	2011	Change
Business to consumer			
Recorded music	£1,151	**£1,112**	-3%
Live music	£1,418 *	**£1,624**	+15%
Business to consumer total	£2,569	**£2,736**	+7%
Business to business			
PRS for Music gross collections	£611	**£631**	+3%
Adjustment for mechanical revenues	-£81	**-£65**	
Adjustment for live revenues	-£20	**-£23**	
Adjustment for overseas payments	-£85	**-£95**	
PRS for Music adjusted total	£426	**£448**	+5%
PPL and VPL† gross collections	£154	**£164**	+6%
Adjustment for BPI revenues	-£72	**-£83**	
Adjustment for international payments	-£3	**-£1**	
PPL and VPL - adjusted total	£79	**£80**	+1%
BPI record label direct revenues (B2B)	£202	**£220**	+9%
MPA publisher direct revenues	£242	**£210**	-13%
Advertising and sponsorship revenues	£94	**£99**	+6%
Business to business total	£1,042	**£1,057**	+1%
UK music industry total	£3,611	**£3,793**	+5%

* 2010 live figure of £1,480m restated as £1,418m due to methodological improvements

† PPL/VPL issues licences to businesses and organisations across the UK playing recorded music and/or music videos in public.

Recorded music revenues still in flux

Recorded music revenues[1] dropped to £1.1bn in 2011, which was three percent lower than 2010. The value of physical albums fell by 13 percent in 2011 to £685m, but digital music grew by 20% to reach £379m.

Adele's *21* proved to be a huge hit with record buyers and passed the three million sales mark by year-end, an achievement not seen since Amy Winehouse's *Back to Black* in 2006. 68 percent of Adele's sales were physical but alone this could not reverse the decline in this once dominant musical format. During 2011 physical formats generated £955m less than the £1.6bn seen at the last high point of 2005 in a trend which looks set to continue. However, Adele's success in selling music across all formats reminded us that a large market remains as long as strong titles are available.

Digital music revenues continue to grow

Digital music reached £379m for download-to-own and streaming revenues combined. While this figure was ten times greater than the 2005 total, the digital market has yet to reach its full potential. Subscriptions displayed an impressive percentage growth, partially as a result of Spotify's premium uptake rate improving when free listening restrictions were introduced in May 2011. Whilst subscriptions account for just £23.3m, a strong growth of 43% is encouraging.

Digital's share of overall album sales reached 23.5 percent, which was a significant leap from the 17.5 percent achieved in 2010. Digital is growing significantly but still has not offset the decline witnessed in physical formats. Physical sales will continue to descend and the value of recorded music is likely to follow unless digital formats can counter-balance this decrease more effectively than they have so far.

Live revenues reach £1.6bn

The overall value of the live music industry comprises three elements: the primary market, where event tickets are sold to attendees by ticketing agents on behalf of promoters, the secondary market, where previously exchanged tickets can be re-sold, and ancillary spend, which counts additional spend on items like merchandise, food, beverages, parking and public transport that can be attributed to music.

Live revenues[2] reached £1.6bn in 2011 – which was a substantial increase from 2010's total of £1.4bn. Festivals and arena concerts are the most significant areas in the live music industry, each accounting for around 25 percent of the market. A dramatic increase in stadium concerts helped spur on growth in 2011. Tours like Take That's Progress Live meant that almost 60 events were held in a stadium, which was twice as many as in 2010. Stadium concerts generated over £221m with box office receipts and the associated spend responsible for two-thirds of 2011's live revenue growth.

Festival market goes from strength to strength

The number of festivals grew to 272 , although the addition of more events did not lead to significant revenue growth. The sector remained the largest in the live market by a whisker, generating £397m compared to £396m for arenas.

Although arena concerts nearly matched festivals for revenue, the volume of events was wildly different. 2011 saw 272 festivals cater to two million attendees, with most events lasting two or three days over a single weekend. Arenas had to work much harder to generate the same money - they played host to 8.5 million attendees across 1,000 events throughout the year. Still, the busiest venue type for popular music was the club (venues with capacity less than 1,000), with over 16,000 events reported.

Festivals generated high sums of revenue for the industry – the revenue increase was due to higher prices charged to cover the cost of line-up and logistics. It was also because the post-ticket additional spend was greatly inflated. A combination of factors including a duration lasting days rather than hours and a lack of alternative food and drink choices were behind the rise – both drove the ancillary spend up to an average of more than £100 and almost matched the average ticket price of £114.

Ancillary spend at festivals provided additional revenue of 95 percent of the average face value ticket per person, where the level for most other venue sizes was between 35 and 50 percent. However, at club level the ticket and ancillary spend were almost equal again as average ticket prices fell below the £10 mark. Average ancillary spend per person at theatres was similar to that at club gigs, but theatres often host more established acts that can command a higher ticket price and so generate significantly more money. Similarly, mid-level venues that hold 2,500 – 5,000 people and arenas both saw around £12 in additional spend - arenas saw an average ticket price above £30, £10 more than mid-level venues can charge.

Calculating the precise value of the secondary market is problematic. The basic business model of re-selling tickets is legitimate under UK law and is an established practice. Additionally sites offer tickets for various event types, not just music but sports and comedy among others. The amount of precise data available data is limited however by working with ticketing experts Stormcrowd we estimate the additional value to music generated by the secondary market to be £208m, an increase of eight percent on 2010 [3]. The type of tickets most traded on the secondary sites skew heavily towards the top end of the market, with arena tours seeing greater activity than clubs.

The implementation of the Live Music Act in October 2012 will contribute to a healthy future for live music at all levels. Events with a capacity of 200 or less no longer need to obtain permission from their local authority, which should see more pubs willing to host musical performances in the coming months. Extending the range of venues available to performers can only be a good thing for the long-term future of live music. Growth at the top end of the market cannot be expected to continue if new acts aren't presented with adequate opportunities to hone their craft.

[1] Data on the recorded music market is provided by the British Record Music Industry (BPI) in their annual yearbook. Recorded music covers revenues generated across all formats - payments for physical music products, downloads-to-own and subscriptions.

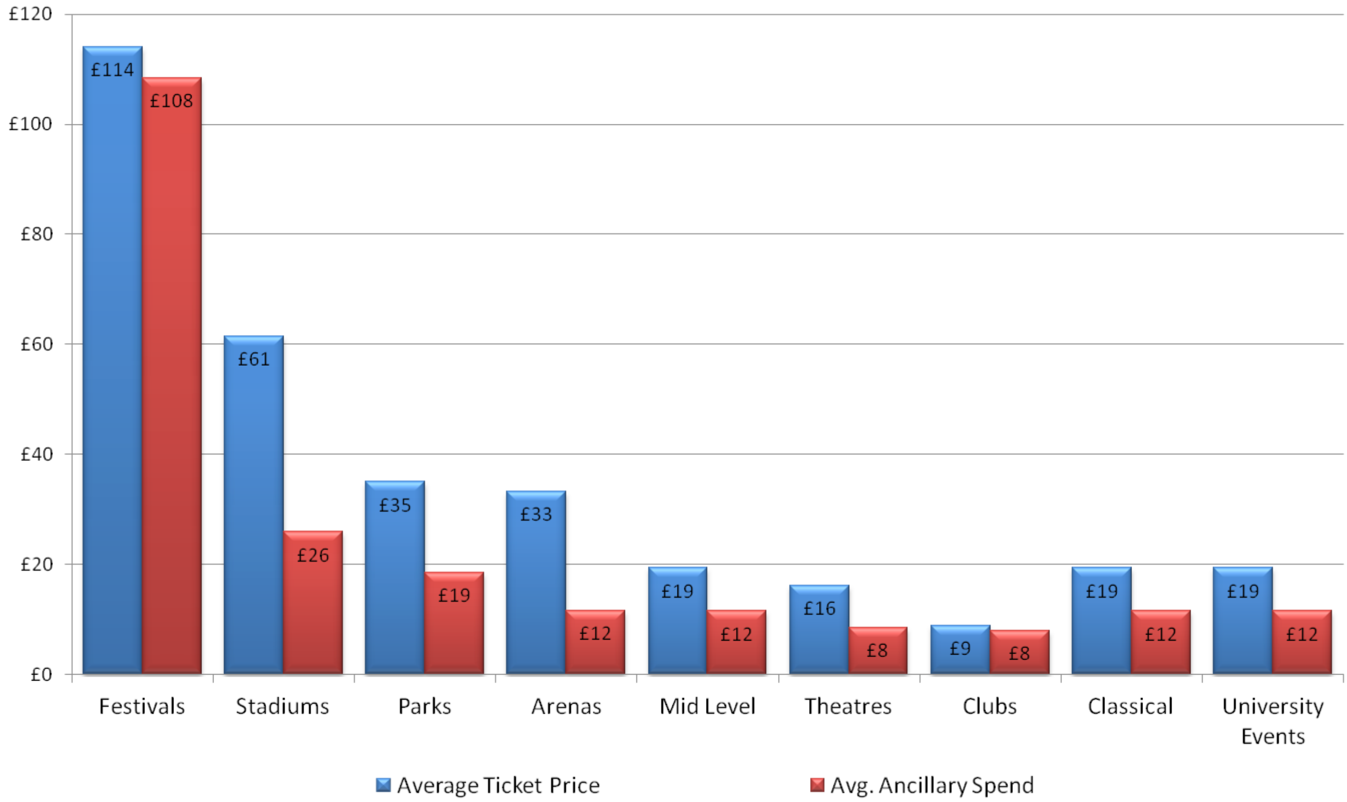
The BPI is the representative of the UK's four major record labels and hundreds of independent music companies. BPI members account for approximately 90 percent of all recorded music sold in the UK, and globally the UK's recorded music market is the third biggest.

[2] The estimate for live market value is based on data for the 67,000 events that were reported to ***PRS for Music*** for 2011, from festivals to club gigs. Totals were constructed by Will Page in partnership with Stormcrowd from primary box office receipts; secondary market estimates and ancillary spend in areas attributed to live music events like merchandise, food and beverages, public transport and parking.

[3] The primary market value of the tickets that are re-sold are already captured in our box office data. If a ticket with face value of £20 sold for £30, then an extra £10 of additional value was produced and factored into our secondary ticket market calculations.

2011 Live spend by venue: ticket price vs ancillary spend

Source: Stormcrowd and *PRS for Music* calculations



PRS for Music gross royalties grow again

PRS for Music's gross royalties in 2011 totalled £631m, an increase of £20m on 2010. International revenue grew to £188m – the rise of £17.9m was due to extraordinary payments from Poland, Germany, Canada, Belgium, strong repertoire performance in the US and live concerts in Latin America. Broadcast revenue increased by £2.8m to reach £148.4m, while online licensing royalties reached £39.1m, an improvement of £11.5m. Public performance revenue grew by £2.9m to £153.9m.

However, the strong growth in these areas was offset somewhat by losses of £15.6m in Recorded Media, where a knock-on effect from declines in the physical market leads to lower returns.

Some of the money collected by *PRS for Music* is captured in other areas of our table therefore the figure of £631m is minus mechanical and live payments and monies sent abroad to leave us with a total of £448m, an £22.5m improvement on 2010's equivalent figure.

PPL gross revenues up by £10m

PPL's[4] gross revenue increased by £10m to £154m in 2011, with Public Performance and Broadcast & Online each responsible for an additional £5m. Broadcast & Online licensing brought in £66.2m from television, DVD, download-to-own and online radio while public performance licensing of thousands of premises raised £55m. International revenue also grew slightly to £32.4m.

As with the *PRS for Music* collections, some of the PPL revenue was reflected in other sections of the main table. Discounting these sections means that the figure contributed to our overall total was £80m, an increase of £1m on 2010's figure.

[4] PPL is the licensing body for the use of recorded music in public or broadcast on radio, TV or internet.

MPA publisher direct revenues

These revenues are other monies distributed by *PRS for Music* to music publishers, including foreign collection societies, printed music sales, synchronisation and grand rights licensing.

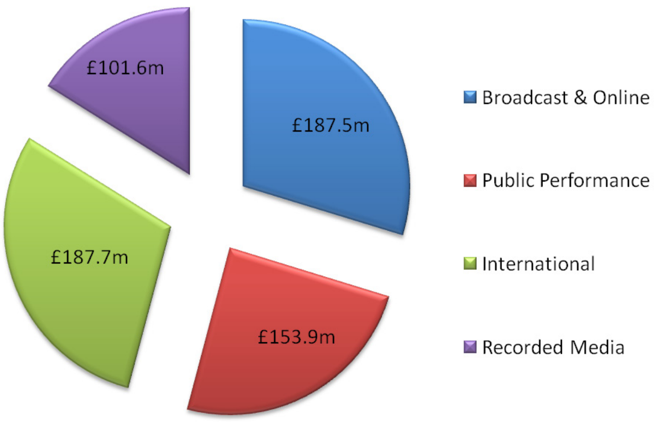
Publisher direct revenues fell by £27.8m to £210m. The decrease was almost entirely based in two revenue streams – European collecting society distributions and non-UK based synchronisation licensing, where music is used in television and advertising. The only positive to draw was the fact that neither stream originates in the UK. The fall was the result of challenging economic climates abroad rather than serious operational problems within the UK publishing sector.

Economic challenges were reflected in royalties from the continent, which slipped from £63.6m in 2010 to £46m in 2011. Royalties from North American Collecting Societies were broadly level with 2010 at £23m while revenue from the rest of the world grew by £2m to total over £30m again after dropping off in 2010.

UK-based synchronisation licensing for television and advertising continued in its fourth year of solid growth, adding £2.6m to reach £25.2m. However, this was undermined by the regression of non-UK synchronisation licensing to its lowest total since 2008. Last year's survey showed an exceptional year for non-UK synchronisation licensing, up from £24.8m in 2009 to £33.6m, but in 2011 the market normalised back to £22.6m.

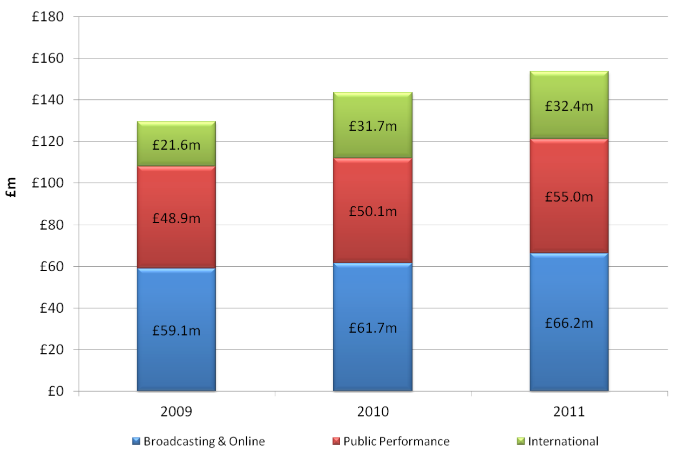
PRS for Music 2011 revenue by source

Source: *PRS for Music*



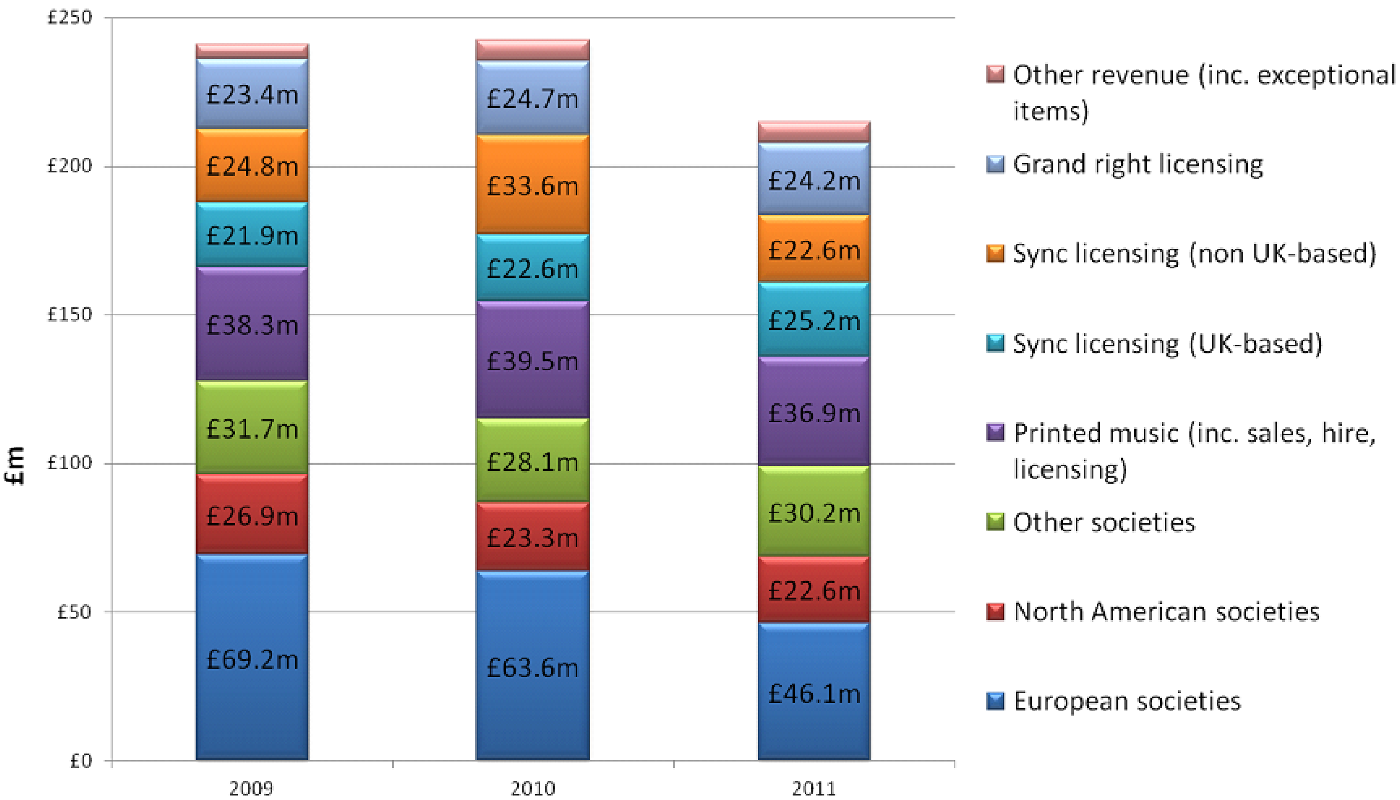
PPL revenue by source

Source: PPL



MPA publisher direct revenues

Source: MPA survey of membership and *PRS for Music* calculations



BPI record label direct revenues (B2B)
These revenues refer to income from CD, DVD and digital sales, including music synchronisation, '360 degree' artist deals, concerts, music-related TV production, broadcasting and public performance.

Annual revenue generated separately from recorded music sales increased to £205m, according to the BPI's business to business findings for 2011 published in October 2012.

Synchronisation of music in film, television and advertising grew by 12 percent to £18.1m, but revenue from games fell amid a decline in sales of music-based games to £3.6m, its lowest level since 2007.

2011 saw a downturn in demand for covermount and other promotional products, and revenue fell to £0.4m from £1.8m in 2010. However, artist related income from revenue streams such as merchandise, concerts, and direct-to-fan sales saw strong growth to £75.9m

Public performance revenue collected by PPL increased by £10.9m to £83.2m over the year. Revenue from ad-supported services and other digital revenue brought the contribution of business-to-business revenues to £220m in 2011.

Advertising and brand spend up to £98.8m

We partnered with FRUKT [5] again this year to estimate the amount of money spent on music by brands engaged in promotional activities. FRUKT breaks brand-spend down into the following categories: Live music sponsorship, event creation, artist endorsement, digital, television and advertising support.

Investment across all advertising channels increased to £98.8m in 2011, a combined growth of 5.6 percent. The figure significantly outperformed the advertising sector's growth rate of 2.7 percent. It is likely that music-related advertising will reach a £100m per year in 2012 after rising from the £93.6m seen in last year's report.

Live sponsorship was the most valuable channel for brand-spend, responsible for almost half of the 2011 increase. The growth here links to the increase in live revenue, with high-earning tours like Take That's Progress Live attracting sponsorship from large brands such as Samsung.

With stable revenues supporting music-based advertising activity, we witnessed more sophisticated campaigns being delivered across a variety of channels. In a typical campaign, the lines between the above areas are likely to be blurred as core partnerships are complemented by activities carried out through television, online and traditional media.

Brands appear to be giving serious thought to the type of acts they engage with and the activities they carry out - this led to more 'authentic' relationships and fewer simple endorsement deals. A good recent example is the partnership between Converse and Gorillaz. The trainer company paid for the production of an original track and accompanying video, *DoYaThing*. Damon Albarn worked with James Murphy and Andre 3000 to create a free download from the Converse website.

Jamie Hewlett also designed four pairs of trainers for Converse that were put on general sale and promoted in the music video he directed for *DoYaThing*. Two Gorillaz Sound System live events also took place at the 100 Club, which Converse saved from closure in February 2011 by offering a sponsorship deal. All of these activities were supported by advertising online and in the traditional press. Such a deal involves at least four of the six distinct revenue channels listed here and aims to convey that the crossover between the two parties runs deeper than a simple endorsement for an agreed sum.

Another good example of an effective music-based campaign is the iTunes Festival series. The festival sees sponsored concerts held every night for a month, with free admission allocated by prize draw.

This enabled a variety of complementary activities such as media partnerships with key newspaper titles, front page banners, competitions and live broadcast of the concerts with radio partners like XFM, and the first ever live video streaming of the concerts on iTunes itself. All of these initiatives brought the events to a much wider global audience. Edited highlights programmes were broadcast on ITV, and a selection of live recordings from the concerts were available for sale on the iTunes store.

Channel	FRUKT definition	2011 Spend (£m)	% Change
Live music sponsorship	The spend on sponsorship rights and direct activation costs for festivals, artist or branded tours and venue naming	£35.1	6.8%
Event creation	The creation of custom experiential activity. Includes all direct activation costs such as event creation and artist costs	£8.4	3.3%
Artist endorsement	The use of image rights and appearances of artists to endorse a specific brand, product or service	£3.5	8.4%
Digital	The creation of specific music-focused digital and mobile activities, as standalone platforms or within wider music campaigns	£7.7	6.3%
TV	Sponsorship of existing music-specific or music-focused TV programs and the creation of ad-funded TV activity	£23.0	5.5%
Advertising support	The use of above the line and below the line promotions to support existing music campaigns	£21.0	3.9%
TOTAL		**£98.8**	5.6%

[5] FRUKT is a creative and music agency which we have partnered with to produce an estimate for brand spend on music in 2011.

In conclusion

The music industry performed well in 2011, despite difficult conditions to deliver growth of 5%. The live industry was almost entirely responsible for this, with £1.6bn representing the highest peak since this report was first produced, and setting a high-water mark that is unlikely to be reached in the immediate years. The growth was spurred on by the top end of the market this year, but we hope that the Live Music Act will better serve acts at the bottom, providing more venues and offering more opportunities for the public to enjoy live music.

While the recorded music market continues to fall, the speed at which it does so has slowed from -9% in 2010 to -3% in 2011. While this was partially due to a slowing in the decline of physical albums, the continuing development of the digital market was key in the move towards stability for recorded music, with the total for downloads and subscriptions seeing a combined increase of 20%.

New additions and modifications are still being made in the digital arena, and we still have some distance to travel before we can know what a 'normal' digital landscape looks like. This is positive in terms of growth, as the maximum potential size of the digital market is yet to be established, and share within in it is still very much to play for.

In terms of money entering the UK music industry directly from consumers, this paper shows that where consumers chose to spend less on recorded music last year, they spent more on live with consumer expenditure seeing a net increase of 7%. Additional money entered the industry but landed in different pockets than in the previous year.

Away from consumers, the primary attribute of music as a business-to-business industry is stability, with 2011 improving on 2010 by a modest 1%. The gains witnessed by the collecting societies were in line with overall industry growth, and the UK remains one of the few net exporters of music, with royalties from abroad outweighing the payments sent outside of the country. The 6% increase in brand spend meant that music outperformed the advertising industry average growth in 2011 of 3%, highlighting perpetual thirst for music and the advantages of being associated with it.

Money paid directly to publishers saw a significant decrease but this was partially due to exceptionally high receipts in 2010 rather than low payments in 2011. A growth area for publishers was synchronisation licensing, and this is consistent with the BPI business-to-business data, where revenue streams outside of the traditional functions of the record label are becoming increasingly important.

From this vantage point it does not seem likely that 2012's industry total will match that of 2011, as the live figure presented here will be difficult to match. The extent to which it can do so will be a measure of the progress that the industry is making in diversifying its revenue streams and establishing the digital marketplace to its full potential.

This paper would not have been possible to produce without the kind co-operation of the following people. We would like to thank: Will Page (Spotify), Chris Carey (EMI Music), Cliff Dane (Media Research Publishing), Steve Machin (Stormcrowd), Will Lines and Harriet Finney (MPA), Chris Green (BPI), Christian Barton and Jonathan Morrish (PPL), Dom Hodge and team (FRUKT).

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