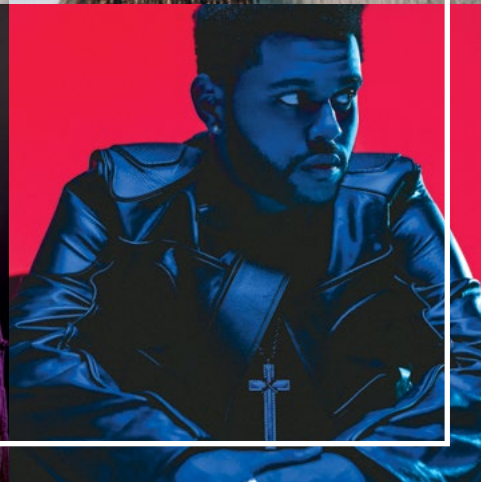
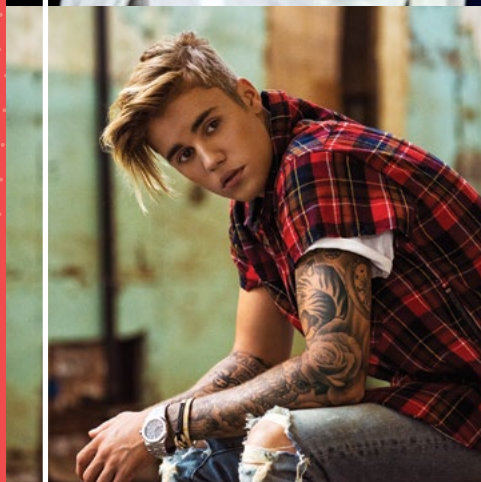
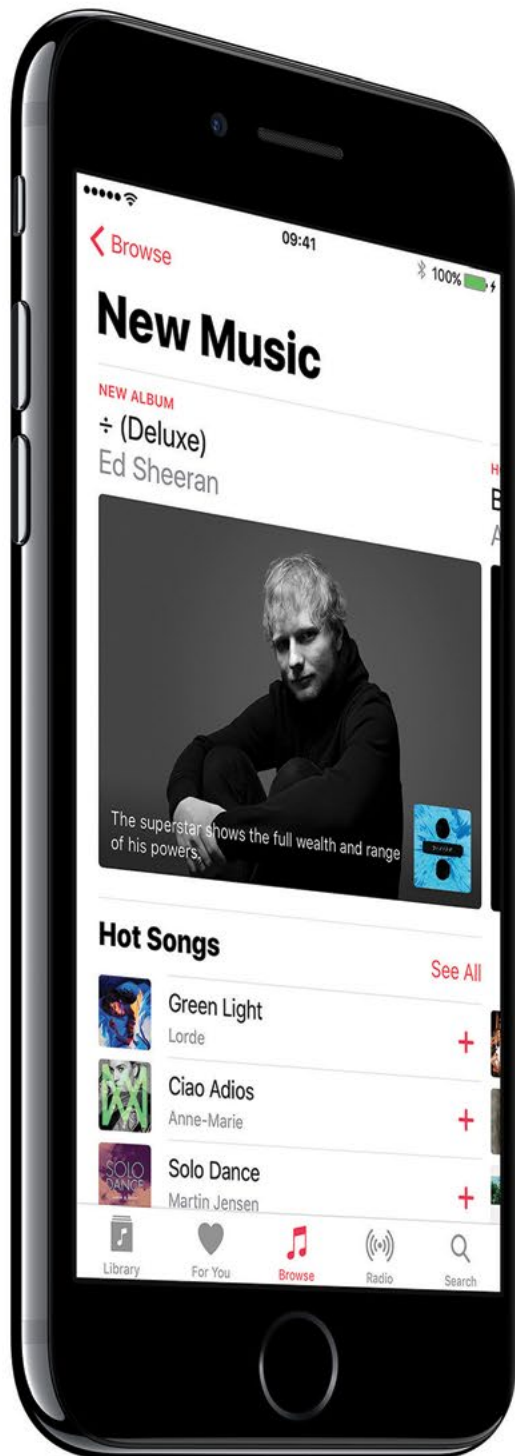


GLOBAL MUSIC REPORT 2017

ANNUAL STATE OF THE INDUSTRY





 **MUSIC**

**Never stop
playing.**

WELCOME

The IFPI Global Music Report tells a positive story of music being enjoyed by more people in more ways than ever before. At the heart of this story are incredible artists, supported by the investment and innovation from record companies and other partners that is helping them to share their music with the world.

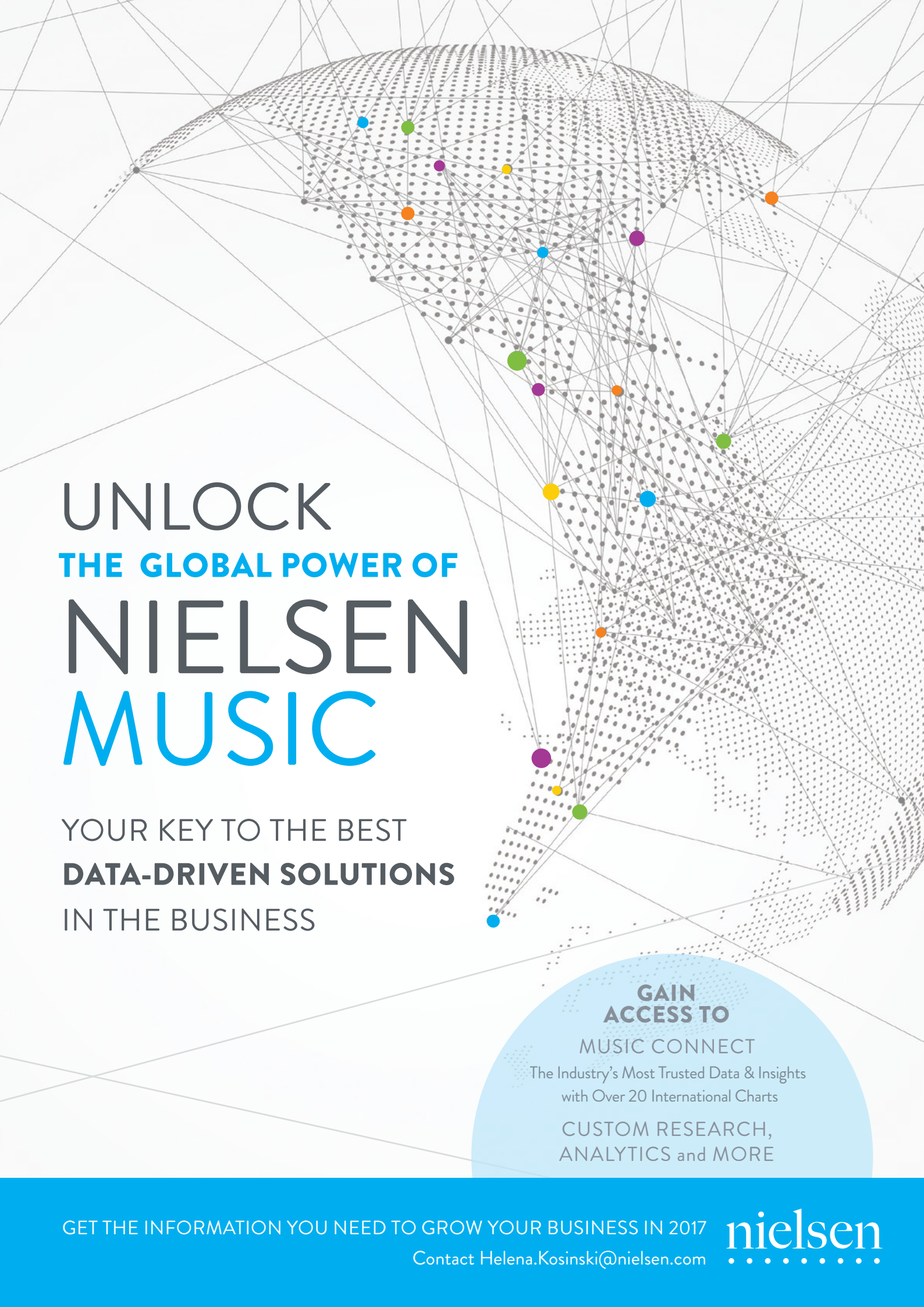
We are now in an exciting era in which streaming is making the depth and richness of every kind of music available to hundreds of millions of people, with artists connecting more directly and more quickly with their audiences.

Challenges remain, however, and the fair remuneration of those that create and invest in music must be a priority in this increasingly digital world. The whole community is uniting in its efforts to ensure that music is properly valued so that artists and their work can thrive.



Plácido Domingo
Chairman, IFPI

A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke.



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DATA-DRIVEN SOLUTIONS
IN THE BUSINESS

**GAIN
ACCESS TO**

MUSIC CONNECT

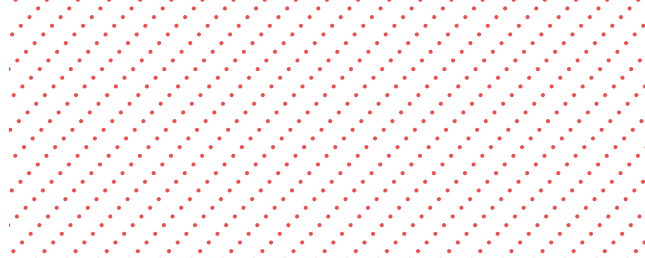
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GLOBAL MUSIC MARKET 2016 IN NUMBERS

+5.9%

GLOBAL REVENUE GROWTH

50%

DIGITAL SHARE
OF GLOBAL REVENUES

+17.7%

DIGITAL REVENUE GROWTH

+60.4%

GROWTH IN STREAMING
REVENUE

-7.6%

PHYSICAL REVENUE

-20.5%

DOWNLOAD REVENUE

INTRODUCTION

Modest growth, limitless potential.

Frances Moore
CEO, IFPI



The global recording industry is seeing modest growth after more than a decade of significant decline. Years of investment and innovation have begun to reward an industry that has shifted from adapting to the digital age, to driving it.

The story of the recorded music industry over the last two decades is one of transformation: from physical to digital; downloads to streaming; ownership to access. The industry is now working with its partners on another, ongoing transformation: from years of decline to sustainable growth.

While physical sales remain significant in certain territories and for certain artists, there is no doubt that streaming is the key driver of growth, with the number of users of paid subscriptions having broken the 100 million mark and continuing to rise. Fans are engaged with music in an amazing variety of formats, from the vinyl revival to the phenomenon of musical.ly, but the growth story is centred on services which are widening streaming's demographic appeal. Record companies and their distribution partners have been instrumental in this, licensing more than 40 million tracks to hundreds of digital services worldwide and developing the high performance systems that allow music to be accessed around the world. Their approach has been global in scope and yet local in execution, adapting their practices to open up legal digital markets for music.

The transformation has created an enormously exciting environment for music fans, who are benefitting from new and evolving services and accessing more music than ever before. In turn, artists have more ways to connect with their fans and more opportunities to share their work in diverse and creative ways. If the digital market continues to grow, so too will the overall level of remuneration to artists, as will the levels of overall investment required to create new music whilst helping to drive digital innovation.

However, this is far from 'mission accomplished'. Instead, as the market continues to evolve at a pace never before seen, the industry is seizing the moment, driving further innovation and exploring ever-expanding new ways of engaging with fans around the world.

Realistically, for this growth to become sustainable, for investment in artists to be maintained and for the market to continue to evolve and develop, more must be done to safeguard the value of music and to reward creativity. For music to thrive in a digital world, there must be a fair digital marketplace.

Artists and creators have spoken about the global 'value gap', whereby 'safe harbour' legislation dating from the Internet's early days is being abused by user upload services such as YouTube, who are not licensing music on a fair basis. Gradually, policymakers are beginning to listen and legislation is being examined or proposed

in some territories around the world, including in Europe where the European Commission has recognised the existence of a value gap and begun working towards legislation. However, this is a global problem that requires legislative solutions across the globe. The industry continues to fight worldwide for a level playing field for fairly licensed digital services.

Copyright infringement, in a variety of guises, remains a major issue, with the growing practice of 'stream ripping' now very much part of the challenge facing our industry. With an unprecedented amount of licensed music now available to fans, these practices have no place in the music world, today or tomorrow.

The global music business is changing more significantly – and quickly – than ever before, but the fundamental role of a record company remains the same: to discover, nurture, support and promote artists and to make their music accessible around the world.

GLOBAL CHARTS

Most popular artists and best sellers of 2016.

TOP 10 RECORDING ARTISTS



DRAKE



DAVID BOWIE



COLDPLAY



ADELE



JUSTIN BIEBER



TWENTY ONE PILOTS



BEYONCÉ



RIHANNA



PRINCE

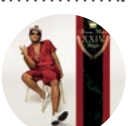


THE WEEKND

2015 top 10 list:

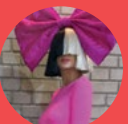
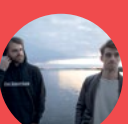
- | | | | |
|---|---------------|----|------------|
| 1 | ADELE | 6 | COLDPLAY |
| 2 | ED SHEERAN | 7 | MAROON 5 |
| 3 | TAYLOR SWIFT | 8 | SAM SMITH |
| 4 | JUSTIN BIEBER | 9 | DRAKE |
| 5 | ONE DIRECTION | 10 | THE WEEKND |

GLOBAL TOP 10 ALBUMS OF 2016

	Title and artist	Units (m)
	1 Lemonade BEYONCÉ	2.5
	2 25 ADELE	2.4
	3 Views DRAKE	2.3
	4 Hardwired...to Self-destruct METALLICA	2.1
	5 Blackstar DAVID BOWIE	1.9
	6 Blue & Lonesome THE ROLLING STONES	1.8
	7 24k Magic BRUNO MARS	1.7
	8 Blurryface TWENTY ONE PILOTS	1.5
	9 A Head Full Of Dreams COLDPLAY	1.4
	10 A Pentatonix Christmas PENTATONIX	1.4

Source: IFPI. Physical and digital albums included. Streams excluded.

GLOBAL TOP 10 DIGITAL SINGLES OF 2016

	Title and artist	Units (m)
	1 One Dance DRAKE	12.5
	2 Love Yourself JUSTIN BIEBER	11.7
	3 Closer THE CHAINSMOKERS FEAT. HALSEY	11.7
	4 Cheap Thrills SIA	11.1
	5 Sorry JUSTIN BIEBER	10.8
	6 Work RIHANNA	10.6
	7 7 Years LUKAS GRAHAM	10.4
	8 Don't Let Me Down THE CHAINSMOKERS FEAT. DAYA & KONSHENS	10.2
	9 I Took A Pill In Ibiza MIKE POSNER	10.0
	10 Stressed Out TWENTY ONE PILOTS	9.9

Source: IFPI. Units include single-track downloads and track-equivalent streams. For full top 50 global albums and top 20 digital singles, please see the Data and Analysis section of the full report.

GLOBAL MARKET OVERVIEW

Growth driven by investment and innovation.

In 2016, the global recorded music market grew by 5.9%, the fastest rate of growth since IFPI began tracking the market in 1997. This was a second consecutive year of global growth for the industry, with revenue increasing in the vast majority of markets, including nine of the top ten. This growth, however, should be viewed in the context of the industry losing nearly 40% of its revenues in the preceding 15 years.

Streaming has been the clear driver of this growth, with revenues surging by 60.4%. With more than 100 million users of paid subscriptions globally, streaming has passed a crucial milestone. It makes up the majority of digital revenue, which, in turn, now accounts for 50% of total recorded music revenues.

Record companies are driving this digital evolution. Even through more than a decade of market decline, they continued their central mission to discover, nurture and promote artists and their music. Alongside this, record companies have built the systems and infrastructure that has enabled the widespread licensing of digital music services and supported their development. They have engaged on a global scale, while recognising the need

for bespoke, local approaches to develop new and emerging markets.

The global digital market is now seeing unprecedented competition, with streaming services developing and extending their offerings around the world. Rather than cannibalising the existing streaming base, these developments are expanding it, providing fans with a more varied, richer experience and bringing streaming to new audiences and new territories.

Far from being the conclusion of a long-term transition, however, record companies see this moment as the start of a new chapter in recorded music, albeit one that is underpinned by a continuing commitment to invest in music and develop artists, and driven by the need to deliver their music to fans in ever more varied and exciting ways.

Crucially, the industry is also working to convert the positive revenue trend currently being experienced into sustainable growth. To achieve this, music must be properly protected in an increasingly digital marketplace. The market flaw known as the 'value gap' must be fixed (see page 24) and fair revenue must return to those who invest in and create music.



GLOBAL GROWTH IN MUSIC

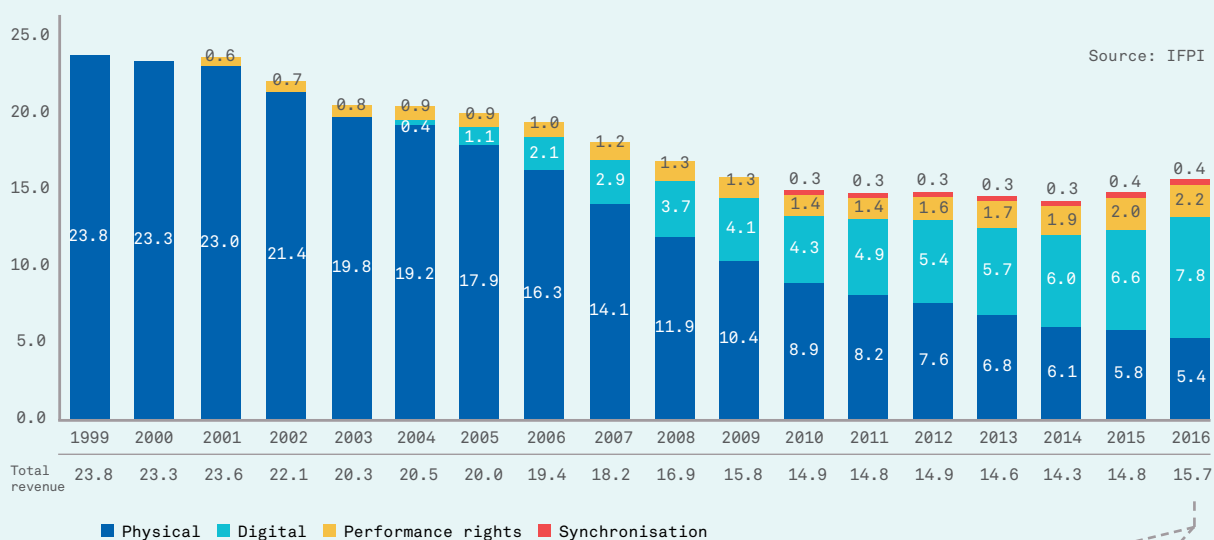
↗ 5.9%

Global recorded music market growth.

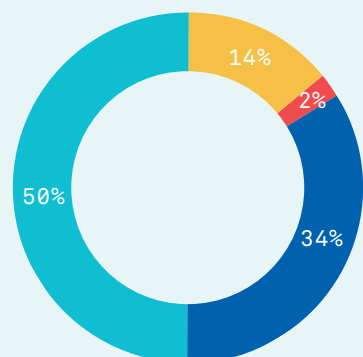
50%

Digital music share of global revenue.

GLOBAL RECORDED MUSIC INDUSTRY REVENUES 1999–2016 (US\$ BILLIONS)



GLOBAL RECORDED MUSIC REVENUES BY SEGMENT 2016



Performance rights Physical
Synchronisation Digital

Before seeing a return to growth in 2015, the global recording industry lost nearly 40% in revenues from 1999 to 2014.



2016 FIGURES BY FORMAT

In 2016, global recorded music revenues totalled US\$15.7billion. They rose by 5.9% on 2015, improving on the previous year's growth of 3.6% and marking the largest growth the industry has seen since IFPI began tracking industry sales in 1997.



PHYSICAL FORMAT revenues declined by 7.6%, a higher rate than the previous year, which saw a decline of 3.9%. The physical sector still accounts for 34% of the global market and is particularly significant in leading countries such as Japan and Germany.



DIGITAL REVENUES grew by 17.7% to US\$7.8 billion, driven by a sharp 60.4% growth in streaming revenue – the largest growth in eight years. This more than offset a 20.5% decline in digital download revenue. Streaming now makes up the majority (59%) of digital revenues. For the first time, digital revenues make up 50% of the share of total recorded music industry revenues.

In 25 markets, digital revenues now account for more than half the recorded music market with five further countries crossing the 50% threshold last year.



PERFORMANCE RIGHTS – the revenue generated by the use of recorded music by broadcasters and public venues – grew by 7.0% to US\$2.2 billion in 2016. This revenue stream accounts for 14% of the market but remains significantly undervalued.

Despite the continued growth of performance rights revenues over the past few years, a study by PwC has established that recording industry revenues (including performers' revenue) from the radio broadcast sector globally currently amount to only some 2% of the radio industry's income which fails to fairly reflect the value of the use of the rights. IFPI believes that the main reason for such anomalies is that, in a number of territories, the statutory framework does not enable those that hold the rights to music to negotiate fair commercial rates with broadcasters.

In 2016 the US, UK, and France were the three largest performance rights markets, ahead of the relatively underperforming Germany and Japan. The industry is focussed on increasing performance rights revenue in these and other key markets, through obtaining adequate public perfor-

mance rates in Germany and obtaining full performance rights in Japan, China and the US.

Addressing the shortcomings in performance rights legislation worldwide becomes even more pressing as the consumption of music is generally moving away from ownership and towards services that offer consumers access to music.

Provided such fair market conditions are achieved across territories, and music licensing companies continue to drive process efficiencies, IFPI believes that the global performance rights market still has significant growth potential.



SYNCHRONISATION

REVENUE – the revenue from the use of music in advertising, film, games and television programmes – grew by 2.8% compared to the 7.0% rise in 2015. It maintained its 2% share of the global market.

FIGURES AT
A GLANCE

↗ **17.7%**
Growth in digital
revenue.

↗ **60.4%**
Growth in streaming
revenue.

↘ **7.6%**
Decline in physical
revenue.

↗ **7.0%**
Growth in performance
rights revenue.

↗ **2.8%**
Growth in
synchronisation
revenue.



↗ THE CHAINSMOKERS PHOTO BY RORY KRAMER



↗ COLDPLAY PHOTO BY JAMES MARCUS HANEY



↗ TAYLOR SWIFT PHOTO BY SARAH BARLOW

Millions of people experience Flow everyday

Deezer would like to thank our Deezer NEXT artists,
our partners in the industry, Manchester United and
FC Barcelona for helping us connect people to
the music they love.



2016 FIGURES BY REGION

Within the global upward trend, each region recorded revenue growth in various ways.



ASIA AND AUSTRALASIA returned to growth in 2015 and saw revenue grow further last year by 5.1%. The region saw a 45.6% rise in streaming income, offsetting a 9.4% decline in digital downloads and contributing to an 18.7% rise in digital revenue. Physical formats declined by 1.8%. The Japanese market is the largest in the region and the second largest market globally. It grew by 1.1%, with digital growth of 12.6% offsetting a 1.3% decline in physical sales. China grew by 20.3% and has undergone enormous change in the last few years (see case study on page 28).



LATIN AMERICA was, for the seventh consecutive year, the region with the highest level of growth in revenue, seeing a 12.0% rise. Digital revenue grew by 31.2%, driven by a surge in streaming revenue of 57.0%. Mexico, the region's second largest market, grew by 23.6% and many smaller markets also saw growth, while the largest market, Brazil, declined by 2.8% last year.



EUROPE grew by 4.0% in 2016, a slightly higher rate than the 3.7% growth in 2015. It remains a highly diverse region, with markets adopting streaming formats at varying rates. In Sweden, streaming revenue comprises 69% of the market, growing by 9.9%. By contrast, in Germany, the world's fourth largest music market, physical sales represent 52% of the total market. It saw streaming revenue increase by a significant 73.0%. The whole region saw a sharp increase in streaming revenue of 45.5%.



NORTH AMERICA grew by 7.9%, a significant increase on last year's growth of 1.5%. Digital revenue was the driving force, growing by 16.5% and more than offsetting declining physical sales of -17.1%. Streaming revenue showed growth of 84.1%. The US – the world's largest recorded music market – continued its evolution, seeing an 80.5% rise in streaming income and growing by 7.6% overall, a significant increase on last year's 1.0% growth.

GROWTH FIGURES BY REGION

Asia and Australasia	Europe	Latin America	North America
↑5.1%	↑4.0%	↑12.0%	↑7.9%

THE EVOLVING MARKET

Streaming grows global market and rewrites the rulebook.

Streaming is now established as the most prevalent and significant format in the modern music industry, fuelling growth in almost all major markets and starting to unlock the phenomenal potential within developing territories. Physical sales remain significant in certain countries and for certain artists, and the vinyl revival has been a headline grabber, but streaming is the growth driver that is revolutionising the business.

By the end of 2016, IFPI estimates that the number of paid subscription accounts reached 97 million worldwide. With the rapid growth of family plans, where several members of the same household can share a family subscription, IFPI estimates that there were approximately 112 million users worldwide of these 97 million paid subscription accounts.



If we breathe a sigh of relief and feel that we have arrived somewhere, we would be completely misreading the landscape. To raise the Mission Accomplished banner would be the worst mistake we could make.

Michael Nash, EVP, Digital Strategy, Universal Music



Record companies, however, see this as encouraging, but just part of a much longer journey. The definition of what constitutes the mainstream market is also shifting, due to factors such as more flexible pricing, and technology such as voice control that could place streaming at the heart of the home and in-car music experience.

Sony Music's President, Global Digital Business & US Sales, Dennis Kooker, says: "When we look back, 2016 may have been a tipping point for streaming and, most importantly, for paid subscription streaming. A year ago we listed driving paid subscription as the number one priority, so that has been a positive development and a lot of hard work went into that."

"So, there has been good news, but I think some people might over-read that, they might think, problem solved, every-

thing is going to be great. The truth is, we cannot be complacent."

Universal Music's EVP, Digital Strategy, Michael Nash, says: "My perspective on 100 million is, that's great, it sounds really great, it feels really great and it's definitely an expression of a very significant development. But if we breathe a sigh of relief and feel that we have arrived somewhere, we would be completely misreading the landscape."

"This is not simply another format transition, it is a fundamental transformation that is changing everything about the business. To raise the Mission Accomplished banner would be the worst mistake we could make."



SUBSCRIBER
GROWTH

↗ 112m

users of paid
subscription accounts.



PROJOTA PHOTO BY RAFAEL KENT

66

The key development in the market at the moment is competition. What is especially key is that it is competition based around market growing, not market stealing.

Will Page,
Director of Economics, Spotify

99

COMPETITION DRIVING GROWTH

One key factor driving growth is increased competition. Spotify remains the global leader in streaming and Apple Music has made huge progress since its launch in 2015. In China, Tencent Music Entertainment, owner of the country's leading streaming services, QQ Music, Kugou and Kuwo, is seeing its paid subscriber numbers soar. Amazon, meanwhile, launched Amazon Music Unlimited, while Pandora announced plans for an on-demand service (which it has now launched) and iHeart introduced beta versions of iHeartRadio Plus (US\$4.99, enhanced ad-free radio listening) and iHeartRadio All Access (US\$9.99, radio + full streaming service). Alongside that, record companies reached licensing agreements with Soundcloud and many other smaller services.

Warner Music's Chief Digital Officer & EVP Business Development, Ole Obermann, says: "The market will develop so that there are a handful of global services. The good news is that they're all trying to differentiate themselves. If we want to attract hundreds of millions of people to paying services, we must recognise that music fans will have different preferences for how they engage with music. The ideal scenario for market development is that these global services all take a different approach and appeal to different music fans."

Sony Music's Kooker says: "I think competition was a key trigger for growth in 2016. I look at some of the new entrants and to me their consumer base isn't huge-

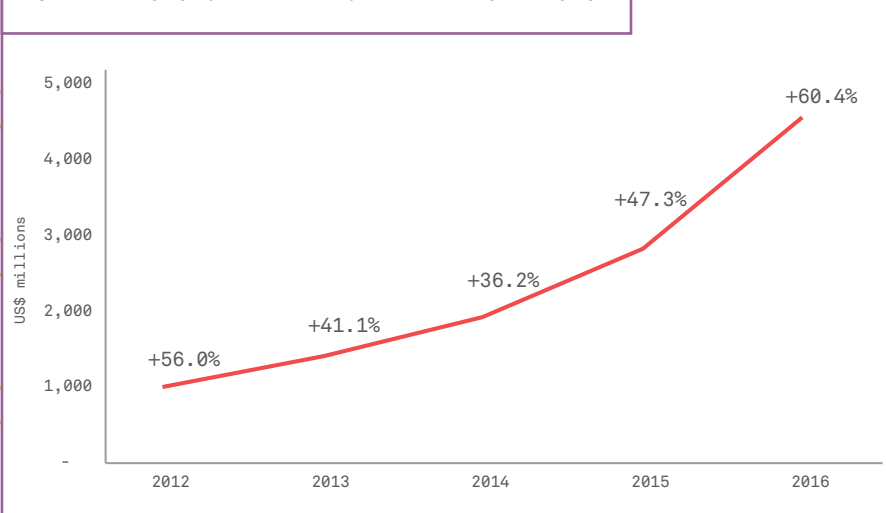
ly cannibalistic of the paid consumer base of the more established players in the market."

Current market leader Spotify believes competition is helping drive overall market growth. The firm's Director of Economics, Will Page, says: "The key development in the market at the moment is competition. What is especially key is that it is competition based around market growing, not market stealing. There are more big players - and arguably more sustainable players - than have come and gone in the past, and it's all about making new audiences aware of streaming and expanding the market. At the moment, we are growing, Apple's growing, Amazon's growing, and other services are coming on board, and we're not stealing each other's lunch."

Universal Music's Nash says: "Competition is absolutely key to advancing the ecosystem right now. It spurs innovation and creates a great dynamic from the standpoint of artists and fans having services really focused on service and quality. We need to have more competition and more innovation."

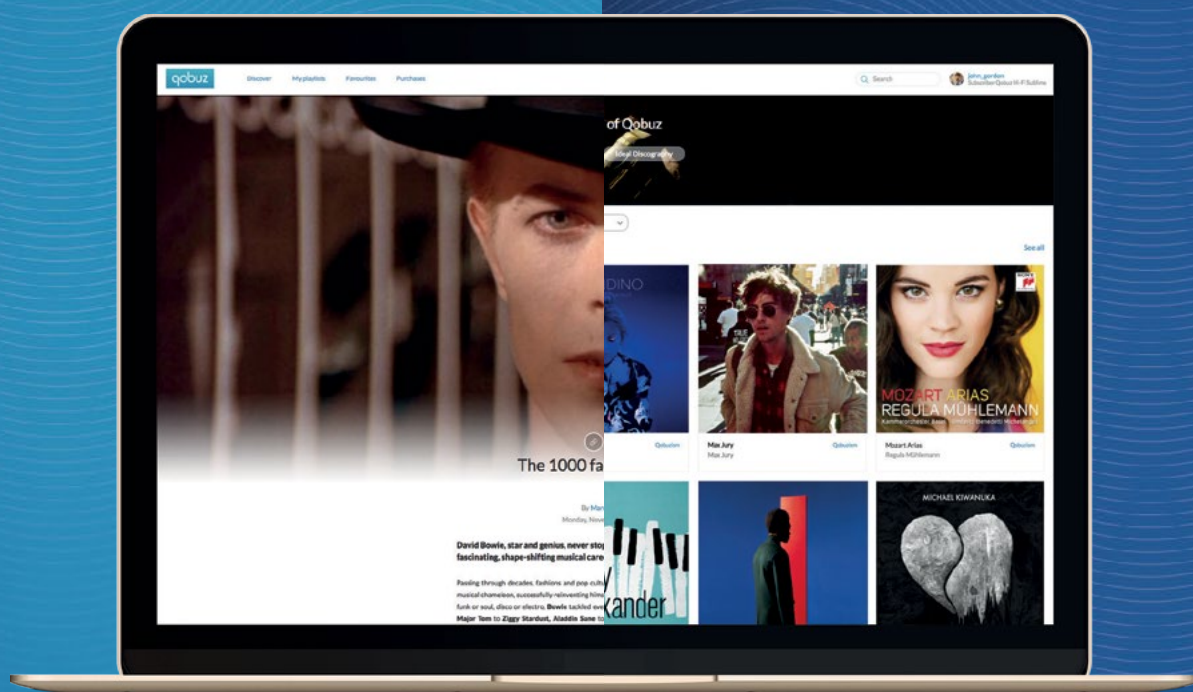
"I see some people say, 'Well, now the business is mature, we need consolidation'. I think that is a complete misread. Where we are at now, competition is about expanding the consumer base, it is about competing to bring in the next 100 million subscribers, not competing for the existing 100 million. I think there is so much more opportunity ahead."

STREAMING GROWTH YEAR ON YEAR: 2012-2016



IN 2007 WE CREATED THE BEST SOUNDING MUSIC SERVICE... **IN 2017 WE ARE REINVENTING OURSELVES**

More value for the artists and the producers
More quality for the music enthusiasts
Streaming music with style



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a wider experience

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FIFTH HARMONY PHOTO BY SASHA SAMSONOVA



BEYONCÉ PHOTO BY ROBIN HARPER

INNOVATION KEY TO BROADENING APPEAL

Universal Music's Nash also argues that it is incumbent upon record companies to encourage both innovation and competition: "We are in the midst of a pivotal transformation of our business and it is very important that we are proactive in developing and evolving our business models, whether that's enabling a completely new approach to address a market opportunity in Russia, or working with a significant new digital platform like Amazon to uniquely reach out to consumers with a subscription proposition that, in part, hinges on voice activation."

Kooker also believes voice-controlled technology can be crucial in pushing streaming further into the mainstream, expanding demographic appeal and reclaiming the living room. "I think voice definitely re-opens the home for us, and potentially it could be what opens the car up for music subscription as well."

Warner Music's Obermann says: "Amazon is pioneering voice control in the music space. It feels that if we want to get digital music into people's living rooms or cars, then voice activated control will be the innovation that accelerates that usage."

Amazon itself reports that the Alexa/Echo combination is already "fundamentally changing not just the way people interact with their music service, but when and where and how much they listen to music". Steve Boom, VP of Amazon Music, says: "The aim is to expand the streaming market, to

reach other types of people who are ready to start paying for music again.

"The main thing we hear is, 'Gosh, ever since I got my Echo I listen to way more music'. They are listening more frequently, they are listening at times and in places where they wouldn't previously have listened – and they are listening for longer sessions at a time. That's great, because the more you listen, the more you are likely to continue to subscribe. So far, streaming has been driven almost entirely by the smartphone, and that's great, there's still a lot of growth left there. But we do see ourselves entering into a new phase of growth and we think it's in the home and, a little bit later, because of the nature of product cycles, it's in the car."

A widening of streaming's demographic is highlighted as key to the growth of all industry sectors by Glen Barros, CEO of Concord Music Group. "Streaming growth to date has not been uniform; it ran a little lopsided, weighted towards certain genres and appealing to a younger demographic. We don't want to leave anybody behind. We want all genres to be represented and all types of consumers to feel comfortable in the streaming environment."

"This will take diversification of the various services and education to particular audiences. For example, I believe that more passive adult consumers will need to be guided by existing trusted partners such as Amazon and Pandora. Companies such as these can use the trust that they've estab-

66

We're seeing a big new wave of start-ups coming to us, wanting to talk about how music, or music video, can be a part of their offerings.

Ole Obermann,
Chief Digital Officer & EVP Business
Development, Warner Music

99

lished with their customer to say, 'Hey, let us take you a step further. We can give you greater functionality, a better experience, more choice and it won't cost you a great deal of money.'

"But there's also a challenge in delivering the required diversification and education. What are the ideas to do this? How do we bring them to life? How do we make the experience more appealing and communicate these exciting attributes in order to bring these new groups of people into the fold?"



♣ CALVIN HARRIS PHOTO BY GAVIN BOND

IN-APP OPPORTUNITIES

There is also a concerted willingness on the part of the labels to engage with digital innovation of all stripes, to make sure music is not only a part of cutting edge new services – but a legitimate, licensed and monetised part.

The rise and rise of licensed lip-synch app musical.ly is an instructive case in point. Launched in 2014, it came from the world of tech, not music, but now has more than 120 million users around the world, with over 12 million snippets of music-based user generated content (UGC) being loaded every day. Labels are also working with the musical.ly community, incorporating them into launch campaigns to reach consumers in new and innovative ways.

Obermann says: "We're seeing a big new wave of start-ups coming to us, wanting to talk about how music, or music video, can be a part of their offerings, apps, social messaging, virtual reality, augmented

66

With Streaming growth, we don't want to leave anybody behind. We want all genres to be represented and all types of consumers to feel comfortable in the streaming environment.

Glen Barros, CEO, Concord Music Group

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reality products. As long as these new use cases don't put our core business at risk, we can be pretty aggressive and we're willing to experiment.

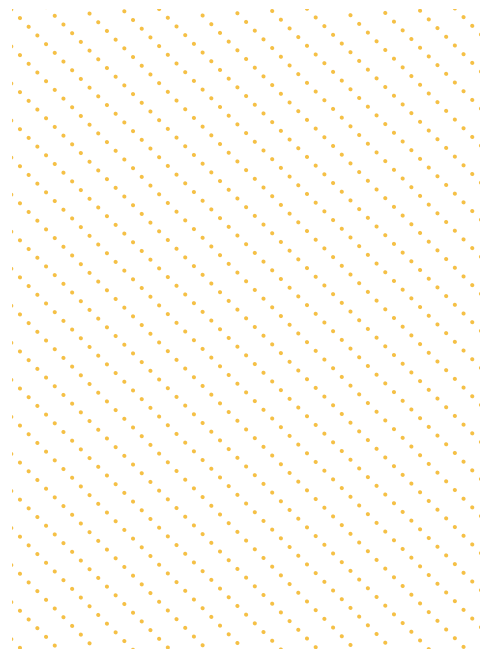
"There have been problems with uncensored content and fair remuneration for rights holders in the UGC space and that has held back development of the sector.

With the success of apps such as musical.ly, we see the demand for innovation around user experience that is built around UGC. This is an area that has tremendous unlocked value."

He also sees an opportunity within messaging apps:

"In some cases, music is obviously the foundation of a business. With something like messaging, you don't have to include music, but it's about expressing yourself and music really lends itself to that, it's a great way of making those services more fun, engaging and personalised. Music is very attractive for those types of services."

♣ HA*ASH PHOTO BY GREGORY ALLEN





DATA INFORMING STRATEGY

A significant and potentially game changing by-product of streaming's rise to prominence is the exponential growth of incredibly detailed data on music's audience at macro and micro levels. 'Data', in fact, may have been *the* buzzword of the last 12 months, with much of the industry working hard on the best ways to interpret it and use it.

In the public arena, hugely influential playlists, such as Spotify's Discover Weekly, are driven by analysis of individual user data which delivers personalised playlists to tens of millions of Spotify users every Monday morning.

Behind the scenes, record companies are undoubtedly now using data in a more sophisticated and joined-up way than ever before. Not only is it helping to shape their own strategy, it is also being shared with artists and their management teams to help build careers – and create a more transparent relationship.

Sony Music's Kooker says: "The increased information we're getting is a positive development and providing deep business intelligence. Not only is every stakeholder, from the label, to the publisher, to the service, to the artist, to the songwriter, able to gain from that intelligence, to continue to grow the business, but also there is the transparency element. We are able to provide meaningful, timely, global information to our artists and partners."



A GLOBAL MARKETPLACE

Another benefit of streaming is an increasingly global marketplace, with access to vast catalogues through varied subscription options (some standalone, some via telco partners) cutting through barriers that prevented the ownership model becoming established in certain territories.

Beggars Group Chairman Martin Mills says: "Streaming continues to open up new markets for our artists that just weren't there before for us – Russia, Brazil, Mexico. In some cases it is creating a recorded music market where there simply wasn't one. China is a good example, but it will take time. Streaming there is at a low cost point and it is legitimising markets that were previously written off because of piracy."

As well as the continuing geographic expansion of major players such as Spotify and Apple, global growth is being fuelled locally by streaming services such as Anghami in the Middle East and North Africa; Saavn and Gaana in India; Line, AWA and KKBox in Japan; KKBox across South East Asia; UMA Music in Russia and the Tencent-owned services in China (see page 28). Another localised factor is the growth of cheaper smartphones, by manufacturers such as Huawei, which are popular in China, India and Africa and which are essential to the global growth of streaming services.

CONTINUED OVER PAGE →



▲ ED SHEERAN PHOTO BY GREG WILLIAMS

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The increased information we're getting is a positive development and providing deep business intelligence. Not only is every stakeholder, from the label, to the publisher, to the service, to the artist, to the songwriter, able to gain from that intelligence, to continue to grow the business, but also there is the transparency element. We are able to provide meaningful, timely, global information to our artists and partners.

Dennis Kooker, President,
Global Digital Business & US Sales,
Sony Music Entertainment

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THANK YOU FOR A GREAT YEAR

- ✓ 175 million listeners
- ✓ 150 million tracks
- ✓ 12 million creators
- ✓ 1 global community



SOUNDCLOUD



SOUNDCLOUD GO



SOUNDCLOUD GO+



➤ JAMES ARTHUR PHOTO BY OLAF HEINE

➔ A GLOBAL MARKETPLACE CONTINUED

The impact of streaming is especially evident throughout Latin America, where it is fuelling a resurgent business. The region saw revenues grow 12% in 2016 and 50% of the total market is now digital.

Jesus Lopez, CEO of Universal Music Latin America, says: "The growth is being driven by streaming and mostly by Spotify and Apple. The challenge is to get more and more consumers to convert from ad-supported models to subscription services. Part of that challenge is to tailor local solutions that reflect the consumer behaviour of people in their own territories, such as differences in the periodicity of payments – daily or weekly – and spending in local currency."

Alfonso Perez Soto, VP Business Development LATAM at Warner Music Group, agrees: "We need fans to convert to paying for music subscription services and that means digital platforms need to offer a range of ways for people to pay. Digital services also need to localise their businesses, with people on the ground in different markets in the same way record companies have. Once they've started to produce more local editorial content and forge local partnerships, then they will be in an even better position to unlock the huge potential of this vast regional market."

Spotify's Page also highlights Latin America: "We're looking at the possibility of Brazil and Mexico potentially overtaking the UK and Germany in terms of user numbers. That's not to the detriment of the UK and Germany, it's all about the unexpected and exceptional performance of Brazil and Mexico. They're bigger countries of course, but whilst their infrastructure is much less developed, their smartphone adoption is escalating at a much faster rate, driving access to services like Spotify."

Warner Music's Obermann says: "We know digital services are competing against heavily-used unlicensed players in some markets. But they offer a user experience that pirate services can't replicate and that is pulling music fans to paying services."

Universal's Nash says: "A lot of very, very significant international markets are coming online right now and I think that when you look at the developing markets, major territories like China, India, Russia and nations in Africa, these are significant opportunities where you also have a very large emerging group of consumers that should be willing to pay for music streaming services."



REGIONAL STREAMING

Latin America:

↗ **57%**

Growth in streaming revenue.

50%

of the total market is now digital.

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Streaming continues to open up new markets for our artists that just weren't there before for us.

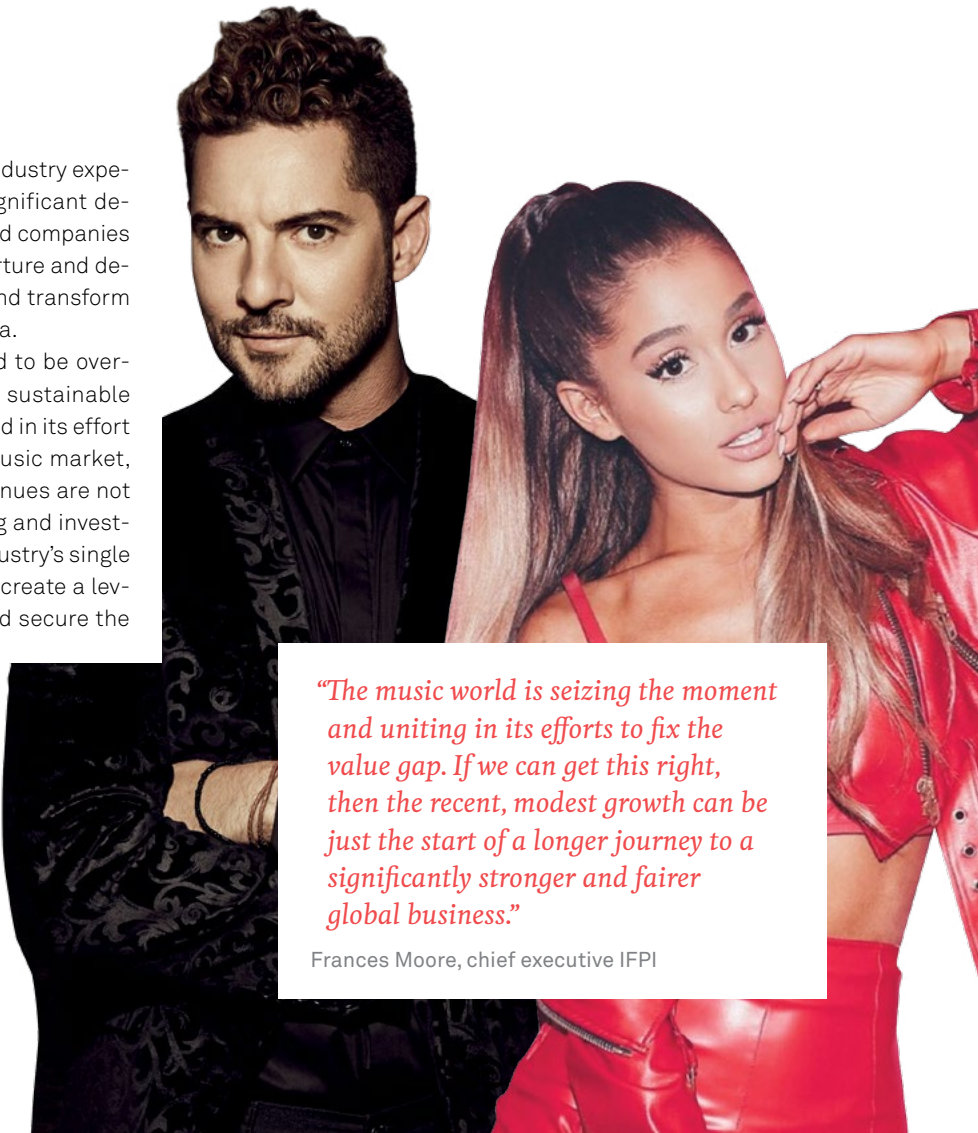
Martin Mills, Chairman, Beggars Group

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REWARDING CREATIVITY: FIXING THE VALUE GAP

Prior to 2015, the global recording industry experienced more than a decade of significant decline. Throughout this period, record companies continued to invest in music, to nurture and develop artists and, crucially, to innovate and transform their practices to usher in a new digital era.

However, significant challenges need to be overcome if the industry is going to move to sustainable growth. The whole music sector has united in its effort to fix the fundamental flaw in today's music market, known as the 'value gap', where fair revenues are not being returned to those who are creating and investing in music. The value gap is now the industry's single highest legislative priority as it seeks to create a level playing field for the digital market and secure the future of the industry.



"The music world is seizing the moment and uniting in its efforts to fix the value gap. If we can get this right, then the recent, modest growth can be just the start of a longer journey to a significantly stronger and fairer global business."

Frances Moore, chief executive IFPI

BREAKING DOWN THE VALUE GAP

WHAT IS THE VALUE GAP?

The value gap describes the growing mismatch between the value that user upload services, such as YouTube, extract from music and the revenue returned to the music community – those who are creating and investing in music. The value gap is the biggest threat to the future sustainability of the music industry.

HOW HAS IT COME ABOUT?

Inconsistent applications of online liability laws have emboldened certain services to claim that they are not liable for the music they make available to the public.

Today, services such as YouTube, which have developed sophisticated on-demand music platforms, use this as a shield to avoid licensing music on fair terms like other digital services, claiming they are not legally responsible for the music they distribute on their site.

WHY IS IT A PROBLEM?

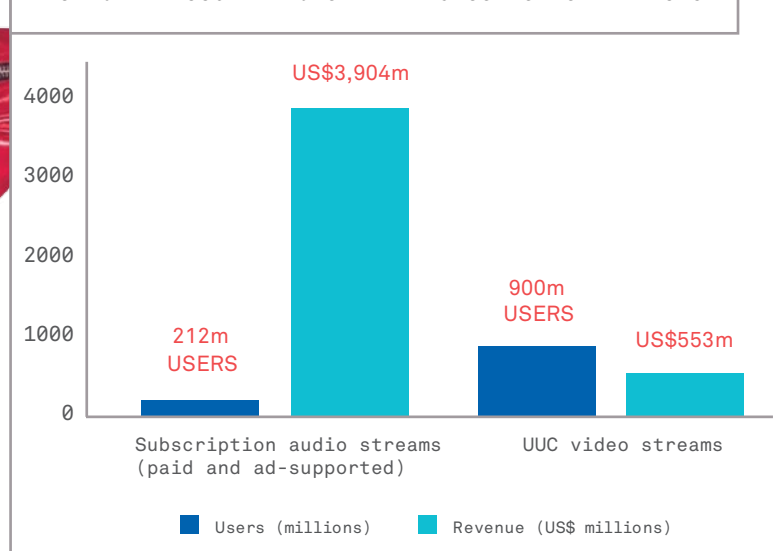
The music ecosystem is dependent on record companies investing in music and in artists. Music must be valued fairly and those that invest in it and create it must be properly remunerated. If services that are not recognising the true value of music are allowed to attract users from other, fairly licensed, services and therefore drain revenues from the system, then it becomes unsustainable.

The situation also creates unfair competition. Services such as Spotify, Deezer and Apple Music are forced to compete with services that claim they are not liable for the music they distribute.

HOW CAN IT BE FIXED?

Legislative action is needed to ensure that liability laws are applied correctly and consistently, so that services cannot claim they do not need to be licensed to distribute music. The music community is united in calling for policymakers to take action.

AUDIO AND UUC VIDEO STREAMING USERS VS REVENUES



User upload video streaming services, benefitting from the misapplication of 'safe harbours', comprise the world's largest on-demand music audience, conservatively estimated at more than 900 million users. The revenue returning to rights holders through these services in 2016 amounted to US\$553 million. By contrast, a much smaller user base of 212 million users of audio subscription services (both paid and ad-supported), that have negotiated licenses on fair terms, contributed over US\$3.9 billion.

ESTIMATED REVENUE PER USER



From publicly available data, IFPI estimates that Spotify paid record companies US\$20 per user in 2015, the last year of available data. By contrast, it is estimated that YouTube returned less than US\$1 for each music user.

THE MUSIC WORLD SPEAKING OUT

Artists, performers, songwriters, record companies, music publishers, music licensing companies and managers are united in their efforts to fix the value gap.

"The value gap undermines the rights and revenues of those who create, invest in and own music, and distorts the marketplace. This is because, while music consumption is at record highs, user upload services are misusing 'safe harbour' exemptions. These protections were put in place two decades ago to help develop nascent digital start-ups, but today are being misapplied to corporations that distribute and monetise our works. We urge you to take action now to create a fair playing field for artists and rights owners. In doing so, you will be securing the future of music for generations to come."

In June 2016, over 1,000 recording artists, performers, and songwriters, including Sir Paul McCartney, Robin Schulz, David Guetta, Sting and Coldplay, signed a letter asking the European Commission to take urgent action to address the value gap.

In the US, artists, managers, and songwriters – from new artists to established acts, including Taylor Swift, Kings of Leon, Katy Perry, Maroon 5 and Carole King – petitioned Congress to reform outdated safe harbour laws, with record companies and music publishers also calling for change.

"One of the biggest problems confronting songwriters and recording artists today is the Digital Millennium Copyright Act. This law was written and passed in an era that is technologically out-of-date compared to the era in which we live. It has allowed major tech companies to grow and generate huge profits by creating ease of use for consumers to carry almost every recorded song in history in their pocket via a smartphone, while songwriters' and artists' earnings continue to diminish. Music consumption has skyrocketed, but the monies earned by individual writers and artists for that consumption has plummeted."



THE VALUE GAP – A POSSIBLE SOLUTION IN EUROPE

The European Commission has identified the value gap as a market distortion that needs a legislative fix. The Commission has now proposed draft legislation clarifying that services that engage with the content uploaded by users are liable for that content and need to be licensed. It also confirms the original intention of safe harbour legislation – to apply only to truly neutral services. Services providing access to large amounts of content would also have to prevent the upload of unauthorised content to their services, reinforcing the role of fair licensing when a service wants to provide access to music.

These proposals, which are now in the European Parliament and Council of Ministers for deliberation, would be an important and welcome first step towards addressing the value gap in Europe.



➤ AL MURRAY PHOTO BY JOHN TSIAVIS



➤ BOB MARLEY PHOTO BY ADRIAN BOOT



➤ LITTLE MIX PHOTO BY MARK HUNTER

FOCUS ON CHINA

China's phenomenal potential unlocked
by streaming.



With over 1.36 billion people, China is, in terms of population, the biggest country in the world.

In terms of recorded music revenue, however, it has never broken into the top ten markets (it was ranked 12 in 2016, up from 14 in 2015). Historically hampered by rampant piracy, it was the sleeping giant that many in the industry believed would never be woken up.

Now though, thanks to a confluence of deals, technology, new government policy and cultural shifts, it is being talked of as the next great global opportunity, with the potential to rank alongside the biggest music markets in the world. Recorded music revenue grew 20.3% in China last year, driven by an 30.6% rise in streaming.

Major and independent labels from all over the world, fired up by a new sense of possibility and positivity, are playing their part in building a new industry, founded on streaming and subscription. They are working with local partners, equally determined to create a legitimate business delivering quality services that rewards artists and rights holders.

The leading player in the streaming market is China's internet giant, Tencent Holdings (market cap: US\$250 billion+). Already owning the country's most popular

streaming service – QQ Music – last year Tencent bought two more leading streaming services, Kugou and Kuwo, from China Music Corp. With the top three platforms residing in the newly formed division, Tencent Music Entertainment Group, it has more than 15 million paying subscribers and trade estimates put its market share at over 70%.

Andy Ng, Tencent Music Entertainment Group Vice President says: "Our number of monthly active users accessing music is actually over 600 million, which means, at 15 million, our conversion to subscription is still less than 3%. If you look at other services, in other countries, the conversion rate is more like 20-30%, so we see a huge opportunity and potential for growth, as long as the market situation keeps improving and the piracy issues keep improving."

In the last few years, both Warner Music and Sony Music signed and subsequently extended licensing deals with Tencent, which then sub-licenses the catalogues to other streaming services in China.

Universal continues to licence direct and on an individual basis to the country's major platforms.

Ng believes that the Chinese government's increasing resolve to tackle piracy,



➤ GUO DING PHOTO BY SHAO TING KUEI



GLOBAL RANKING

China was ranked the

12th

largest market in 2016.
Up from 14th in 2015.



➤ CHRISTOPHER PHOTO COURTESY OF WARNER MUSIC GROUP

plus a change in attitude to the value of content, is key to the continued move towards legitimised and monetised business models. He also believes companies like Tencent and other streaming platforms, in tandem with the record companies, need to work co-operatively to accentuate the differences between a paid service and the free tier.

He says: "We are all educating people to accept that content has a value and we are making progress. Young people in particular are more willing to pay for a music service, they are happy to spend a few dollars supporting the artists they truly admire."

To put the transition from piracy to paid in a wider entertainment context, China has now risen to become the second largest film market in the world (trailing the US). In 2016, box office takings were estimated to be around 44 billion yuan (US\$6.6 billion); in 2002 they came in at under 1 billion yuan (US\$150 million). China is also believed to have recently overtaken the United States as the largest video gaming market in the world, with 2016 revenues of around US\$24.4 billion (Newzoo Global Games Market Report).

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We are all educating people to accept that content has a value and we are making progress. Young people in particular are more willing to pay for a music service, they are happy to spend a few dollars supporting the artists they truly admire.

Andy Ng, Tencent Music Entertainment Group Vice President

Ng continues: "We currently still offer a low quality free streaming service, because it will take some consumers time to get used to the idea of paying for music, but we are showing the quality you get with a subscription and making sure there is a big difference between what you get free and what you get when you pay." Tencent is encouraging conversion

by offering a range of pricing models, 8, 12 or 15 yuan (US\$1.16, US\$1.75 or US\$2.18) per month, and by offering benefits such as exclusive content, concert tickets and even game credits.

Andy Ma, Warner Music's CCO for Greater China, says the combination of low-cost

and high quality within the subscription model is making it easier for consumers to decide to pay for music. "I think they're offering an improved user experience, with their music service plus other added value services such as artist showcases, which music fans can appreciate. For 10 yuan a month, music fans are getting access to a vast catalogue in quality audio with a good user experience, so they don't need to download single tracks from unlicensed platforms. Music fans are increas-

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SUBSCRIBERS

Tencent Music Entertainment Group has more than

15m
paying subscribers.

ingly more aware of what they're getting for their money and are increasingly more willing to pay for it."

He concludes simply: "China's population is over 1.3 billion. If a small fraction of this population pays for streaming services, it will be the biggest music market in the world."

Samuel Chou, CEO, China and Taiwan at Sony Music Entertainment, goes as far as to say that 2016 "was the first year of a new era for music in China". He continues: "Part of the reason is that in July 2015, the government, after 10 years, introduced tough regulations in relation to digital piracy. The second thing is that the number of mobile users now accessing music is over 500 million and, in general, mobile users are more willing to pay; people will pay for things on their mobile that they won't pay for on their PC."

Chou also stresses the record companies' willingness to work with digital partners to encourage conversion to paid streaming. "We don't want to simply be a song provider, we want to add value to their subscription services, so their KPIs become our KPIs. We will work with them to increase the traffic to their platform and, importantly, to increase the number of paid users."

Simon Robson, President of Warner Music Asia, says:

"Music was considered a free commodity in China for so long that it will take time to change people's perception. We're talking about a situation where about 90% of the market was piracy. It's a big shift, but I'm optimistic."



▲ JJ LIN PHOTO COURTESY OF WARNER MUSIC GROUP

"Streaming platforms are starting to differentiate more between free and subscription services and I think that trend needs to accelerate. People will then gravitate towards paid if the added value is there."

George Ash, President of Universal Music Asia Pacific, says: "The main platforms are now trying to move their customers towards paid subscription models."

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The streaming services and the record companies are pushing in the same direction, towards legitimate, paid subscription platforms.

George Ash, President, Universal Music Asia Pacific

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"At the same time, competition is growing, global services are coming in, and those services all have paid subscription tiers. Domestically, Tencent has consolidated some of the biggest platforms,

which gives them more opportunity to transition their customers from free to paid. The streaming services and the record companies are pushing in the same direction, towards legitimate, paid subscription platforms. And it's

not just the industry pushing, it's also to do with China's demographic dynamic, with the rise of a middle class who have money to spend on entertainment and are now willing to pay."

Garand Wu, Managing Director of Universal China, agrees that "the biggest challenge of the next two to three years is the ongoing conversion of users from free to paid subscriptions". He is "hopeful of a good result" and stresses the role to be played by content – domestic and international: "At the end of the day, it is always about the artist and the music. I think the consumer will be willing and happy to pay if the service is good and the quality of the content is exceptional."

Sony's Chou believes that an important by-product of rapidly increasing streaming revenues is increased investment in local talent: "In the past, it was very difficult for record companies to build and support new artists and there have been no superstars coming through in recent times, but now, in this new world, we have that possibility which we are very focussed on. Investing in new artists is what we need for the long-term benefit of the business here. We have tremendous direction and support from Sony Music Asia Pacific Regional President Denis Handlin and the New York head office to invest strongly in artist development and exciting new business ventures to continue the industry's growth in China."

He goes further and says labels should unite with the broader music industry, es-

pecially the live sector. "It's not just about putting recorded music on streaming services, it is about supporting the artists and working together to build and define this new business."

Warner's Robson also predicts a shift in focus to domestic talent, but also expects artists from around the world to gravitate to China: "A lot of superstars in today's Chinese market are from Hong Kong, Singapore or Taiwan. I think we'll see more artists emerge from mainland China and we are heavily investing in A&R in that area. There's a clear business case for doing so and I think we'll see many fans become even more engaged with homegrown stars."

"I'm also encouraging all my colleagues worldwide to take China seriously, because it's going to be a massive market. They need to be doing concert tours, or promo trips, or attending awards ceremonies. As we've already seen with artists such as Christopher from Denmark, it's a massive opportunity."



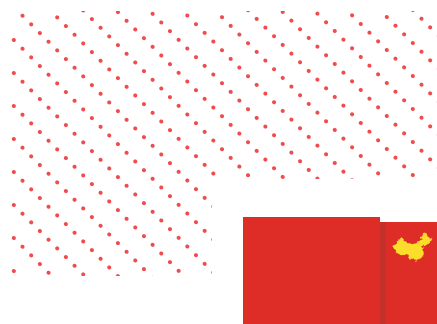
REVENUE INCREASE

↗ 20.3%

Revenue growth.

↗ 30.6%

Streaming growth.



CASE STUDY

CHRISTOPHER

Parlophone,
Warner Music

BREAKING CHINA: DANISH STAR CHRISTOPHER STORMS THE CHARTS

Christopher Nissen is a pop star who first enjoyed success in his native Denmark in 2012, when he released his debut album, *Colours*.

He is one of the first Western pop stars to heavily invest time and effort in building an audience in China. His first visit was in 2014, when he performed his single, *CPH Girls*, on two top-rated TV variety shows. The song went on to top QQ Music's international chart for nine consecutive weeks.

“

Music fans respect artists from overseas who make the effort to travel to China, often rewarding such performers with passionate support. There is an immense opportunity here for artists that are prepared to spend time in China.

Simon Robson, President of Warner Music Asia

”

Christopher also used this visit as an opportunity to take part in a number of magazine shoots for influential Chinese magazines to further build his profile.

In March 2015, he was named Most Promising International Artist at the V Chart Awards. He combined his visit to collect the award with a major promo tour, including filming an online reality show called *A Day Off With Christopher*, in Beijing, in partnership with a local online platform.



CHRISTOPHER PHOTO COURTESY OF WARNER MUSIC GROUP

His single, *Tulips*, released in August 2015, reached the top 10 and in January 2016 his track, *Limousine*, went to the top of the QQ chart. In March 2016, Christopher performed at the QQ Music Awards Gala, an event the service promoted heavily online. His singles, *I Won't Let You Down* and *Heartbeat*, subsequently went to the top of the QQ chart in April 2016 and January 2017 respectively. In 2016, his music generated more than 155 million streams in China, up from 38 million streams in 2015.

Christopher's most recent tour of China, in the autumn of 2016, took in five cities across the country. He is expected to return later this year, as well as touring elsewhere in Asia. *Heartbeat* received significant airplay in countries including Indonesia, South Korea, Taiwan, Thailand and the Philippines in Q1 2016. Christopher's latest album, *Closer*, was released internationally on 31st March.

FOCUS ON AFRICA

An emerging opportunity.



With highly varied economic, political and social circumstances and challenges from country to country, Africa is a complex region for the music industry to navigate. Across the continent, record labels are working with local partners and artists to maximise the opportunities created by the advent of streaming – coupled with increased smartphone penetration.

Adam Granite, President, Northern & Eastern Europe and Africa, Sony Music Entertainment, says: “I think what really excites us is the fact that we’ve not really turned on the emerging markets when it comes to paid streaming, and when you start to do the math, when you look at some of those countries with mass populations, that’s very exciting.

“With Nigeria, and West Africa we think there’s a huge opportunity for our catalogue there. We also firmly believe there’s going to be a global star that emerges from Africa. There’s huge potential for our catalogue to sell there, of course, but we believe there is repertoire, specifically from Nigeria, that can break internationally.” (Nigerian artist WizKid featured on the biggest selling track of 2016, Drake’s *One Dance*).

Apple has launched in most of the

larger African territories, while Spotify is yet to make its move in the continent. Granite says the key to all streaming services is to shape their payment models around pre-payments in local currencies.

Like most emerging territories, many African countries remain blighted by piracy. Granite says: “An artist would record an album and would sell the master to a pirate on the street for a one-time fee and that’s all they would ever see. The pirate would sell it on and it would go down the food chain; that was the music business. The artist would earn next to nothing, but it would fuel their live business, they would sell tickets.

“The move to streaming has helped that, and you’re also seeing mobile leapfrogging home broadband penetration, which is ultimately good because it is harder to steal music on a mobile device than it is on a PC.”

Adrian Cheesley, SVP, Universal Music Group International, says: “Africa has a thriving and highly diverse music ecosystem and a young demographic. In certain African countries more than half the population is under 25 years of age. We have therefore expanded our reach by ramping up our A&R activity, actively



DR BONE PHOTO COURTESY OF WARNER MUSIC GROUP

“

I think what really excites us is the fact that we’ve not really turned on the emerging markets when it comes to paid streaming, and when you start to do the math, when you look at some of those countries with mass populations, that’s very exciting.

Adam Granite, President, Northern & Eastern Europe and Africa, Sony Music Entertainment

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STREAMING INCREASE

↑ 334.2%

Streaming revenue
increase in South
Africa last year.



➤ NORAH JONES PHOTO BY DANNY CLINCH

partnering with entrepreneurial music producers and independent labels.

“We are making our content available on more services across multiple countries, as well as entering new markets to grow our digital footprint across the region and are now monetising on behalf of our artists in more than 20 territories for the first time. As payment methods, mobile networks and broadband penetration improve and with Telcos expanding their music offerings, the market has a very positive outlook.”

Sipho Dlamini, Managing Director of Universal Music South Africa and Sub-Saharan Africa, adds: “In South Africa, although the physical market remains important, there are already over 250,000 paying subscribers on streaming services and we expect the market to grow strongly. In recent years we have seen a resurgent market in Nigeria especially, driven by the CRBT business which, coupled with a flourishing live business, has led to a far healthier domestic music scene. We are seeing potential global stars emerge from markets like Tanzania, Zimbabwe, Ghana and Angola, encouraging us in our strategy for developing these artists continentally and globally.”

Tracy Fraser, MD of Warner Music South Africa, says: “The South African market has been dominated for many years by physical sales, but they are de-

clining rapidly. Digital is growing exponentially, but there is still a lot of growth to come, as smartphone penetration is growing quickly. Streaming is becoming very big for us, but it’s still in its infancy. The largest streaming service is Apple Music, with Google Play and Deezer also leading players. Digital growth is helping enable us to expand our roster, signing artists such as ASH, Dr Bone, Josh Kempen and Locnville that reflect the diversity of the music scene in South Africa today.

“We’re seeing smartphone penetration rates start to climb in key African markets, such as Kenya and Nigeria, where it is now close to 50% of the population. As handset and data prices continue to come down, this growth should accelerate across the continent, which represents a huge opportunity for digital music services and opens the door to more investment in local music by international record companies. At the moment, the music market is not formalised across Africa, but there is masses of activity and a vibrant live scene, with many artists releasing music independently. What is particularly exciting for us is the interest shown by A&Rs worldwide in African music. Producers are coming here looking for new beats and we’re seeing interesting collaborations and artist signings. It’s a very exciting time for African music.”



➤ ASH PHOTO COURTESY OF WARNER MUSIC GROUP

THE VALUE OF RECORD COMPANIES

Developing artists, prioritising partnerships.

Record companies are the primary investors in music. They spend more than US\$4.5 billion annually, or about 27% of their revenues, on A&R and marketing – discovering, nurturing and promoting artists and their music. This is a greater share of revenues invested in A&R than most other sectors invest in their own research and development (R&D). They have sustained this share of investment through recent years, even as the industry weathered more than a decade of revenue decline.

The partnership between artists and labels goes far beyond the financial. Record companies nurture artists, allowing them to develop their sound, their craft and their careers. They also facilitate introductions to world-class producers, writers and other performers, which can go on to reap huge rewards and re-define careers.

Labels' marketing expertise and resources enable them to create and deliver cutting-edge campaigns that engage fans around the world. They help manage thousands of partners spanning the globe – including everything from bricks and mortar retail outlets to digital services and much more – often requiring local expertise in each market with networks of relationships and marketing and promotional resources.

Further, the evolution of the market is being reflected in the evolution of 'standard' record contracts – to the extent that there is no longer such a thing as a 'standard' record contract. Instead there is choice and flexibility (including the 'a-la-carte' services model where performers choose to engage record companies for a more limited and tailored range of support), the result being more power in the hands of the artists and a growing sense of 'partnership'.



➤ KEVIN GATES PHOTO BY JEFF FORNEY



RECORD
COMPANIES

US\$4.5
billion

Global investment in A&R and marketing in 2015.

27%

Share of recorded music industry revenues invested in A&R and marketing.

US\$500,000
–2,000,000

The typical cost of breaking a worldwide signed artist in a major market such as US or UK.

MUSIC'S A&R INVESTMENT (OR R&D EQUIVALENT)

Sector	R&D intensity %
Music's A&R investment (or R&D equivalent)	16.9
Pharmaceuticals & Biotechnology	14.4
Software & Computer Services	10.1
Technology Hardware & Equipment	8.0
Leisure Goods	5.8
Electronic & Electrical Equipment	4.5
Aerospace & Defence	4.5
Automobile & Parts	4.4
Healthcare Equipment & Services	3.8
Industrial Engineering	2.9
Chemicals	2.6

Source: 2015 EU Industrial R&D Investment Scoreboard. R&D intensity is the ratio between R&D investment and the net sales of a company or group of companies.



➤ HELENE FISCHER PHOTO BY SANDRA LUDEWIG

CONNECTING ARTISTS TO FANS AND BROADENING REVENUE OPPORTUNITIES

The investment from record companies has also been essential in driving music's digital transformation. Record companies built the systems and infrastructure that enable the licensing of over 380 digital music services with more than 40 million tracks. As a result, today's music industry helps connect artists and their music with fans in more ways than ever before and earn revenues through multiple channels, either working directly with digital services or working together with record companies. As this digital market continues to grow and develop, so too will the overall level of remuneration to artists.

BRINGING UNPRECEDENTED LEVELS OF INFORMATION TO ARTISTS

The digital world has ushered in a new era of data for the music industry, with unprecedented levels of detailed information now available on where, when and how music fans are accessing licensed music. Record companies have invested in high-performance global systems for delivering data to stores and receiving back granular reporting on sales and usage patterns. The industry has developed the skills and the infrastructure to analyse this information,

utilising it to better inform how they deliver and market music around the world and improving the information they are able to share with their artists.

They have also invested significantly in the development of 'artist portals' that pass this information on to artists and their management teams in an easily accessible way. These sophisticated online platforms provide detailed information on how, where and to what extent an artist's music is being consumed and the revenue it is generating.



➤ LEONARD COHEN PHOTO COURTESY OF COLUMBIA RECORDS

For over thirty years, Lee & Thompson has been at the heart of the music industry, representing the interests of talented individuals and innovative businesses across the music and wider creative industries.



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SAFEGUARDING MUSIC

Fighting copyright infringement in all its forms.

Protecting music from being illegally distributed – and therefore undermining the recovering legitimate music market – remains a key priority for the industry.

TAKING ACTION ON ILLEGAL MUSIC UPLOADS

Under the law in the EU, US and many other countries around the world, there is a system known as 'notice and takedown'. Rights holders identify where music has been illegally uploaded online and notify the host to remove the infringing content. The host provider is then required to remove the content if it wishes to continue to benefit from safe harbour protection from liability for copyright infringement. IFPI works in collaboration with record companies and its national groups around the world to implement a system for identifying where unlicensed music has been distributed without permission and calling for it to be removed (or licensed and monetised by advertising where the service offers this ability). There has been a particular focus on illegal content stored on user upload services and in 2016 alone 1.6 million videos and streams were reviewed, with more than 500,000 infringing pieces of content removed.

STREAM RIPPING – ADDRESSING THE THREAT

Stream ripping is the process of 'ripping'

or creating a downloadable file from music that is available to stream online. It is typically done by users to produce an MP3 from a streamed music video, creating a file that can then be kept and listened to offline or on other devices.

The process has become the most common way of illegally downloading music, with research conducted by IPSOS in 2016 finding that 30% of all internet users (and 49% of 16-24 year olds) had engaged in the practice in the previous six months. Stream ripping sites compete unfairly with licensed music services, enabling users to permanently download music licensed only for ad-supported streaming and then listen to it offline without advertisements and without paying. Unlicensed stream ripping companies profit from the advertising space they sell on their sites and do not return any revenue to those who create or invest in the music they make available.

In 2016, the industry announced action against the most heavily used stream ripping site, YouTube-MP3.org, which is estimated to have more than 60 million unique users per month. Further actions against similar sites are likely to follow.

PROTECTING MUSIC RELEASES

Building marketing and publicity around a music release is a crucial part of the promotional work record labels deliver in collaboration with their artists. If music is leaked online ahead of its release date, the

entire marketing campaign can be put in jeopardy and an artist's work can be completely undermined.

IFPI and its member record companies constantly work to protect music from being leaked online before its official release date. IFPI pursues investigations into the source of pre-release leaks and works with record companies to improve security in their supply chains. Measures such as copy-protection, watermarking, security guides for staff and alert systems to detect phishing emails have helped reduced leaks. The advent of New Music Fridays in 2015, when, co-ordinated by IFPI, new music releases were aligned to the same day worldwide, also played a part in reducing leaks. Now, where leaks do occur, the typical gap before release date has been reduced from a few weeks to a few days, with predictable 'leak windows' allowing record companies and IFPI to plan accordingly.

Underpinning this, IFPI runs a 24/7 site checking, alert and takedown service for members and national groups, monitoring all heavily used copyright-infringing sites and social networks. In 2016, 19.2 million URLs were identified as hosting infringing content and actioned for removal by IFPI and national group programmes, and 339 million requests were sent to Google requiring it to 'delist' infringing sites.



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CASE STUDY

SHAWN MENDES

Island Records,
Universal

A TRUE PARTNERSHIP AND A NEW SUPERSTAR

Canadian singer and songwriter, Shawn Mendes, may have already had a strong social media profile when he came to the attention of Island Records, but his signing was based on artistry.

Island Records president David Massey says: "When Shawn sat down in my office, aged just 15, it was one of those three minute decisions. It was all about him, he just sat there and played his guitar and sang, and he was so engaging and so committed. I was utterly convinced by him."

"He just sat there and played his guitar and sang for me, and he was so engaging and so committed. I was utterly convinced by him."

David Massey, President,
Island Records.

He also believes that Mendes is a thoroughly modern example of where a record company makes a vital contribution to the success of an artist. Massey says: "He had the ambition, the voice and he had star quality. Our job was to develop him. We had a song that we both really liked called *Life of the Party*, which we launched with a three week campaign that engaged with his fans and made them part of the process.

"That culminated with a live stream of Shawn performing the track. From there it went straight online and went to number one in iTunes in the first 10 minutes. We sold 60,000 copies in the first few

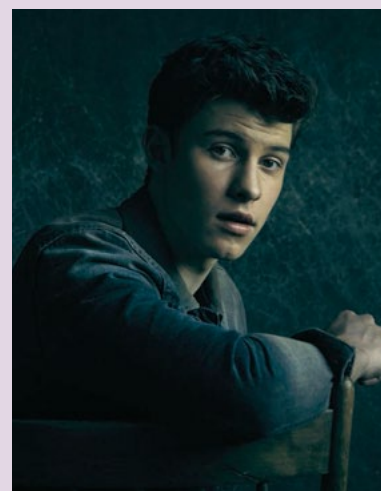
hours and ended up selling just under 200,000 in week one. It was an amazing, innovative, creative and fun way of developing and marketing an artist organically. We were up and running and knew how to build on it from there."

For both Island and Shawn, creating the right songs was essential. Massey says: "We introduced Shawn to a few great young guys, who have now become very successful, and he formed a creative collective around himself and they wrote all these great songs together.

"We developed him as an artist and treated him as an artist from day one, not as a pop star, or a social media phenomenon. The partnership between us and Shawn has been extraordinary. It was an amazing synergy in terms of developing him and building his profile in a modern, new media way. I think that's where a record label is so valuable for the artist."

In 2015, Mendes' debut album, *Handwritten*, went to number one in the US and has now clocked up 3.5 million adjusted albums worldwide. Later that year, he enjoyed phenomenal global success with the track, *Stitches*.

His second album, *Illuminate*, confirmed him as a truly worldwide superstar, reaching the top three in all major territories. Steven Rowen, Senior Director, International Marketing, Universal Music says: "*Stitches* was his breakout track around the world. After that, the key was to coordinate the album, launch globally, get all the teams in the same room



SHAWN MENDES PHOTO BY JAMES MINCHIN

and plot the year ahead. They really made a personal connection with Shawn and got to understand him as an authentic artist.

"In the past maybe we'd have had to wait a while to try to make this sort of impact around the world, but in today's market, and with the way our territories and affiliate labels all work together, it means we could take a bolder approach." The result has been that *Illuminate* has already sold close to 1.5 million units outside the US.

Massey concludes: "When record companies get involved early with an artist like Shawn and commit to true artist development, they can elevate that artist and create opportunities at the right time with the right support, building a career and taking it global. I think the difference a record company can make in those situations is exponential."



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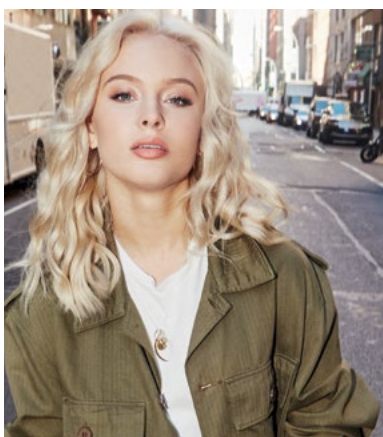
CASE STUDY

ZARA LARSSON

Epic, Sony Music

AN EPIC JOURNEY FROM SWEDISH ARTIST TO GLOBAL STAR

ZARA LARSSON PHOTO BY MARC REGAS



Zara Larsson is a Swedish singer-songwriter who first came to prominence in her home country and across the Nordic region. Now, as an Epic artist, she is enjoying success around the world.

Central to her global rise have been three key factors: massive global streaming numbers, smart, engaging social media and high quality collaborations.

Having won a TV talent show aged just 10, Zara was signed locally by TEN Music Group and enjoyed some initial success in Sweden, Norway and Denmark with a single, *Uncover*, and EP, *Introducing*.

In 2013 she signed a worldwide deal with Sony Music's Epic label, where she benefitted from the guidance of CEO L.A. Reid. She was given time and space (as well as facilities and top quality writers and producers) to hone her craft, refine her sound and step onto the world stage as a more complete artist.

Sylvia Rhone, President, Epic Records, says: "We always saw Zara's global potential from her early success in Sweden and other Nordic markets. It was our responsibility to

give her a global platform. L.A. Reid gave her the opportunity to go into the studio with various writers and producers over a two year period. Sessions were booked in Los Angeles, London and Sweden, allowing her to get fully involved in the creative process."

Rhone also flags up the importance of the instantaneous, data-rich, global nature of streaming: "Zara's deal originates with TEN Music Group from Sweden – the capital of streaming and where it was birthed. Therefore Zara had a natural relationship with fans and the streaming process. Streaming delivers simultaneous access around the world and we are able to build global marketing plans based on real time analytics."

"We always saw Zara's global potential from her early success in Sweden and other Nordic markets. It was our responsibility to give her a global platform."

Sylvia Rhone, President, Epic Records

She describes Zara as "a social media princess" who connects directly and personally with her fans via her blog, her podcast, plus Facebook, Instagram, Snapchat and Twitter. Zara's first globally released album, *So Good*, was launched in March 2017. Rhone says: "We spent two years setting the album up, since [2015 hit single] *Lush Life*. We subsequently released four smash singles – *Never Forget You*, *Ain't My Fault*, *I Would Like* and, most recently, *So Good*.

"Our approach with Zara was always multi-pronged – we had a consistent flow of new songs to keep feeding her fanbase on digital music platforms and radio, amplified with promotional tours, TV and press. Over the past two years we have covered Europe, Australia, Japan and North America consistently to keep her profile high alongside streaming and radio play.

"The US was actually the last market on board, but once they kicked in with the success of *Never Forget You*, we truly had a global story."

Throughout the process, to broaden her A&R approach, Epic sought out collaborators outside her Nordic roots. She collaborated with Ed Sheeran on *Don't Let Me Be Yours*, WizKid on *Sundown*, Ty Dolla \$ign on *So Good* and features on Clean Bandit's *Symphony*. During the two year process she had local hits in Europe and Australia with Tinie Tempah's *Girls Like* in the spring of 2016 and David Guetta's *This One's For You*, re-released for the UEFA Euro Championship in the summer of 2016 and was a number one single across France, GSA and also had success across Europe and Japan.

So Good went straight to number one in Sweden and was a top ten album across Europe as well as in Australia and New Zealand. Along the way, she broke the record for the most streamed debut album by a female artist (over 1.3 billion streams and counting).

CASE STUDY

NATHANIEL RATELIFF & THE NIGHT SWEATS

Stax,
Concord Music Group

INDEPENDENT ATTITUDE, MAJOR MUSCLE, GLOBAL AMBITION

Nathaniel Rateliff is an American singer songwriter from Denver who, since 2013, has been performing and recording as the soulful R&B band, Nathaniel Rateliff & The Night Sweats. He is signed to the iconic Stax label through Fantasy Records (both of which are owned by Concord Music Group) in the US and distributed globally by Caroline, part of Universal Music.

An early solo career consisting of two albums had built a small but dedicated fan base, but the formation of Nathaniel Rateliff & The Night Sweats, and the launch of their eponymous debut album in 2015, marked a new promotional approach.

Fantasy Records president, Margi Cheske, describes how their strategy was focussed on reaching global markets from the outset: "From the start it was a global campaign, eight months before the record was due we were planning in all markets all over the world.

"It's a global market now and, with some exceptions, that's how you have to think, you can't just have a local view. You can maybe start locally, but if you don't hit the rest of the world early, you'll find it very hard to catch up later on."

The campaign drew heavily on the band's live appeal and, in advance of the album launch, showcase slots were held in key cities around the world. A performance was booked



▲ NATHANIEL RATELIFF AND THE NIGHT SWEATS PHOTO BY LAURA HARVEY

"Honestly, it all still starts with a great record. It was a record that everyone was passionate about and it made them want to work hard to give it the audience it deserved."

Margi Cheske, President,
Fantasy Records

on American talk show, *The Tonight Show Starring Jimmy Fallon*, to help generate further buzz around lead single *S.O.B.*

Cheske also points to the importance of working closely with Caroline, part of a major record company that dedicated itself wholeheartedly to an independent artist: "We have a global distribution deal with Universal and that allows us to put some records out through Caroline. They were big fans of Nathaniel, they were

very excited about the record and they came back with a really innovative marketing plan that we all really liked. We worked with them daily and they did an amazing job on this record; it was a real partnership."

By the end of February 2017, the *Nathaniel Rateliff & The Night Sweats* album had sold 470,000 units in the US and 240,000 across the rest of the world.

A global strategy, a key strategic partnership and an abundance of data all played a part in launching an important new independent artist, but, Cheske concludes: "Honestly, it all still starts with a great record. It was a record that everyone was passionate about and it made them want to work hard to give it the audience it deserved."

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